



**COL Capital Limited**

(Incorporated in Bermuda with limited liability)

Stock Code: 0383

**Annual Report 2007**

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Ms. Chong Sok Un	<i>(Chairman)</i>
Dato' Wong Peng Chong	<i>(Executive Director)</i>
Mr. Kong Muk Yin	<i>(Executive Director)</i>
Mr. Lo Wai On	<i>(Independent Non-executive Director)</i>
Mr. Lau Siu Ki	<i>(Independent Non-executive Director)</i>
Mr. Zhang Jian	<i>(Independent Non-executive Director)</i>

### SECRETARY

Ms. Fung Ching Man, Ada

### AUDITOR

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

### REGISTERED OFFICE

Canon's Court, 22 Victoria Street  
Hamilton HM 12, Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

47/F., China Online Centre  
333 Lockhart Road  
Wanchai  
Hong Kong

### WEBSITE

<http://www.colcapital.com.hk>

### PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited  
Bank of China (Hong Kong) Limited  
Societe Generale Bank & Trust  
UBS AG  
Merrill Lynch (Asia Pacific) Limited

### ADR DEPOSITARY BANK

The Bank of New York  
American Depositary Receipts  
620 Avenue of the Americas, 6/F  
New York, NY 10011  
USA

### SOLICITORS

P.C. Woo & Co.  
Fred Kan & Co.  
Robertsons

### HONG KONG BRANCH SHARE REGISTRARS

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

## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of the Company (the "Board"), I have pleasure to report on the financial results, operations and other aspects of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

### FINANCIAL RESULTS

For the year ended 31 December 2007, the Group's total revenue increased by 96.9% to HK\$2,289,440,000 (2006: HK\$1,162,742,000) while its net profit attributable to shareholders increased by 78.5% to HK\$1,378,824,000 (2006: HK\$772,468,000). The earnings per share of the Company increased by a slightly larger scale of 85.4% to HK\$4.95 (2006: HK\$2.67) as a result of the Group's share repurchase programme.

As at 31 December 2007, the Group's net asset value per share increased by 75.1% to HK\$14.85 (2006: HK\$8.48).

### DIVIDENDS

The Directors recommend the payment of a final dividend of HK\$0.04 per share (2006: HK\$0.04), amounting to approximately HK\$11,047,000 (2006: HK\$11,084,000), to shareholders whose names appear on the Register of Members of the Company on 26 June 2008. The proposed final dividend, together with the interim dividend of HK\$0.01 per share (2006: HK\$0.01) paid on 5 November 2007, will amount to a total dividend of HK\$0.05 per share (2006: HK\$0.05 per share), totaling approximately HK\$13,809,000 (2006: HK\$13,939,000), for the full financial year of 2007. Subject to shareholders' approval at the forthcoming annual general meeting of the Company, dividend warrants are expected to be dispatched on or before 25 July 2008.

### PROPOSED BONUS ISSUE OF WARRANTS

The Board proposed a bonus issue of warrants (the "Bonus Warrant Issue") to the shareholders on the basis of one warrant for every five shares held by such shareholders whose name appear on the Register of Members on 26 June 2008. The final terms of the Bonus Warrant Issue, which shall be issued subject to the compliance of the relevant rules and regulations of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), have not yet been finalized. A further announcement will be made by the Company in respect of the details of the Bonus Warrant Issue. A circular setting out the details of the Bonus Warrant Issue will also be sent to the shareholders as soon as practicable.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 23 June, 2008 to Thursday, 26 June, 2008, both days inclusive, during which no share transfer will be effected. In order to qualify for the proposed final dividend for the year ended 31 December 2007, all transfer of shares duly accompanied by the relevant certificates must be lodged with the company's branch registrar in Hong Kong, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on Friday, 20 June 2008.

# CHAIRMAN'S STATEMENT

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of operations

The year ended 31 December 2007 saw a very vibrant equity market which was underpinned by optimistic economic and consumer sentiments, large scale initial public offerings of shares and strong global liquidity. However, these positive factors were overshadowed in the later part of the year by the domino effects of the meltdown of the US sub prime mortgage market and the subsequent concern over the credit crunch leading to a slowdown of the US economy. Nevertheless, the Group's business in trading and investment in financial securities achieved increases in revenue to HK\$2,270,637,000 (2006: HK\$1,149,870,000) and profit to HK\$1,605,287,000 (2006: HK\$835,379,000). Major profit contributions came from the net gain on investments of HK\$1,560,870,000 (2006: HK\$801,269,000) which included an unrealized gain from fair value changes on investments held for trading of HK\$1,259,479,000 (2006: HK\$439,498,000), and dividend income from listed investments of HK\$36,512,000 (2006: HK\$17,717,000). As at 31 December 2007, the Group maintained a long-term investment portfolio of available-for-sale investments of HK\$849,923,000 (2006: HK\$557,375,000), loan notes of Nil (2006: HK\$50,476,000) and convertible bonds of Nil (2006: HK\$6,626,000) and a trading portfolio of listed securities of HK\$3,617,216,000 (2006: HK\$1,690,510,000).

The Group's money lending business recorded a revenue of mainly interest income of HK\$14,023,000 (2006: HK\$9,071,000) and a profit of HK\$13,898,000 (2006: HK\$8,832,000) during the year under review. As at 31 December 2007, the Group's loan portfolio amounted to HK\$174,015,000 (2006: HK\$123,598,000).

Of the Group's investment properties located in Hong Kong and China, a revenue of HK\$4,780,000 (2006: HK\$3,801,000) and a profit of HK\$43,402,000 (2006: HK\$9,081,000) was achieved, mainly due to the gain of HK\$13,753,000 from the disposal of an interest in an investment property located at Buji Town in Shenzhen, China for a consideration of RMB102,550,000 and the revaluation gain of HK\$23,598,000 from the Group's investment properties. As at 31 December 2007, the Group's investment properties portfolio amounted to HK\$110,925,000 (2006: HK\$81,589,000).

Given the persistent losses in recent years and with no sign of improvement, the Group discontinued its mobile handset distribution business in March 2007.

### Principal associated companies

The share of losses of associates of the Group for the year ended 31 December 2007 was HK\$4,094,000 (2006: nil).

## CHAIRMAN'S STATEMENT

Following the completion of the placing agreement to acquire 124 million shares of Shanghai Allied Cement Limited ("SAC") in June 2007, the Group's shareholding in SAC has increased to approximately 27%, making SAC an associate of the Group. SAC is an investment holding company and through its subsidiaries engages in the manufacture and distribution of clinker, cement and slag powder. For the year under review, SAC recorded a turnover of HK\$434,300,000 (2006: HK\$384,931,000) and a loss of HK\$21,658,000 (2006: Profit of HK\$387,000). In September 2007, SAC announced that it had entered into a conditional agreement to acquire the entire issued share capital of Redstone Gold Limited ("Redstone"), a company engaged in the business of gold mining in Yunnan Province, China, for an aggregate consideration of HK\$1 billion to be partially settled by the issue of 530,000,000 new shares of SAC and payment of cash of HK\$470 million. A conditional placing agreement was also entered into to place 600,000,000 new shares of SAC on a fully underwritten basis. The vendor has warranted to SAC that the target mines will together maintain their JORC gold resources of not less than 50 tonnes (metric) of contained gold metal in total at the completion of the acquisition. SAC is in the process of carrying out its due diligence exercise on Redstone and the circular containing, inter alia, a notice to convene a special general meeting to approve the acquisition, is expected to be despatched to shareholders by 30 June 2008. With the recent rally in the gold market, the Group believes that this acquisition represents a good opportunity for SAC to develop its investment and business in the natural resources sector.

In July 2007, the Group acquired 40% of the entire issued share capital of Printronics Electronics Limited ("PEL") for an aggregate consideration of approximately HK\$181.8 million. PEL is an investment holding company and is the registered and beneficial owner of 41,319,704 fully paid up shares of Tianjin Printronics Circuit Corporation ("TPC"), representing approximately 21.01% of the equity of TPC. TPC is a company incorporated in China and its shares are listed as "A-Share" on the Shenzhen Stock Exchange. The principal business activity of TPC is the manufacture and sale of printed circuit boards.

### **Financial resources, borrowings, capital structure and exposures to fluctuations in exchange rates**

The Group continued to maintain a strong financial position. As at 31 December 2007, the Group's non-current assets consisted mainly of investment properties of HK\$110,925,000 (2006: HK\$81,589,000); property, plant and equipment of HK\$3,796,000 (2006: HK\$4,712,000); prepaid lease payments of HK\$1,001,000 (2006: HK\$2,424,000), interest in associates of HK\$368,297,000 (2006: nil) and long-term investments of HK\$849,923,000 (2006: HK\$614,477,000). These non-current assets were principally financed by shareholders' funds. As at 31 December 2007, the Group had net current assets of HK\$2,770,377,000 (2006: HK\$1,712,692,000) and current ratio of 3.3 times (2006: 6.1 times) calculated on the basis of the Group's current assets over current liabilities.

All the Group's borrowings are arranged on a short term basis in Hong Kong Dollars and US Dollars, repayable within one year and secured on certain investment properties, investments held for trading, available-for-sale investments and securities brokers house deposit. As at 31 December 2007, the Group had borrowings of HK\$918,838,000 (2006: HK\$170,100,000) and a gearing ratio of 20.5% (2006: 4.7%), calculated on the basis of the Group's net borrowings (after pledged bank deposits and bank balances and cash) over shareholders' fund.

## CHAIRMAN'S STATEMENT

During the year under review, the issued share capital of the Company was further reduced from HK\$2,828,835 to HK\$2,761,835 as a result of the repurchase of 6,700,000 (2006: 14,596,000) shares, with par value HK\$0.01 each, for an aggregate consideration of HK\$32,377,000 (2006: HK\$46,378,000).

In December 2007, the Company proposed an open offer of 276,183,547 offer shares at HK\$4.00 per offer share to qualifying shareholders on the basis of one offer share to every share held (the "Open Offer") on a fully underwritten basis to raise approximately HK\$1.1 billion and an issue of two warrants for every five offer shares. However, on 11 February 2008, the underwriter, Vigor Online Offshore Limited, gave notice to the Company to terminate the underwriting agreement in view of the recent change in the market condition in Hong Kong and the significant fluctuation in the share price of the Company which, in the sole and absolute opinion of the underwriter, made it impractical to proceed. As a result, the Open Offer and the issue of warrant were terminated.

During the year under review, the Group's assets, liabilities and transactions were mainly denominated in Hong Kong Dollar, Australian Dollar, RMB, New Taiwan Dollar and Malaysian Ringgit. Because of its short-term nature, the Group had not actively hedged risks arising from the Australian Dollar, RMB and Malaysian Ringgit denominated assets and transactions. As the exchange rates of the New Taiwan Dollar were relatively stable during the year, the Group was not materially affected by its exposure to these currencies.

### Charge on group assets

As at 31 December 2007, the Group's investment properties, investments held for trading, available-for-sale investments, bank balances, cash, and securities brokers house deposit with respective carrying values of HK\$33,300,000 (2006: HK\$26,640,000), HK\$3,121,898,000 (2006: HK\$1,210,235,000), HK\$460,628,000 (2006: HK\$115,607,000) and HK\$10,718,000 (2006: HK\$196,000) were pledged to banks and securities brokers house to secure short term credit facilities granted to the Group.

### Employees

The Group had 15 employees as at 31 December 2007 (2006: 31). The Group ensures that its employees are remunerated in line with market conditions and individual performance and the remuneration policies are reviewed on a regular basis.

### Prospects

The Group expects 2008 to be a very challenging and difficult year as evidenced by the sell-off in equity markets towards the end of 2007 and into the first quarter of 2008. The knock-on effects of the credit crunch and the fears of a recession in the world's largest economy of the US have adversely affected sentiments in the global financial markets and the investment environment. Although aggressive monetary measures have been implemented by the US authorities to ease liquidity and the robust demand by Asian countries will help to mitigate the situation, nevertheless the Group anticipates greater challenges ahead.

## CHAIRMAN'S STATEMENT

The performance of the Group's activities in trading and investment in financial securities is measured by mark-to-market accounting standards and the volatility of the financial markets will affect the Group's results for 2008. It is estimated that, based on the closing market price, substantial unaudited unrealized loss from fair value changes on investments held for trading was incurred in the first two months of 2008.

In December 2007, the Group had proposed an Open Offer to strengthen its capital base but unfortunately, the Open Offer was terminated by the underwriter due to the recent change in the market condition in Hong Kong and the significant fluctuation in the share price of the Company. However, the financial position of the Group remains strong and the Group will continuously review and adjust its investment strategies and investment portfolio in light of the market environment to seek and identify grossly undervalued investment and business opportunities in the China, Hong Kong and the Asia Pacific region to enhance value for its shareholders.

### APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our shareholders for their continued support and our management and staff for their hard work and contribution to the Group during 2007.

**Chong Sok Un**

*Chairman*

Hong Kong, 8 April 2008

## BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Ms. Chong Sok Un**, aged 53, was appointed as executive director and chairman of the Company on 23 August 2002. Ms. Chong is also the executive director of APAC Resources Limited and non-executive director of Shanghai Allied Cement Limited (“SAC”). She has been chairman of Long Island Golf & Country Club, Dongguan, China since September 1998. She is now the Vice-Chairman of the 29th Term Board of Directors of Yan Oi Tong. During 1992 to 2000, she was appointed as director and chief executive officer of Shen Yin Wanguo (H.K.) Limited. Ms. Chong holds a master degree in business administration.

**Dato’ Wong Peng Chong**, aged 64, was appointed as executive director of the Company on 15 March 2002. Dato’ Wong is also the vice-president of SAC. Upon his graduation from the University of Malaya in 1967 with a Bachelor of Arts (Honours), he joined the Malaysian Foreign Service and served with several Malaysian diplomatic missions overseas in various capacities. Dato’ Wong joined the private sector in 1985 and has served in various senior management positions, including executive directorships in public listed companies, in Hong Kong and Malaysia.

**Mr. Kong Muk Yin**, aged 42, was appointed as executive director of the Company on 13 May 2002. Mr. Kong is also the executive director of SAC. He was graduated from City University of Hong Kong with a bachelor’s degree in business studies. He is a fellow member of The Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst and he has extensive experience in corporate finance, financial management, accounting and auditing.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Lo Wai On**, aged 46, was appointed as non-executive director of the Company on 15 March 2002 and then changed his office held to independent non-executive director on 29 October 2002. He is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and has been practicing under the name of his own firm, W.O. Lo & Co., Certified Public Accountants (Practising) since 1986. He has broad experience in providing tax consulting and auditing services to companies including listed companies in Hong Kong.

**Mr. Lau Siu Ki**, aged 49, was appointed as independent non-executive director of the Company on 3 June 2004. He has over 25 years of experience in corporate finance, financial advisory and management, accounting and auditing. He is currently working as a consultant in the financial advisory field. Prior to that, Mr. Lau had worked in an international accounting firm for over 15 years. He is a fellow member of both the Association of Chartered Certified Accountants (“ACCA”) as well as the Hong Kong Institute of Certified Public Accountants. He is also a member of the Council of ACCA. He has served as a member of the Committee of the Hong Kong branch of ACCA since 1995 and was the Chairman of ACCA Hong Kong for the year 2000/2001. Mr. Lau is also the independent non-executive directors of Carry Wealth Holdings Limited, Greenfield Chemical Holdings Limited, Comba Telecom Systems Holdings Limited, TCL Communication Technology Holdings Limited, Foxconn International Holdings Limited, Proview International Holdings Limited, Samson Holding Ltd and Embry Holdings Limited. He was an independent non-executive director of Forefront International Holdings Limited (now known as Forefront Group Limited) from 25 May 2001 to 18 April 2007 and Sys Solutions Holdings Limited (now known as Enviro Energy International Holdings Limited) from 6 December 2002 to 20 December 2006.

## BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Zhang Jian**, aged 66, was appointed as non-executive director of the Company on 16 October 2006. He is a professional senior engineer in PRC. He is the Vice Chairman of China Manager Council of Construction Enterprises and China Precious Stone Council and the Chairman of Beijing Alumni Association of Xian Construction Technology University and the Outside Director of China National Building Material Group Corporation and also the Chairman of Expert Committee of Sino-Mining International Investment Co. Ltd. He has been awarded National Outstanding Intellect in 1997 and National Top 10 Honest Persons of Outstanding Ability in 2004. Mr. Zhang has been awarded as Influential Person to China Nonferrous Metal Industry in 2005. From 1982 to 1998, he held various senior positions in China Nonferrous Metal Industry Company. From 1998 to 2003, he acted as Chairman and General Manager of China Nonferrous Metal Construction Group Company Ltd.. From 2003 to 2005, he acted as General Manager of China Nonferrous Metal Mining & Construction (Group) Co., Ltd..

### SENIOR MANAGEMENT

**Ms. Fung Ching Man, Ada**, aged 41, is the company secretary of the Company. She is an associate member of The Institute of Chartered Secretaries and Administrators and has over 15 years of working experience in the company secretarial profession.

## DIRECTORS' REPORT

The directors of the Company (the "Director(s)") present their annual report and the audited consolidated financial statements for the year ended 31 December 2007.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 39 to the consolidated financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 26.

An interim dividend of HK\$0.01 per share amounting to HK\$2,762,000 was paid to the shareholders of the Company (the "Shareholders") during the year. The Directors recommend the payment of a final dividend of HK\$0.04 per share to the Shareholders whose names appear on the register of members of the Company on 26 June 2008, amounting to HK\$11,047,000.

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 32 to the consolidated financial statements. The Directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

### INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

As disclosed in note 38 to the consolidated financial statements, the Group disposed of a non-wholly owned subsidiary and the fair value gain of HK\$13,753,000 on the investment property upon the disposal was recognised in the consolidated income statement during the year ended 31 December 2007. The Group's remaining investment properties were fair valued at 31 December 2007 and the resulting revaluation increase of HK\$23,598,000 has been credited to the consolidated income statement.

The Group's buildings were revalued at 31 December 2007 and the resulting revaluation increase has been credited to the consolidated income statement and to the building revaluation reserve of HK\$144,000 and HK\$520,000 respectively.

Details of these and other movements in the investment properties, and property, plant and equipment of the Group during the year are set out in notes 17 and 18 to the consolidated financial statements, respectively.

# DIRECTORS' REPORT

## DIRECTORS AND SERVICE CONTRACTS

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

### Executive Directors:

Ms. Chong Sok Un (*Chairman*)

Dato' Wong Peng Chong

Mr. Kong Muk Yin

### Independent Non-executive Directors:

Mr. Lo Wai On

Mr. Lau Siu Ki

Mr. Zhang Jian

In accordance with clause 99 of the Company's bye-laws, Mr. Lo Wai On and Mr. Lau Siu Ki will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' REPORT

### INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2007, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

#### Long positions in the shares of the Company

Name of Director	Number of ordinary shares of HK\$0.01 each				Total	Percentage of issued ordinary shares
	Personal interests	Family interests	Corporate interests	Other interests		
Ms. Chong Sok Un ("Ms. Chong")	–	–	106,484,400 (Note)	–	106,484,400	38.56%

Note: Vigor Online Offshore Limited ("Vigor Online"), a wholly-owned subsidiary of China Spirit Limited ("China Spirit"), held 106,484,400 ordinary shares of the Company. Ms. Chong maintains 100% beneficial interests in China Spirit. Accordingly, Ms. Chong is deemed to have corporate interests in 106,484,400 ordinary shares of the Company.

Save as disclosed above, as at 31 December 2007, none of the Directors, the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## DIRECTORS' REPORT

### INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the following parties had interests or short positions in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

#### Long positions in the shares of the Company

<b>Name</b>	<b>Capacity</b>	<b>Number of ordinary shares held</b>	<b>Percentage held</b>
Ms. Chong	Held by controlled corporation (Note 1)	106,484,400	38.56%
China Spirit	Held by controlled corporation (Note 1)	106,484,400	38.56%
Vigor Online	Beneficial owner	106,484,400	38.56%
Mr. John Zwaanstra ("Mr. Zwaanstra")	Held by controlled corporation (Note 2)	25,051,000	9.07%
Penta Investment Advisers Limited ("Penta")	Investment Manager (Note 3)	25,051,000	9.07%

Notes:

1. Vigor Online is a wholly owned subsidiary of China Spirit in which Ms. Chong maintains 100% beneficial interest. Accordingly, China Spirit and Ms. Chong are deemed to be interested in 106,484,400 ordinary shares of the Company under the SFO.
2. Mr. Zwaanstra is deemed to be interested in 25,051,000 ordinary shares through his 100% interest in Penta.
3. Penta has an interest in 25,051,000 ordinary shares as an investment manager.

Save as disclosed above, as at 31 December 2007, there were no other parties who had interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

## DIRECTORS' REPORT

### MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest trade customers were less than 30% of total sales and the aggregate purchases attributable to the Group's five largest trade suppliers were less than 30% of total purchases.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company repurchased a total of 6,700,000 ordinary shares in the capital of the Company on the Stock Exchange in the range from HK\$3.15 to HK\$8.13 for a total consideration of HK\$32,377,000. The said shares were subsequently cancelled.

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

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

### EMOLUMENT POLICY

The emolument policy of the general staff of the Group is set up by the management of the Group on the basis of their merit, qualifications and competence.

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

### PRE-EMPTIVE RIGHTS

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

### SUFFICIENCY OF PUBLIC FLOAT

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

## DIRECTORS' REPORT

### DONATIONS

During the year, the Group made donations amounting to HK\$598,000.

### AUDITOR

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

On behalf of the Board

**Chong Sok Un**

*Chairman*

Hong Kong, 8 April 2008

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. Throughout the year ended 31 December 2007, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code on CGP") listed out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

## BOARD OF DIRECTORS

The Board comprises:

### Executive Directors

Ms. Chong Sok Un (*Chairman*)  
Dato' Wong Peng Chong  
Mr. Kong Muk Yin

### Independent Non-executive Directors

Mr. Lo Wai On  
Mr. Lau Siu Ki  
Mr. Zhang Jian

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

The Independent Non-executive Directors possess appropriate professional qualifications or accounting or related financial management expertise. Having made specific enquiry with all Independent Non-executive Directors, all such Directors confirmed that they have met the criteria of Rule 3.13 of the Listing Rules regarding the guidelines for assessment of independence. The biographical details of the Directors are set out in pages 8 to 9 of this Annual Report.

## CORPORATE GOVERNANCE REPORT

During the year, 4 full board meetings were held and the attendance of each Director is set out as follows:

Name of Directors	Number of board meetings attended in 2007	Attendance rate
Ms. Chong Sok Un ( <i>Chairman</i> )	4/4	100%
Dato' Wong Peng Chong	4/4	100%
Mr. Kong Muk Yin	4/4	100%
Mr. Lo Wai On	4/4	100%
Mr. Lau Siu Ki	3/4	75%
Mr. Zhang Jian	4/4	100%

The schedule of board meetings for a year is planned in the preceding year. At least 14 days notice of all board meetings is given to all Directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying board papers are sent to all Directors at least 3 days before the date of every board meeting so that the Directors have the time to review the documents.

Every Board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Company Secretary continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group. In addition to its overall supervisory role, the Board also retains specific responsibilities such as approving specific senior appointments, approving financial accounts, recommending dividend payments, approving policies relating to the Board's compliance, etc whilst managing the Group's business is the responsibility of the management of the Group (the "Management").

When the Board delegates aspects of its management and administration functions to the Management, it has given clear directions, to the powers of the Management, in particular, with respect to the circumstances where the Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

# CORPORATE GOVERNANCE REPORT

## Chairman and Chief Executive Officer

The Chairman of the Company is Ms. Chong Sok Un. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by separate individuals who have no relationship with each other, except as fellow Directors, to strike a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the function of the Chief Executive Officer is performed by the two Executive Directors, namely Dato' Wong Peng Chong who is in charge of day-to-day business operations of the Group and Mr. Kong Muk Yin who is in charge of finance and accounts aspect of the Group. The functions and responsibilities between the Chairman and the two Executive Directors performing the function of Chief Executive Officer are clearly segregated.

## Appointment and Re-election of Directors

The Independent Non-executive Directors have been appointed for a specific term, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the bye-laws of the Company (the "Bye-laws").

The provision A.4.2 of the Code on CGP requires all Directors, including those appointed for a specific term, to be subject to retirement by rotation at least once every three years. The Company has fully complied with code provision A.4.2 of the Code on CGP.

## BOARD COMMITTEES

The Board establishes committees to assist it in carrying out its responsibilities. The Board has appointed 4 Board committees, viz, the Executive Committee, Investment Committee, Remuneration Committee and Audit Committee to oversee particular aspects of the Group's affairs. Each of the committees has defined terms of reference setting out its duties, powers and function. The committees report regularly to the Board and, where appropriate, make recommendations on matters discussed.

### Executive Committee

The Executive Committee was established on 23 May 1998 with terms of reference. The Committee is composed of the Chairman and two Executive Directors of the Board. The Executive Committee is responsible for approving and monitoring the daily operations of the Group. The Executive Committee held 4 meetings during the year.

### Investment Committee

The Investment Committee was established on 2 February 2000 with terms of reference. The Committee is composed of the Chairman and two Executive Directors of the Board. The Investment Committee is responsible for approving and monitoring the Group's investment related activities. The investment committee met 3 times during the year.

# CORPORATE GOVERNANCE REPORT

## Remuneration Committee

The Remuneration Committee was established on 15 April 2005 with terms of reference. The Committee comprises three Independent Non-executive Directors and two Executive Directors.

The meeting of the Remuneration Committee shall be held at least once a year. 2 meetings were held in 2007. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2006	Attendance rate
Mr. Lau Siu Ki ( <i>Chairman</i> )	2/2	100%
Mr. Lo Wai On	2/2	100%
Mr. Zhang Jian	2/2	100%
Dato' Wong Peng Chong	2/2	100%
Mr. Kong Muk Yin	2/2	100%

The remuneration policy of the Group is to ensure all its employees are remunerated in line with market terms and individual performance.

At the meetings held during the year, the overall pay trend in Hong Kong of 2007 was reviewed and noted.

The major roles and functions of the Remuneration Committee are as follows:

1. To review annually and recommend to the Board the overall remuneration policy for the Directors and senior management.
2. To review annually the performance of the Executive Directors and senior management and recommend to the Board specific adjustments in remuneration and/or reward payments.
3. To ensure that the level of remuneration for Independent Non-executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board.
4. To ensure that no Director is involved in deciding his own remuneration.

# CORPORATE GOVERNANCE REPORT

## Nomination of Directors

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors.

According to the Bye-Laws, notice in writing of the intention to propose a person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office of the Company at least seven days before the date of the general meeting, or else no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting.

The period for lodgment of the notices referred to above will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

The detailed information on election of Directors including detailed biography of all Directors standing for election or re-election to ensure shareholders to make an informed decision on their election has been set out in the circular regarding, inter alia, the share repurchase mandate and notice of annual general meeting (the "Share Repurchase Circular").

## Audit Committee

The Audit Committee of the Company comprises three Independent Non-executive Directors.

The Audit Committee shall meet at least twice a year. 4 meetings were held during the year. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate, the attendance of each member is set out as follows:

<b>Name of member</b>	<b>Number of meetings attended in 2007</b>	<b>Attendance rate</b>
Mr. Lo Wai On ( <i>Chairman</i> )	4/4	100%
Mr. Lau Siu Ki	4/4	100%
Mr. Zhang Jian	4/4	100%

## CORPORATE GOVERNANCE REPORT

During the meetings held in 2007, the Audit Committee had performed the following work:

- (i) reviewed the financial reports for the year ended 31 December 2006 and for the six months ended 30 June 2007;
- (ii) reviewed the effectiveness of internal control system;
- (iii) reviewed the external auditor's statutory audit plan and engagement letter;
- (iv) reviewed the management letter from the external auditor in relation to the audit of the Group for the year ended 31 December 2006; and
- (v) reviewed and recommended for approval by the Board the 2007 audit scope and fees.

The major roles and functions of the Audit Committee are as follows:

1. To consider the appointment of the external auditor, the audit fees, and any questions of resignation or dismissal of the external auditor of the Group.
2. To discuss with the external auditor the nature and scope of the audit.
3. To review the interim and annual financial statements before submission to the Board.
4. To discuss problems and reservations arising from the interim review and final audit, and any matters the auditor may wish to discuss.
5. To review the external auditor's management letters and management's response.
6. To review the Company's systems of financial controls, internal controls and risk management to ensure that they are appropriate and functioning properly.
7. To consider any findings of major investigations of internal control matters and management's response.

# CORPORATE GOVERNANCE REPORT

## AUDITOR'S REMUNERATION

During the year under review, the remuneration paid or payable to the Company's auditor, Messrs Deloitte Touche Tohmatsu, is set out as follows:

<b>Services rendered</b>	<b>Fees paid/payable</b> HK\$
Audit services	1,402,000
Non-audit services	338,000
	1,740,000

## INTERNAL CONTROL

The Board and senior management are responsible for establishing, maintaining and operating an effective system of internal control. The internal control system of the Company comprises a well-established organizational structure and comprehensive policies and standards. The Board has clearly defined the authorities and key responsibilities of each business and operational unit to ensure adequate checks and balances.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, employees, and the Group's assets.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- a) The Executive Committee was established to ensure the effectiveness of the Group's daily operations and that the Group's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- b) The Audit Committee of the Company reviews internal control issues identified by external auditor, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems.
- c) The Investment Committee was established to monitor the Group's investment related activities and respective operating and financial policies.

## CORPORATE GOVERNANCE REPORT

- d) The Remuneration Committee was established to ensure all the Directors and the senior management of the Group are remunerated in line with market terms and individual performance.
- e) The corporate reporting functions are delegated to the accounting department in terms of proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and other applicable regulations are delegated to the company secretarial department. The Management reviews the system of internal controls and briefs the reporting systems with the Executive Directors regularly and the Audit Committee annually.
- f) Every newly appointed Director was provided with a comprehensive handout detailing the responsibilities and duties of being a director of the Company. In particular highlighting the respective applicable rules and regulation, including the Listing Rules, which a director should aware and be informed on the first occasion of his appointment with the Company.
- g) The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code"). A copy of the Model Code was sent to each Director and the relevant employees of the Group who are required to be provided under the Model Code. Enquiries have been made with Directors and all the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year.

## ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2007, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgments and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

# CORPORATE GOVERNANCE REPORT

## COMMUNICATION WITH SHAREHOLDERS

The Company establishes and maintains different communication channels with its shareholders through the publication of annual and interim reports and press announcement. Such information is also available on the Company's website.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. At the Company's 2007 Annual General Meeting, Chairman of the Board as well as Chairman of the Audit Committee and Remuneration Committee were present to answer shareholders' questions.

Details of the poll voting procedures and the rights of shareholders to demand a poll were included in the Share Repurchase Circular to shareholders dispatched together with the annual report. The said circular also included relevant details of proposed resolutions, including biography of each candidate standing for re-election.

At the Company's 2007 Annual General Meeting, all the resolutions were dealt with on a show of hands. All resolutions were passed.

On behalf of the Board

**Chong Sok Un**

*Chairman*

Hong Kong, 8 April, 2008

## INDEPENDENT AUDITOR'S REPORT

**Deloitte.**  
**德勤**

德勤•關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

**TO THE MEMBERS OF COL CAPITAL LIMITED**  
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of COL Capital Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 87, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

### **OPINION**

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

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
8 April 2008

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Revenue (excluding securities trading)		<b>55,315</b>	30,589
Gross proceeds from sale of investments held for trading		<b>2,234,125</b>	1,132,153
<b>Total</b>		<b>2,289,440</b>	<b>1,162,742</b>
Continuing operations:			
Revenue (excluding securities trading)	6	<b>55,315</b>	30,589
Net gain on investments	8	<b>1,560,870</b>	801,269
Other income	9	<b>24,943</b>	22,297
Administrative and other expenses		<b>(78,680)</b>	(63,489)
Finance costs	10	<b>(35,801)</b>	(10,895)
Share of losses of associates		<b>(4,094)</b>	–
Gain on disposal of an associate		–	1,740
Fair value changes on investment properties		<b>37,351</b>	6,856
Revaluation surplus on buildings		<b>144</b>	387
<b>Profit before taxation</b>		<b>1,560,048</b>	788,754
Taxation	12	<b>(175,873)</b>	(11,432)
<b>Profit from continuing operations</b>		<b>1,384,175</b>	777,322
Discontinued operation:			
Loss for the year from discontinued operation	13	<b>(1,528)</b>	(4,805)
<b>Profit for the year</b>	14	<b>1,382,647</b>	772,517
Attributable to:			
Equity holders of the Company		<b>1,378,824</b>	772,468
Minority interests		<b>3,823</b>	49
		<b>1,382,647</b>	772,517
Dividends recognised as distribution	15	<b>13,846</b>	14,280
Earnings per share			
From continuing and discontinued operations	16		
– Basic		<b>HK\$4.95</b>	HK\$2.67
From continuing operations			
– Basic		<b>HK\$4.96</b>	HK\$2.69

# CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
<b>Non-current assets</b>			
Investment properties	17	<b>110,925</b>	81,589
Property, plant and equipment	18	<b>3,796</b>	4,712
Prepaid lease payments	19	<b>1,001</b>	2,424
Interests in associates	20	<b>368,297</b>	–
Available-for-sale investments	21	<b>849,923</b>	557,375
Loan notes	22	–	50,476
Convertible bonds	23	–	6,626
		<b>1,333,942</b>	703,202
<b>Current assets</b>			
Available-for-sale investments	21	<b>9,801</b>	–
Loan notes	22	<b>52,401</b>	–
Inventories held for sale-finished goods		–	1,471
Investments held for trading	24	<b>3,617,216</b>	1,690,510
Debtors, deposits and prepayments	25	<b>41,284</b>	33,708
Loan receivables	26	<b>174,015</b>	123,598
Tax recoverable		<b>4,050</b>	3,543
Pledged bank deposits	27	<b>10,718</b>	–
Bank balances and cash	27	<b>67,824</b>	58,007
		<b>3,977,309</b>	1,910,837
Assets classified as held for sale	28	–	134,419
		<b>3,977,309</b>	2,045,256
<b>Current liabilities</b>			
Creditors and accrued charges	29	<b>97,995</b>	55,480
Customers' deposits and receipts in advance		<b>14,192</b>	31,283
Other borrowings	30	<b>918,838</b>	170,100
Derivative financial instruments	31	<b>4,874</b>	–
Taxation payable		<b>171,033</b>	15,657
		<b>1,206,932</b>	272,520
Liabilities associated with assets classified as held for sale	28	–	60,044
		<b>1,206,932</b>	332,564
Net current assets		<b>2,770,377</b>	1,712,692
		<b>4,104,319</b>	2,415,894

## CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Capital and reserves			
Share capital	32	<b>2,762</b>	2,829
Reserves		<b>4,097,685</b>	2,396,218
Equity attributable to equity holders of the Company		<b>4,100,447</b>	2,399,047
Minority interests		<b>3,872</b>	16,847
		<b>4,104,319</b>	2,415,894

The financial statements on pages 26 to 87 were approved and authorised for issue by the Board of Directors on 8 April 2008 and are signed on its behalf by:

**Ms. Chong Sok Un**  
DIRECTOR

**Dato' Wong Peng Chong**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company									
	Share capital	Share premium	Building revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Translation reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	2,975	671,293	1,064	30,504	1,965	470	576,661	1,284,932	16,798	1,301,730
Fair value changes on available-for-sale investments	-	-	-	427,864	-	-	-	427,864	-	427,864
Surplus on revaluation of buildings	-	-	210	-	-	-	-	210	-	210
Exchange differences arising from translation of foreign operations	-	-	-	-	-	499	-	499	-	499
Net income recognised directly in equity	-	-	210	427,864	-	499	-	428,573	-	428,573
Transfer to profit or loss on disposal of available-for-sale investments	-	-	-	(26,268)	-	-	-	(26,268)	-	(26,268)
Profit for the year	-	-	-	-	-	-	772,468	772,468	49	772,517
Total recognised income for the year	-	-	210	401,596	-	499	772,468	1,174,773	49	1,174,822
Dividends paid	-	-	-	-	-	-	(14,280)	(14,280)	-	(14,280)
Repurchase of shares	(146)	(46,232)	-	-	146	-	(146)	(46,378)	-	(46,378)
At 31 December 2006	2,829	625,061	1,274	432,100	2,111	969	1,334,703	2,399,047	16,847	2,415,894
Fair value changes on available-for-sale investments	-	-	-	288,183	-	-	-	288,183	-	288,183
Surplus on transfer from prepaid lease payments to investment properties at fair value	-	-	3,242	-	-	-	-	3,242	-	3,242
Surplus on revaluation of buildings	-	-	520	-	-	-	-	520	-	520
Share of changes in equity of associates	-	-	-	-	-	5,944	-	5,944	-	5,944
Exchange differences arising from translation of foreign operations	-	-	-	-	-	2,123	-	2,123	-	2,123
Net income recognised directly in equity	-	-	3,762	288,183	-	8,067	-	300,012	-	300,012
Transfer from profit or loss on disposal of available-for-sale investments	-	-	-	596	-	-	-	596	-	596
Profit for the year	-	-	-	-	-	-	1,378,824	1,378,824	3,823	1,382,647
Total recognised income for the year	-	-	3,762	288,779	-	8,067	1,378,824	1,679,432	3,823	1,683,255
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(16,798)	(16,798)
Reversed previously recognised changes in fair value of investments held for trading	-	-	-	-	-	-	68,265	68,265	-	68,265
Changes in equity of SAC (as defined in note 20) on previous held interest	-	-	-	-	-	-	(74)	(74)	-	(74)
Dividends paid	-	-	-	-	-	-	(13,846)	(13,846)	-	(13,846)
Repurchase of shares (note 32)	(67)	(32,310)	-	-	67	-	(67)	(32,377)	-	(32,377)
At 31 December 2007	2,762	592,751	5,036	720,879	2,178	9,036	2,767,805	4,100,447	3,872	4,104,319

Note: At 31 December 2007, the balance of building revaluation reserve included surplus of HK\$3,242,000, arising from revaluation of prepaid lease payments on transfer of buildings and prepaid lease payments to investment properties carried at fair value.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 HK\$'000	2006 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	1,558,547	784,044
Adjustments for:		
Interest income	(10,060)	(11,013)
Depreciation of property, plant and equipment	284	389
Loss on disposal of property, plant and equipment	293	–
(Reversal of) write-down of inventories	(571)	1,070
Interest expense	35,801	10,897
Amortisation of prepaid lease payments	25	59
Gain on disposal of an associate	–	(1,740)
Net loss (gain) on disposal of available-for-sale investments	596	(26,268)
Change in fair value of investments held for trading	(1,259,479)	(439,498)
Discount on early redemption of loan notes	–	3,962
Fair value changes on investment properties	(37,351)	(6,856)
Revaluation surplus on buildings	(144)	(387)
Share of losses of associates	4,094	–
Change in fair value of derivative financial instruments	4,874	–
Operating cash flow before movements in working capital	296,909	314,659
Decrease (increase) in inventories held for sale	2,042	(1,046)
Increase in investments held for trading	(691,999)	(364,548)
Increase in debtors, deposits and prepayments	(7,576)	(21,822)
Increase in loan receivables	(50,417)	(49,169)
Increase in creditors and accrued charges	42,515	38,920
(Decrease) increase in customers' deposits and receipts in advance	(17,091)	58,597
Cash used in operating activities	(425,617)	(24,409)
Interest paid	(35,801)	(10,897)
Tax paid	(21,031)	(3,718)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(482,449)</b>	<b>(39,024)</b>

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	NOTE	2007 HK\$'000	2006 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Disposal of a subsidiary	38	71,330	–
Interest received		8,135	3,877
Proceeds from redemption of convertible bonds		6,626	–
Proceeds from disposal of available-for-sale investments		1,434	42,122
Acquisition of associates		(273,484)	–
Purchases of available-for-sale investments		(15,600)	–
(Increase) decrease in pledged bank deposits		(10,718)	10,526
Purchases of property, plant and equipment		(95)	(101)
Net proceeds from redemption of loan notes		–	39,503
Proceeds on disposal of an associate		–	1,740
Purchase of investment property		–	(19,114)
Purchases of convertible bonds		–	(6,626)
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>		<b>(212,372)</b>	<b>71,927</b>
<b>FINANCING ACTIVITIES</b>			
New borrowings raised		4,447,322	1,451,630
Repayments of borrowings		(3,698,584)	(1,382,516)
Repurchase of shares		(32,377)	(46,378)
Dividends paid		(13,846)	(14,280)
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>702,515</b>	<b>8,456</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>7,694</b>	<b>41,359</b>
<b>EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES</b>		<b>2,123</b>	<b>(171)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>58,007</b>	<b>16,819</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR,</b> represented by bank balances and cash		<b>67,824</b>	<b>58,007</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed on page 2 of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HKD"), which is the same as the functional currency of the Company.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 39.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment

The adoption of the new HKFRSs had no material effect on how the Group's results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”) (continued)

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>2</sup>
HKFRS 2 (Amendment)	Vesting conditions and cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business combinations <sup>2</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions <sup>3</sup>
HK(IFRIC) – INT 12	Service concession arrangements <sup>4</sup>
HK(IFRIC) – INT 13	Customer loyalty programmes <sup>5</sup>
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction <sup>4</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for accounting periods beginning on or after 1 July 2009.

<sup>3</sup> Effective for accounting periods beginning on or after 1 March 2007.

<sup>4</sup> Effective for accounting periods beginning on or after 1 January 2008.

<sup>5</sup> Effective for accounting periods beginning on or after 1 July 2008.

The Directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group except for the adoption of HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidation and Separate Financial Statements. HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment on changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

### Revenue recognition

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

Trading of securities is recognised on trade date basis when the relevant contracts are executed.

Sales of goods are recognised when goods are delivered and title has passed.

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of buildings is credited to the building revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the building revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus is transferred to retained profits.

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

Where an item of property, plant and equipment together with the relevant prepaid lease payment, if any, is transferred to an investment property, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in building revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

### Interests in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment losses. When the Group's share of losses of associates equals or exceeds its interest in that associates (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that 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 associates recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

For acquisition of associates which involved successive share purchases for which the investment was previously accounted for at fair value with changes in fair value included in profit or loss, cumulative changes in the fair value of previously held ownership interests are reversed through profit or loss and retained profits respectively. The investee's profit or loss, changes in the investee's retained profits and other equity balances after each exchange transaction are included in the profit or loss, retained profits or the relevant reserves respectively to the extent that they relate to the previously held ownership interests.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

### **Non-current assets held for sale**

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

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

### **Prepaid lease payments**

Prepaid lease payments of land under operating lease are charged to the consolidated income statement on a straight-line basis over the lease terms.

### **Financial instruments**

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### **Financial assets**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

### **Financial instruments *(continued)***

#### ***Financial assets *(continued)****

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, investments held for trading are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned in the financial assets.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including loan notes, debt component of convertible bonds, debtors, loan receivables, pledged bank deposits and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

### **Financial instruments *(continued)***

#### ***Financial assets (continued)***

##### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables, held-to-maturity instruments or financial assets at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

##### Impairment of financial assets

Financial assets, other than investments held for trading, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

### **Financial instruments *(continued)***

#### ***Financial assets *(continued)****

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of debtors and loan receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When debtors or loan receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

#### ***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

### **Financial instruments *(continued)***

#### ***Financial liabilities and equity (continued)***

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

##### Other financial liabilities

Other financial liabilities including creditors and other borrowings are subsequently measured at amortised cost, using the effective interest method.

##### Equity instruments

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

### **Financial instruments *(continued)***

#### ***Derivative financial instruments***

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

#### ***Embedded derivatives***

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

#### ***Derecognition***

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

### Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

### **Borrowing costs**

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

### **Leases**

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

#### ***The Group as lessor***

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

#### ***The Group as lessee***

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### ***Leasehold land and building***

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

#### **Retirement benefits scheme**

Payments to the Group's defined contribution scheme or Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Income taxes

As at 31 December 2007, no deferred tax asset has been recognised in the Group's consolidated balance sheet in relation to the estimated unused tax losses and deductible temporary differences of approximately HK\$744 million (2006: HK\$1,235 million) and HK\$9.4 million (2006: HK\$34 million) respectively. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, further recognition of deferred tax asset in relation to unutilised tax losses may arise, which would be recognised in the consolidated income statement for the period in which such a recognition takes place.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 5. FINANCIAL INSTRUMENTS

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Directors of the Company considers share capital and retained earnings are the capital of the Group. The Group's overall strategy remains unchanged from prior years.

The Directors of the Company review the capital structure by considering the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the repayment of existing debt.

### Categories of financial instruments

	2007 HK\$'000	2006 HK\$'000
<b>Financial assets</b>		
Investments held for trading	3,617,216	1,690,510
Loans and receivables (including cash and cash equivalents)	345,722	214,606
Available-for-sale financial assets	<u>859,724</u>	<u>557,375</u>
<b>Financial liabilities</b>		
Amortised cost	952,574	217,736
Financial liabilities held for trading	<u>4,874</u>	<u>–</u>

### Financial risk management objectives and policies

The Group's major financial instruments include equity investments, loan notes, convertible bonds, loan receivables, debtors, creditors, other borrowings and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### Financial risk management objectives and policies (continued)

#### Market risk

##### Currency risk

Foreign exchange risk is the risk of loss due to adverse movement in foreign exchange rate relating to foreign currency denominated loan receivables, deposits and other borrowings with banks and financial institutions. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
United States Dollars ("USD")	<b>130,921</b>	80,225	<b>11,014</b>	–
Renminbi ("RMB")	<b>107,221</b>	81,512	–	–

#### Sensitivity analysis

As HKD is pegged to USD, the Group does not expect any significant movements in the USD/HKD exchange rates.

The following table details the Group's sensitivity to a 5% increase and decrease in HKD against RMB and all other variables were held constant. 5% is the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding RMB denominated monetary items and adjusts its translation at the year end for a 5% change in RMB rates. A positive number below indicates an increase in profit for the year where RMB strengthen 5% against HKD. For a 5% weakening of RMB against HKD there would be an equal and opposite impact on the profit for the year.

	2007 HK\$'000	2006 HK\$'000
Increase in profit for the year	<b>5,361</b>	<b>4,075</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### Financial risk management objectives and polices (continued)

#### Market risk (continued)

##### Price risk

(i) Equity price risk

The Group is exposed to equity price risk through its available-for-sale investments and investments held for trading. The management manages the exposure by maintaining a portfolio of equity investments with different risk profiles.

##### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower and all other variables were held constant, the Group:

- profit for the year ended 31 December 2007 increase/decrease by HK\$180,861,000 (2006: increase/decrease by HK\$84,526,000) as a result of the changes in fair value of held-for-trading investments; and
- investment revaluation reserve would increase/decrease by HK\$41,088,000 (2006: increase/decrease by HK\$26,805,000) for the Group as a result of the changes in fair value of available-for-sale investments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### Financial risk management objectives and policies (continued)

#### Market risk (continued)

##### Price risk (continued)

##### (ii) Foreign currencies risk on non-monetary items

The Group is engaged in securities trading and investments which are denominated in foreign currencies and is therefore exposed to foreign currency price risk. Approximately 15% of the Group's securities trading are denominated in currencies other than the functional currency of the group entity.

The carrying amounts of the Group's foreign currency denominated investments held for trading and available-for-sale investments at the reporting date are as follows:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
USD	<b>66,740</b>	20,737
Australian Dollars	<b>186,330</b>	482,620
Malaysian Ringgit	<b>97,483</b>	57,701
New Taiwan Dollars	<b>263,909</b>	115,607

##### Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in HKD against foreign currencies and all other variables were held constant. USD is not included in sensitivity analysis. As HKD is pegged to USD, the Group does not expect any significant movements in the USD/HKD exchange rate. 5% is the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates. A positive number below indicates an increase in profit for the year where foreign currencies strengthen 5% against HKD. For a 5% weakening of foreign currencies against HKD there would be an equal and opposite impact on the profit for the year and the investment revaluation reserve.

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Increase in profit for the year	<b>14,191</b>	27,016
Increase in investment revaluation reserve for the year	<b>13,195</b>	5,780

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 5. FINANCIAL INSTRUMENTS *(continued)*

### Financial risk management objectives and polices *(continued)*

#### **Market risk *(continued)***

##### *Interest rate risk*

The Group's fair value interest rate risk relates primarily to fixed rate loan notes, fixed rate convertible bonds and fixed rate loan receivables. The Group's cash flow interest rate risk relates to its variable rate loan receivables and other borrowings.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the Group's variable-rate loan receivables and variable-rate other borrowings.

If the interest rate of loan receivables and other borrowings had been 100 basis point higher/lower, the Group's profit would decrease/increase by HK\$9,168,000 (2006: HK\$1,679,000). This is mainly attributable to the increase in loan receivables and other borrowings.

##### **Credit risk**

The Group's credit risk are primarily attributable to trade debtors, loan notes, convertible bonds, loan receivables and bank balances.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group in the event of the counterparties' failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group's bank balances are deposited with banks of high credit ratings in Hong Kong.

The Group has significant concentration of credit risk on loan notes, convertible bonds and loan receivables as the credit risk on loan rates, convertible bonds and loan receivables are mainly attributable from certain limited counterparties. Other than these, there is no significant concentration of credit risk in trade debtors as the exposure spread over a number of counter-parties and customers.

In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual debt, loan notes, convertible bonds, and loan receivables regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significant reduced.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### Financial risk management objectives and policies (continued)

#### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. For derivative financial instruments, the Group has approximately HK\$81,689,000 contractual cash outflow in return with listed securities within 1 year.

For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Repayable on demand HK\$'000	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at year end HK\$'000
<b>As at 31 December 2007</b>							
<b>Non-derivative financial liabilities</b>							
Creditors	-	-	29,826	380	3,530	33,736	33,736
Other borrowings - variable rates	prime rate plus spread	918,838	-	-	-	918,838	918,838
		<b>918,838</b>	<b>29,826</b>	<b>380</b>	<b>3,530</b>	<b>952,574</b>	<b>952,574</b>
<b>As at 31 December 2006</b>							
<b>Non-derivative financial liabilities</b>							
Creditors	-	-	14,762	400	32,474	47,636	47,636
Other borrowings - variable rates	prime rate plus spread	170,100	-	-	-	170,100	170,100
		<b>170,100</b>	<b>14,762</b>	<b>400</b>	<b>32,474</b>	<b>217,736</b>	<b>217,736</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### Fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and the fair values of the unit trusts have been determined by reference to the published price quotations;
- the fair values of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates as input; and
- for the option derivative, the fair value is estimated using option pricing model (for example, the binomial model).

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair value.

## 6. REVENUE (EXCLUDING SECURITIES TRADING)

	2007 HK\$'000	2006 HK\$'000
Dividend income from listed investments	36,512	17,717
Interest income from loan receivables	14,023	9,071
Rental income	4,780	3,801
	<b>55,315</b>	<b>30,589</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 7. BUSINESS AND GEOGRAPHICAL INFORMATION

### Business segments

For management purposes, the Group is currently organised into three operating divisions – securities trading and investments, financial services and property investment. These divisions are the basis on which the Group reports its primary segment information.

The Group was also involved in the business of mobile phone distribution which was discontinued on 31 March 2007 (see note 13).

Segment information about these businesses is presented below:

### For the year ended 31 December 2007

	Continuing operations			Discontinued operation		Consolidated HK\$'000
	Securities trading and investments HK\$'000	Financial services HK\$'000	Property investment HK\$'000	Total HK\$'000	Mobile phone distribution HK\$'000	
Gross proceeds from sale of investments held for trading	<u>2,234,125</u>	<u>–</u>	<u>–</u>	<u>2,234,125</u>	<u>–</u>	<u>2,234,125</u>
Revenue	<u>36,512</u>	<u>14,023</u>	<u>4,780</u>	<u>55,315</u>	<u>7,681</u>	<u>62,996</u>
<i>Result</i>						
Segment result	<u>1,605,287</u>	<u>13,898</u>	<u>43,402</u>	<u>1,662,587</u>	<u>(2,087)</u>	<u>1,660,500</u>
Share of losses of associates				<u>(4,094)</u>	<u>–</u>	<u>(4,094)</u>
Unallocated other income				<u>11,359</u>	<u>586</u>	<u>11,945</u>
Unallocated corporate expenses				<u>(74,003)</u>	<u>–</u>	<u>(74,003)</u>
Finance costs				<u>(35,801)</u>	<u>–</u>	<u>(35,801)</u>
Profit before taxation				<u>1,560,048</u>	<u>(1,501)</u>	<u>1,558,547</u>
Taxation				<u>(175,873)</u>	<u>(27)</u>	<u>(175,900)</u>
Profit for the year				<u>1,384,175</u>	<u>(1,528)</u>	<u>1,382,647</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 7. BUSINESS AND GEOGRAPHICAL INFORMATION (continued)

### Business segments (continued)

For the year ended 31 December 2007 (continued)

	Securities trading and investments HK\$'000	Financial services HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
Consolidated balance sheet				
<i>Assets</i>				
Segment assets	4,564,299	174,253	115,722	4,854,274
Interests in associates				368,297
Unallocated corporate assets				88,680
Consolidated total assets				<u>5,311,251</u>
<i>Liabilities</i>				
Segment liabilities	955,935	15,861	2,301	974,097
Unallocated corporate liabilities				232,835
Consolidated total liabilities				<u>1,206,932</u>

	Continuing operations			Discontinued operation		Unallocated	Consolidated
	Securities trading and investments HK\$'000	Financial services HK\$'000	Property investment HK\$'000	Total	Mobile phone distribution HK\$'000		
Other information							
Capital expenditure	-	-	-	-	-	95	95
Depreciation	-	-	139	139	18	127	284
Loss on disposal of property, plant and equipment	-	-	-	-	293	-	293
Reversal of write-down of inventories	-	-	-	-	(571)	-	(571)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 7. BUSINESS AND GEOGRAPHICAL INFORMATION (continued)

### Business segments (continued)

For the year ended 31 December 2006

	Continuing operations			Discontinued operation		Consolidated HK\$'000
	Securities trading and investments HK\$'000	Financial services HK\$'000	Property investment HK\$'000	Total HK\$'000	Mobile phone distribution HK\$'000	
Gross proceeds from sale of investments held for trading	1,132,153	–	–	1,132,153	–	1,132,153
Revenue	17,717	9,071	3,801	30,589	67,098	97,687
<i>Result</i>						
Segment result	835,379	8,832	9,081	853,292	(4,856)	848,436
Gain on disposal of an associate				1,740	–	1,740
Revaluation surplus on buildings				387	–	387
Unallocated other income				2,322	148	2,470
Unallocated corporate expenses				(58,092)	–	(58,092)
Finance costs				(10,895)	(2)	(10,897)
Profit before taxation				788,754	(4,710)	784,044
Taxation				(11,432)	(95)	(11,527)
Profit for the year				777,322	(4,805)	772,517

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 7. BUSINESS AND GEOGRAPHICAL INFORMATION (continued)

### Business segments (continued)

For the year ended 31 December 2006 (continued)

	Continuing operations				Discontinued operation		Consolidated HK\$'000
	Securities trading and investments HK\$'000	Financial services HK\$'000	Property investment HK\$'000	Total HK\$'000	Mobile phone distribution HK\$'000		
<b>Consolidated balance sheet</b>							
<i>Assets</i>							
Segment assets	2,332,833	127,585	88,529	2,548,947	10,232		2,559,179
Assets classified as held for sale	-	-	134,419	134,419	-		134,419
Unallocated corporate assets							54,860
Consolidated total assets							<u>2,748,458</u>
<i>Liabilities</i>							
Segment liabilities	215,280	2,658	11,138	229,076	5,083		234,159
Liabilities associated with assets classified as held for sale	-	-	60,044	60,044	-		60,044
Unallocated corporate liabilities							<u>38,361</u>
Consolidated total liabilities							<u>332,564</u>

	Continuing operations				Discontinued operation		Consolidated HK\$'000
	Securities trading and investments HK\$'000	Financial services HK\$'000	Property investment HK\$'000	Total HK\$'000	Mobile phone distribution HK\$'000	Unallocated HK\$'000	
<b>Other information</b>							
Capital expenditure	-	-	19,114	19,114	89	12	19,215
Depreciation	-	-	141	141	92	156	389
Write-down of inventories	-	-	-	-	1,070	-	<u>1,070</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 7. BUSINESS AND GEOGRAPHICAL INFORMATION (continued)

### Geographical segments

The Group's operations are located in Hong Kong and the People's Republic of China (the "PRC").

The Group's securities trading and investments and financial services are mainly carried out in Hong Kong. Rental income from property investment is derived from Hong Kong and the PRC.

The following table provides an analysis of the Group's revenue by geographical market:

	Revenue from continuing operations by geographical market	
	2007	2006
	HK\$'000	HK\$'000
Hong Kong	52,754	28,651
The PRC	2,561	1,938
	<b>55,315</b>	<b>30,589</b>

Revenue from the Group's discontinued distribution of mobile phone was derived principally from Hong Kong (2007: HK\$7,681,000, 2006: HK\$67,098,000).

The following is an analysis of the carrying amount of segment assets, and additions to investment properties and property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to investment properties and property, plant and equipment	
	At 31.12.2007	At 31.12.2006	Year ended 31.12.2007	Year ended 31.12.2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	4,817,114	2,490,594	95	19,215
The PRC	37,160	68,585	–	–
	<b>4,854,274</b>	<b>2,559,179</b>	<b>95</b>	<b>19,215</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 8. NET GAIN ON INVESTMENTS

	2007 HK\$'000	2006 HK\$'000
Change in fair value of investments held for trading (Note a)	<b>1,579,182</b>	777,369
Change in fair value of derivative financial instruments (Note b)	<b>(17,716)</b>	1,594
Net (loss) gain on disposal of available-for-sale investments	<b>(596)</b>	26,268
Discount on early redemption of loan notes (Note c)	–	(3,962)
	<b>1,560,870</b>	801,269

Notes:

- (a) Included in change in fair value of investments held for trading, approximately HK\$319,703,000 (2006: HK\$337,871,000) represented net realised gain on disposal of investments held for trading.
- (b) Included in change in fair value of derivative financial instruments, approximately HK\$12,842,000 (2006: gain of HK\$1,594,000) represented net realised loss on derivatives.
- (c) During the year ended 31 December 2006, Allied Group Limited, the issuer of the loan notes, early redeemed all of the loan notes at HK\$43,465,000 with a discount on early redemption of HK\$3,962,000 at the request of the Group. The net redemption proceed was HK\$39,503,000.

## 9. OTHER INCOME

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Interest income from:						
– Loan notes	<b>4,036</b>	9,287	–	–	<b>4,036</b>	9,287
– Bank deposits	<b>982</b>	1,264	<b>47</b>	148	<b>1,029</b>	1,412
– Others	<b>4,995</b>	314	–	–	<b>4,995</b>	314
	<b>10,013</b>	10,865	<b>47</b>	148	<b>10,060</b>	11,013
Net exchange gain	<b>9,538</b>	10,668	–	–	<b>9,538</b>	10,668
Others	<b>5,392</b>	764	<b>539</b>	–	<b>5,931</b>	764
	<b>24,943</b>	22,297	<b>586</b>	148	<b>25,529</b>	22,445

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 10. FINANCE COSTS

The amounts represent interest on other borrowings wholly repayable within five years.

## 11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

### Directors' emoluments

The Directors' emoluments are analysed as follows:

	For the year ended 31 December 2007				
	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Performance related incentive payments HK\$'000 (Note)	Retirement benefits scheme contributions HK\$'000	Total emoluments HK\$'000
<b>Executive Directors</b>					
Ms. Chong Sok Un	–	455	55,000	12	55,467
Dato' Wong Peng Chong	–	1,300	600	12	1,912
Mr. Kong Muk Yin	–	1,040	480	12	1,532
<b>Independent Non-executive Directors</b>					
Mr. Lo Wai On	180	–	–	–	180
Mr. Lau Siu Ki	180	–	–	–	180
Mr. Zhang Jian	80	–	–	–	80
	<b>440</b>	<b>2,795</b>	<b>56,080</b>	<b>36</b>	<b>59,351</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

### Directors' emoluments (continued)

	For the year ended 31 December 2006				
	Directors' fees	Salaries and other benefits	Performance related incentive payments	Retirement benefits scheme contributions	Total emoluments
	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000
<b>Executive Directors</b>					
Ms. Chong Sok Un	–	455	42,000	12	42,467
Dato' Wong Peng Chong	–	1,300	200	12	1,512
Mr. Kong Muk Yin	–	920	160	12	1,092
<b>Independent Non-executive Directors</b>					
Mr. Lo Wai On	180	–	–	–	180
Mr. Lau Siu Ki	180	–	–	–	180
Mr. Yu Qi Hao	80	–	–	–	80
Mr. Zhang Jian	–	–	–	–	–
	<u>440</u>	<u>2,675</u>	<u>42,360</u>	<u>36</u>	<u>45,511</u>

Note: The performance related incentive payments are determined by reference to the individual performance of the Directors and approved by the Remuneration Committee.

During the year, no remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any remuneration during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

### Five highest paid individuals

During the year, the five highest paid individuals included three Directors (2006: three), details of their emoluments are set out above. The emoluments for the remaining two (2006: two) highest paid individuals of the Group are as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries and other benefits	1,000	1,325
Retirement benefits scheme contributions	24	24
	<b>1,024</b>	<b>1,349</b>

The emoluments are within the following bands:

	2007 Number of employees	2006 Number of employees
Nil to HK\$1,000,000	<b>2</b>	<b>2</b>

## 12. TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Current tax:						
Profits Tax in Hong Kong	172,005	11,247	27	95	172,032	11,342
Enterprise income tax in the PRC	3,868	185	–	–	3,868	185
	<b>175,873</b>	<b>11,432</b>	<b>27</b>	<b>95</b>	<b>175,900</b>	<b>11,527</b>

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 12. TAXATION (continued)

Enterprise income tax in the PRC is calculated at 33.3% of estimated assessable profit for both years except for the subsidiary which is eligible for certain tax holidays and concessions on the PRC income tax.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2007 HK\$'000	2006 HK\$'000
Profit (loss) before taxation		
– Continuing operations	1,560,048	788,754
– Discontinued operation	(1,501)	(4,710)
	<b>1,558,547</b>	<b>784,044</b>
Tax at the income tax rate of 17.5%	272,746	137,208
Tax effect of share of losses of associates	716	–
Tax effect of expenses that are not deductible	12,885	10,479
Tax effect of income that is not taxable	(16,823)	(82,438)
Utilisation of tax losses/deductible temporary differences previously not recognised	(98,328)	(54,539)
Tax effect of tax losses not recognised	5,364	989
Effect of different tax rates of subsidiaries operating in other jurisdictions	119	83
Others	(779)	(255)
Taxation	<b>175,900</b>	<b>11,527</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 13. DISCONTINUED OPERATION

The Group ceased the business operation of mobile phone distribution in year 2007.

The results of the discontinued operation which represented the mobile phone distribution operation from 1 January 2007 to 31 March 2007, which have been included in the consolidated income statement, were as follows:

	<b>Period ended</b> <b>31.3.2007</b> <b>HK\$'000</b>	Year ended 31.12.2006 HK\$'000
Turnover	<b>7,681</b>	67,098
Cost of sales	<b>(7,501)</b>	(64,423)
Other income	<b>586</b>	148
Distribution expenses	<b>(1,050)</b>	(4,655)
Administrative and other expenses	<b>(1,217)</b>	(2,876)
Finance costs	–	(2)
Loss before taxation	<b>(1,501)</b>	(4,710)
Taxation	<b>(27)</b>	(95)
Loss for the period/year	<b>(1,528)</b>	(4,805)

During the period from 1 January 2007 to 31 March 2007, the business operation of mobile phone distribution paid HK\$4,009,000 (1.1.2006 to 31.12.2006: HK\$5,123,000) to the Group's net operating cash flows, received HK\$47,000 (1.1.2006 to 31.12.2006: HK\$23,000) in respect of investing activities and paid HK\$11,397,000 (1.1.2006 to 31.12.2006: received HK\$8,003,000) in respect of financing activities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 14. PROFIT FOR THE YEAR

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the year has been arrived at after charging (crediting):						
Auditor's remuneration	1,402	1,020	-	-	1,402	1,020
Cost of inventories recognised as expenses	-	-	7,855	62,847	7,855	62,847
Amortisation of prepaid lease payments	25	59	-	-	25	59
Depreciation of property, plant and equipment	266	297	18	92	284	389
(Reversal of) write-down of inventories	-	-	(571)	1,070	(571)	1,070
Loss on disposal of property, plant and equipment	-	-	293	-	293	-
Staff costs, inclusive of directors' emoluments	61,784	48,948	944	3,612	62,728	52,560
Gross rental income from properties	(4,780)	(3,801)	-	-	(4,780)	(3,801)
Less: Direct operating expenses that generated rental income	1,423	1,535	-	-	1,423	1,535
Direct operating expenses that did not generate rental income	22	41	-	-	22	41
Net rental income	(3,335)	(2,225)	-	-	(3,335)	(2,225)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 15. DIVIDENDS

	2007 HK\$'000	2006 HK\$'000
Dividends recognised as distribution during the year:		
Interim dividend, paid – HK\$0.01 per share (2006: HK\$0.01)	2,762	2,855
2006 Final dividend paid – HK\$0.04 per share	11,084	–
2005 Final dividend paid – HK\$0.04 per share	–	11,425
	<b>13,846</b>	<b>14,280</b>

The final dividend of HK\$0.04 per share for the year ended 31 December 2007 has been proposed by the Directors and is subject to approval by the shareholders in the annual general meeting.

## 16. EARNINGS PER SHARE

### From continuing and discontinued operations

The calculation of basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 HK\$'000	2006 HK\$'000
Earnings for the purpose of basic earnings per share (Profit for the year attributable to equity holders of the Company)	<b>1,378,824</b>	772,468
	<b>Number of shares</b>	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>278,496,620</b>	289,070,361

No diluted earnings per share have been presented as there were no potential ordinary shares issued in both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 16. EARNINGS PER SHARE (continued)

### From continuing operations

The calculation of the basic earnings per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

	2007 HK\$'000	2006 HK\$'000
Earnings for the year attributable to equity holders of the Company	1,378,824	772,468
Add: Loss for the period from discontinued operation	<u>1,528</u>	<u>4,805</u>
Earnings for the purposes of basic earnings per share from continuing operations	<u><b>1,380,352</b></u>	<u><b>777,273</b></u>

The denominators used are the same as those detailed above for basic earnings per share.

### From discontinued operation

Basic loss per share for the discontinued operation is HK\$0.005 per share (2006: HK\$0.017 per share). The calculation of the basic loss per share was based on the loss for the period from the discontinued operation of HK\$1,528,000 (2006: loss for the year of HK\$4,805,000) attributable to the ordinary equity holders of the Company and the denominators detailed above for basic earnings per share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 17. INVESTMENT PROPERTIES

	HK\$'000
<b>FAIR VALUE</b>	
At 1 January 2006	136,526
Exchange adjustments	321
Addition	19,114
Investment property classified as held for sale (note 28)	(80,953)
Transfer from building	780
Transfer to building	(1,055)
Gain on fair value change for the year	6,856
	<hr/>
At 31 December 2006	81,589
Transfer from prepaid lease payments	4,640
Transfer from building	1,098
Gain on fair value change for the year	23,598
	<hr/>
<b>At 31 December 2007</b>	<b><u>110,925</u></b>

The Group's investment properties are analysed as follows:

	2007 HK\$'000	2006 HK\$'000
Properties held under medium term leases:		
– in Hong Kong	73,765	53,559
– in the PRC	33,350	24,950
Properties situated in the PRC held under long leases	3,810	3,080
	<hr/>	<hr/>
	<b><u>110,925</u></b>	<b><u>81,589</u></b>

The fair value of the Group's investment properties at 31 December 2007 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited is a member of the institute of valuers and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 18. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK\$'000	Buildings in Hong Kong under medium-term lease HK\$'000	Computer and electronic equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>COST OR VALUATION</b>						
At 1 January 2006	47,697	3,320	2,185	3,109	501	56,812
Exchange adjustment	349	-	-	-	-	349
Additions	-	-	100	1	-	101
Revaluation increase	-	510	-	-	-	510
Transfer from investment properties	-	1,055	-	-	-	1,055
Transfer to investment properties	-	(780)	-	-	-	(780)
Assets as held for sale (note 28)	(48,046)	-	-	-	-	(48,046)
<b>At 1 January 2007</b>	<b>-</b>	<b>4,105</b>	<b>2,285</b>	<b>3,110</b>	<b>501</b>	<b>10,001</b>
Additions	-	-	35	60	-	95
Disposals	-	-	(1,571)	(1,491)	-	(3,062)
Revaluation increase	-	579	-	-	-	579
Transfer to investment properties	-	(1,098)	-	-	-	(1,098)
<b>At 31 December 2007</b>	<b>-</b>	<b>3,586</b>	<b>749</b>	<b>1,679</b>	<b>501</b>	<b>6,515</b>
Comprising:						
At cost	-	-	749	1,679	501	2,929
At valuation – 2007	-	3,586	-	-	-	3,586
	-	3,586	749	1,679	501	6,515
<b>DEPRECIATION</b>						
At 1 January 2006	-	-	1,945	2,541	501	4,987
Provided for the year	-	87	139	163	-	389
Eliminated on revaluation	-	(87)	-	-	-	(87)
<b>At 1 January 2007</b>	<b>-</b>	<b>-</b>	<b>2,084</b>	<b>2,704</b>	<b>501</b>	<b>5,289</b>
Provided for the year	-	85	67	132	-	284
Eliminated on disposals	-	-	(1,455)	(1,314)	-	(2,769)
Eliminated on revaluation	-	(85)	-	-	-	(85)
<b>At 31 December 2007</b>	<b>-</b>	<b>-</b>	<b>696</b>	<b>1,522</b>	<b>501</b>	<b>2,719</b>
<b>CARRYING VALUES</b>						
<b>At 31 December 2007</b>	<b>-</b>	<b>3,586</b>	<b>53</b>	<b>157</b>	<b>-</b>	<b>3,796</b>
At 31 December 2006	-	4,105	201	406	-	4,712

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

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

Buildings	Over the shorter of the lease terms or 30-50 years
Computer and electronic equipment	20%
Furniture and fixtures	20%
Motor vehicles	20% – 50%

The buildings of the Group were valued on 31 December 2007 by DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers, on a market value basis. DTZ Debenham Tie Leung Limited is not connected with the Group. The revaluation surplus on buildings of HK\$664,000 (2006: HK\$597,000) has been credited to the consolidated income statement and to the building revaluation reserve of HK\$144,000 (2006: HK\$387,000) and HK\$520,000 (2006: HK\$210,000) respectively.

If the buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation of HK\$1,360,000 (2006: HK\$2,156,000).

### 19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent leasehold land in Hong Kong held under medium term leases.

The leasehold land is amortised on a straight-line basis over the remaining term of the leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 20. INTERESTS IN ASSOCIATES

	2007 HK\$'000	2006 HK\$'000
Cost of investments in associates		
Listed in Hong Kong	184,640	–
Unlisted	181,807	–
Share of post-acquisition losses and reserves, net of dividends received	1,850	–
	<b>368,297</b>	–
Fair value of listed investments	<b>534,218</b>	–

As at 31 December 2007, the Group had interests in the following associates:

Name of entities	Form of business structure	Place/ Country of incorporation/ registration	Principal place of operation	Class of share held	Number of shares held by the Group	Proportion of nominal value of issued capital/ registered capital held by the Group %	Proportion of voting power held %	Principal activity
Shanghai Allied Cement Limited ("SAC")	Incorporated	Bermuda	The PRC	Ordinary	197,858,680	27.1	27.1	Investment holding
Printronic Electronics Limited ("Printronic")	Incorporated	Hong Kong	The PRC	Ordinary	2	40	40	Investment holding

During the year, the Group acquired an additional 17% equity interest in SAC ("Acquisition") at a consideration of approximately HK\$87,763,000 and acquired 40% equity interest in Printronics at a consideration of approximately HK\$181,807,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

### 20. INTERESTS IN ASSOCIATES (continued)

Before the Acquisition, the Group had 9.99% equity interest in SAC and the investment was accounted for as investments held for trading. Following the completion of the Acquisition on 29 June 2007, the Group has a 26.99% beneficially interest in SAC and is able to exercise significant influence on SAC. Accordingly, SAC has become an associate of the Group. On 29 June 2007, the cumulative fair value changes of the Group's 9.99% equity interest in SAC was accounted for as explained in note 3.

On 20 September 2007, the Group further acquired 0.14% equity interest in SAC in open market at a consideration of approximately HK\$3,914,000. At the balance sheet date, the total number of SAC shares held by the Group was 197,858,680.

Included in the cost of interests in associates is goodwill of HK\$228,509,000 arising on acquisitions of associates during the year.

The summarised financial information in respect of the Group's associates is set out below:

	2007 HK\$'000	2006 HK\$'000
Total assets	1,284,974	–
Total liabilities	(838,021)	–
Net assets	<u>446,953</u>	<u>–</u>
Group's share of net assets of associates	<u>140,538</u>	<u>–</u>
Revenue	<u>434,300</u>	<u>–</u>
Losses since acquisition dates of relevant associates	<u>(16,569)</u>	<u>–</u>
Group's share of losses of associates for the year	<u>(4,094)</u>	<u>–</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2007 HK\$'000	2006 HK\$'000
Listed investments:		
– Equity securities listed in Hong Kong	557,853	420,503
– Equity securities listed elsewhere (Note)	263,909	115,607
	<u>821,762</u>	<u>536,110</u>
Unlisted investments:		
– Unit trusts	37,284	20,737
– Club debentures	678	528
	<u>37,962</u>	<u>21,265</u>
Total	<u>859,724</u>	<u>557,375</u>
Analysed for reporting purposes as:		
Current assets	9,801	–
Non-current assets	849,923	557,375
	<u>859,724</u>	<u>557,375</u>

Note: The currency of the equity securities listed elsewhere is mainly denominated in New Taiwan Dollars.

## 22. LOAN NOTES

The loan notes were issued by Sun Hung Kai & Co. Limited (“SHK”). The loan notes bear interest at 4% per annum (effective interest rate: 7.9%) with maturity date on 7 March 2008 and are redeemable by SHK if specifically agreed by both parties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

### 23. CONVERTIBLE BONDS

	2007 HK\$'000	2006 HK\$'000
Unlisted debt securities	–	6,626

During the year ended 31 December 2007, the bonds issuer redeemed all of its bonds.

### 24. INVESTMENTS HELD FOR TRADING

Investments held for trading include:

	2007 HK\$'000	2006 HK\$'000
Listed securities:		
– Equity securities listed in Hong Kong	3,294,145	1,150,189
– Equity securities listed elsewhere (Note)	323,071	540,321
	<b>3,617,216</b>	<b>1,690,510</b>

As at 31 December 2007, particulars of the Group's investments in the equity securities which exceed 10% of the assets of the Group disclosed pursuant to Section 129(2) of the Hong Kong Companies Ordinance are as follows:

Name of company	Place of incorporation	Class of shares	Number of shares held by the Group	Percentage of issued share capital held by the Group
Allied Properties (H.K.) Limited	Hong Kong	Ordinary	336,664,000	6.0%
Allied Group Limited	Hong Kong	Ordinary	14,246,494	5.8%
Sun Hung Kai & Co. Limited	Hong Kong	Ordinary	93,997,265	5.6%
APAC Resources Limited	Hong Kong	Ordinary	598,120,000	12.7%

Note: The currency of the equity securities listed elsewhere is mainly denominated in Australian Dollars and Malaysian Ringgit.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

### 25. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing an average credit period of 30-90 days to its trade debtors.

The following is an aged analysis of trade debtors:

	2007 HK\$'000	2006 HK\$'000
Within 90 days	1,992	6,150
91 – 180 days	–	992
181 – 360 days	–	258
	<b>1,992</b>	7,400
Other debtors, deposits and prepayments	<b>39,292</b>	26,308
	<b>41,284</b>	33,708

There is no allowance for doubtful debts in both years.

### 26. LOAN RECEIVABLES

	2007 HK\$'000	2006 HK\$'000
Fixed-rate loan	172,015	121,380
Variable-rate loan	2,000	2,218
	<b>174,015</b>	123,598

In determining the recoverability of the loan receivables, the Group considers each loan receivable based on the evaluation of collectability and aging analysis of accounts and on management's judgment, including the current creditworthiness, collaterals and the past collection history of each client.

The average interest rate for the fixed-rate loan receivables was approximately 10% (2006: 11%) per annum.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

### 26. LOAN RECEIVABLES (continued)

The contracted interest rates of the variable-rate loan receivables denominated in Hong Kong dollars range from The Hongkong and Shanghai Banking Corporation Limited ("HSBC") prime rate to HSBC prime rate plus 2% with effective interest rate of 8% (2006: 10%). Interest is normally repriced every six months.

The loan receivables with a carrying amount of HK\$143,415,000 (2006: HK\$82,102,000) are secured by certain deposits and unlisted securities which are neither past due nor impaired at the reporting date for which the Group believes that the amounts are considered recoverable.

### 27. PLEDGED BANK DEPOSITS AND BANK BALANCES

Bank balances carry interest at market rates which range from 2% to 5.25% (2006: 2.75% to 4.60%).

The pledged bank deposits represent deposit pledged to banks to secure banking facilities granted to the Group and carry fixed interest rate range from 1% to 3.40%.

### 28. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 23 March 2006, the Group entered into a sale and purchase agreement with an independent third party pursuant to which the Group agreed to dispose of and the independent third party agreed to purchase the entire 75% equity interest in 深圳市天利安實業發展有限公司 ("天利安"), a non-wholly owned subsidiary of the Company, together with the amount due from a minority shareholder at an aggregate consideration of RMB99,900,000 (equivalent to HK\$99,900,000). The consideration was finalised to RMB102,550,000 (equivalent to HK\$101,357,000). The assets and liabilities related to 天利安, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated balance sheet as at 31 December 2006. The transaction was completed on 3 April 2007.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

### 28. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (continued)

The major classes of assets and liabilities associated with the disposal group classified as held for sale are as follows:

	31.12.2006 HK\$'000
Investment property	80,953
Property, plant and equipment	48,046
Debtors, deposits and prepayments	615
Amount due from a minority shareholder	4,805
	<hr/>
Total assets classified as held for sale	134,419
	<hr/>
Creditors and accrued charges	24,616
Deposit received	30,027
Deferred tax liability	5,391
Taxation payable	10
	<hr/>
Liabilities associated with assets classified as held for sale	60,044

### 29. CREDITORS AND ACCRUED CHARGES

Creditors and accrued charges principally comprise amounts outstanding for trade purpose and ongoing costs.

An aged analysis of trade creditors is as follows:

	2007 HK\$'000	2006 HK\$'000
Trade creditors due within 90 days	29,778	14,684
Other creditors and accrued charges	68,217	40,796
	<hr/>	<hr/>
	97,995	55,480

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

### 30. OTHER BORROWINGS

Other borrowings represent securities margin financing received from stock broking, futures and options broking house and were secured by certain collateral of the Group as disclosed in note 34. Additional funds or collateral are required if the balance of the borrowings exceeds the eligible margin value of securities pledged to the broking house. The collateral can be sold at the broking house's discretion to settle any outstanding borrowings owed by the Group. The entire borrowings are secured by the Group's marketable securities, repayable on demand and bear variable interest ranging from 3.4% to 8.0% (2006: 4.35% to 8.25%).

### 31. DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments comprise derivative contracts linked with the equity securities listed in Hong Kong with certain brokers for a period of one year.

The fair value of derivative financial instruments is determined based on market values provided by the counterparty financial institutions.

### 32. SHARE CAPITAL

	Number of shares		Value	
	2007	2006	2007	2006
			HK\$'000	HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At beginning and end of the year	<b>30,000,000,000</b>	30,000,000,000	<b>300,000</b>	300,000
Issued and fully paid:				
At beginning of the year	<b>282,883,547</b>	297,479,547	<b>2,829</b>	2,975
Repurchase of shares	<b>(6,700,000)</b>	(14,596,000)	<b>(67)</b>	(146)
At end of the year	<b>276,183,547</b>	282,883,547	<b>2,762</b>	2,829

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 32. SHARE CAPITAL (continued)

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.01 each	Price per share		Aggregate consideration paid HK\$'000
		Highest	Lowest	
		HK\$	HK\$	
February 2007	348,000	3.38	3.30	1,169
March 2007	548,000	3.36	3.15	1,820
April 2007	1,816,000	4.13	4.08	7,493
May 2007	2,760,000	5.64	4.37	13,795
June 2007	768,000	6.55	5.90	4,813
July 2007	316,000	7.70	6.60	2,181
August 2007	144,000	8.13	6.60	1,106
	6,700,000			32,377

The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase of the shares of HK\$32,310,000 has been charged to the share premium account. An amount equivalent to the nominal value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

The repurchases of the Company's shares during the year were effected by the Directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 33. DEFERRED TAXATION

	Revaluation of properties HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2006	322	(322)	–
Charge (credit) to consolidated income statement for the year	95	(95)	–
At 31 December 2006	417	(417)	–
Charge (credit) to consolidated income statement for the year	2,672	(2,672)	–
<b>At 31 December 2007</b>	<b>3,089</b>	<b>(3,089)</b>	<b>–</b>

At 31 December 2007, the Group has estimated unused tax losses of approximately HK\$744 million (2006: HK\$1,235 million), for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$17.6 million (2006: HK\$2.4 million) of such losses. No deferred tax asset has been recognised in respect of remaining estimated tax losses of HK\$726.4 million (2006: HK\$1,232.6 million) due to the unpredictability of future profit streams. These estimated tax losses may be carried forward indefinitely.

The Group has deductible temporary differences of approximately HK\$9.4 million (2006: HK\$34 million). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 34. PLEDGE OF ASSETS

At the balance sheet date, the following assets of the Group were pledged to banks and securities brokers house to secure short term credit facilities:

	2007 HK\$'000	2006 HK\$'000
Investment properties	33,300	26,640
Investments held for trading	3,121,898	1,210,235
Available-for-sale investments	460,628	115,607
Securities brokers house deposits	–	196
Pledged bank deposits	10,718	–
	<b>3,626,544</b>	<b>1,352,678</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 35. LEASE COMMITMENTS

### The Group as lessee

	2007 HK\$'000	2006 HK\$'000
Minimum lease payments paid under operating leases in respect of premises	<u>1,920</u>	<u>1,951</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2007 HK\$'000	2006 HK\$'000
Within one year	1,966	875
In the second to fifth year inclusive	<u>4,587</u>	<u>–</u>
	<u>6,553</u>	<u>875</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated and rentals are fixed for a lease term of two years.

### The Group as lessor

Property rental income earned during the year was approximately HK\$4,780,000 (2006: HK\$3,801,000). The properties held have committed tenants for a lease term of two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2007 HK\$'000	2006 HK\$'000
Within one year	3,293	3,778
In the second to fifth year inclusive	<u>472</u>	<u>2,739</u>
	<u>3,765</u>	<u>6,517</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 36. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution retirement benefits scheme for its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustee.

The retirement benefits scheme contributions charged to the consolidated income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group or will be refunded to the Company upon request.

As at 31 December 2007, forfeited contributions was HK\$419,000 (2006: Nil), which arose upon employees leaving the scheme and which were available to reduce the contributions payable by the Group in future years.

In addition to the defined contribution retirement benefits scheme, the Group is required to contribute to Mandatory Provident Fund for certain employees in Hong Kong based on applicable rates of monthly salary in accordance with the relevant regulations.

During the year, the retirement benefits scheme contributions charged to consolidated income statement were HK\$157,000 (2006: HK\$270,000).

## 37. RELATED PARTY TRANSACTIONS

### Compensation of key management personnel

The remuneration of Directors and other members of key management of the Group during the year was as follows:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Salaries and other short-term employee benefits	<b>60,315</b>	46,800
Retirement benefits costs	<b>60</b>	60
	<b>60,375</b>	46,860

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 38. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2007, the Group disposed of a non-wholly owned subsidiary:

	HK\$'000
<hr/>	
NET ASSETS DISPOSED OF	
Investment property	94,706
Property, plant and equipment	48,046
Debtors, deposits and prepayments	615
Amount due from a minority shareholder	4,805
Creditors and accrued charges	(24,616)
Deferred tax liability	(5,391)
Taxation liability	(10)
	<hr/>
	118,155
Minority interests	(16,798)
	<hr/>
Net assets disposed of	<u>101,357</u>
Total consideration satisfied by:	
Deposits received in advance	30,027
Bank balances and cash	71,330
	<hr/>
	101,357
	<hr/>
Net cash inflow arising on disposal:	
Cash consideration	<u>71,330</u>

The assets and liabilities related to this subsidiary have been classified as a disposal group held for sale and are presented separately in the consolidated balance sheet as at 31 December 2006.

The assets held by the subsidiary are mainly investment property. The fair value gain of HK\$13,753,000 on the investment property upon the disposal was recognised in the consolidated income statement during the year ended 31 December 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Directly held</b>				
Besford International Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Classic Fortune Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Mission Time Holdings Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Star Paging (BVI) Limited	The British Virgin Islands	Ordinary US\$400	100%	Investment holding
Yuenwell Holdings Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
<b>Indirectly held</b>				
China Capital Holdings Limited	Hong Kong	Ordinary HK\$2	100%	Treasury service
China Online (Bermuda) Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
China Online Nominees Limited	Hong Kong	Ordinary HK\$200	100%	Investment holding and provision of nominee services

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held (continued)</b>				
China Online Secretaries Limited	Hong Kong	Ordinary HK\$2	100%	Provision of secretarial services
Focus Clear Limited	The British Virgin Islands	Ordinary US\$1	100%	Securities trading in Hong Kong
Forepower Limited	The British Virgin Islands	Ordinary US\$1	100%	Property investment in Hong Kong
Future Rise Investments Limited	The British Virgin Islands	Ordinary US\$1	100%	Securities trading in overseas
Genwo Limited	Hong Kong	Ordinary HK\$200,000	100%	Property investment
Gold Chopsticks Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Honest Opportunity Limited	The British Virgin Islands	Ordinary US\$1	100%	Securities trading and investment in Hong Kong and overseas
Join Capital Limited	Hong Kong	Ordinary HK\$2	100%	Money lending
Keentime Investments Limited	The British Virgin Islands	Ordinary US\$2	50%	Securities trading in Hong Kong
Kintic Limited	Hong Kong	Ordinary HK\$2	100%	Property investment

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held (continued)</b>				
Konnic Limited	Hong Kong	Ordinary HK\$2	100%	Property investment
Rich Investments Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Sinway Limited	Hong Kong	Ordinary HK\$2	100%	Mobile handsets distribution
Sparkling Summer Limited	The British Virgin Islands	Ordinary US\$6,500,000	100%	Securities trading in Hong Kong and overseas
Star Charter Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Star Telecom (China Investment) Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Star Telecom Holding Limited	Hong Kong	Ordinary HK\$200 Deferred # HK\$4,000,000	100%	Investment holding
Star Telecom Limited	Hong Kong	Ordinary HK\$3,000,000	100%	Mobile handsets distribution
Star Telecom Properties Limited	Hong Kong	Ordinary HK\$200	100%	Investment and property holding
Taskwell Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held (continued)</b>				
Tricom Tianchi Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Vinka Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Widerich Limited	Hong Kong	Ordinary HK\$2	100%	Property investment
星電電子技術發展(深圳) 有限公司*	The PRC	Registered HK\$1,000,000	100%	Research and development for computer software and relevant technical consultancy services

# The deferred shares, which are not held by the Group, practically carry no rights to any dividend or to receive notice of or to attend or vote at any general meeting of the company or to any distribution in winding up.

\* Wholly foreign-owned enterprise.

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

All subsidiaries operate principally in their places of incorporation unless specified otherwise under "Principal activities".

None of the subsidiaries had any debts securities subsisting at 31 December 2007 or at any time during the year.

## FINANCIAL SUMMARY

The results and the assets and liabilities of the Group for the past five financial years, as extracted from the Group's published audited consolidated financial statements are set out below:

### RESULTS

	For the year ended 31 December				2007 HK\$'000
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	
Revenue					
Continuing operations	394,758	610,286	156,777	1,162,742	<b>2,289,440</b>
Discontinued operation	98,775	237,205	66,309	67,098	<b>7,681</b>
	<u>493,533</u>	<u>847,491</u>	<u>223,086</u>	<u>1,229,840</u>	<u><b>2,297,121</b></u>
Profit (loss) before taxation					
Continuing operations	290,993	181,818	106,490	788,754	<b>1,560,048</b>
Discontinued operation	1,421	21,583	(1,883)	(4,710)	<b>(1,501)</b>
	<u>292,414</u>	<u>203,401</u>	<u>104,607</u>	<u>784,044</u>	<u><b>1,558,547</b></u>
Taxation	(336)	(127)	(99)	(11,527)	<b>(175,900)</b>
Profit for the year	<u>292,078</u>	<u>203,274</u>	<u>104,508</u>	<u>772,517</u>	<u><b>1,382,647</b></u>
Attributable to:					
Equity holders of the Company	292,078	203,274	104,511	772,468	<b>1,378,824</b>
Minority interests	–	–	(3)	49	<b>3,823</b>
	<u>292,078</u>	<u>203,274</u>	<u>104,508</u>	<u>772,517</u>	<u><b>1,382,647</b></u>

### ASSETS AND LIABILITIES

	At 31 December				2007 HK\$'000
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	
Total assets	1,123,456	1,263,863	1,456,311	2,748,458	<b>5,311,251</b>
Total liabilities	(19,919)	(40,211)	(154,581)	(332,564)	<b>(1,206,932)</b>
	<u>1,103,537</u>	<u>1,223,652</u>	<u>1,301,730</u>	<u>2,415,894</u>	<u><b>4,104,319</b></u>
Equity attributable to equity holders of the Company	1,103,537	1,223,652	1,284,932	2,399,047	<b>4,100,447</b>
Minority interests	–	–	16,798	16,847	<b>3,872</b>
	<u>1,103,537</u>	<u>1,223,652</u>	<u>1,301,730</u>	<u>2,415,894</u>	<u><b>4,104,319</b></u>