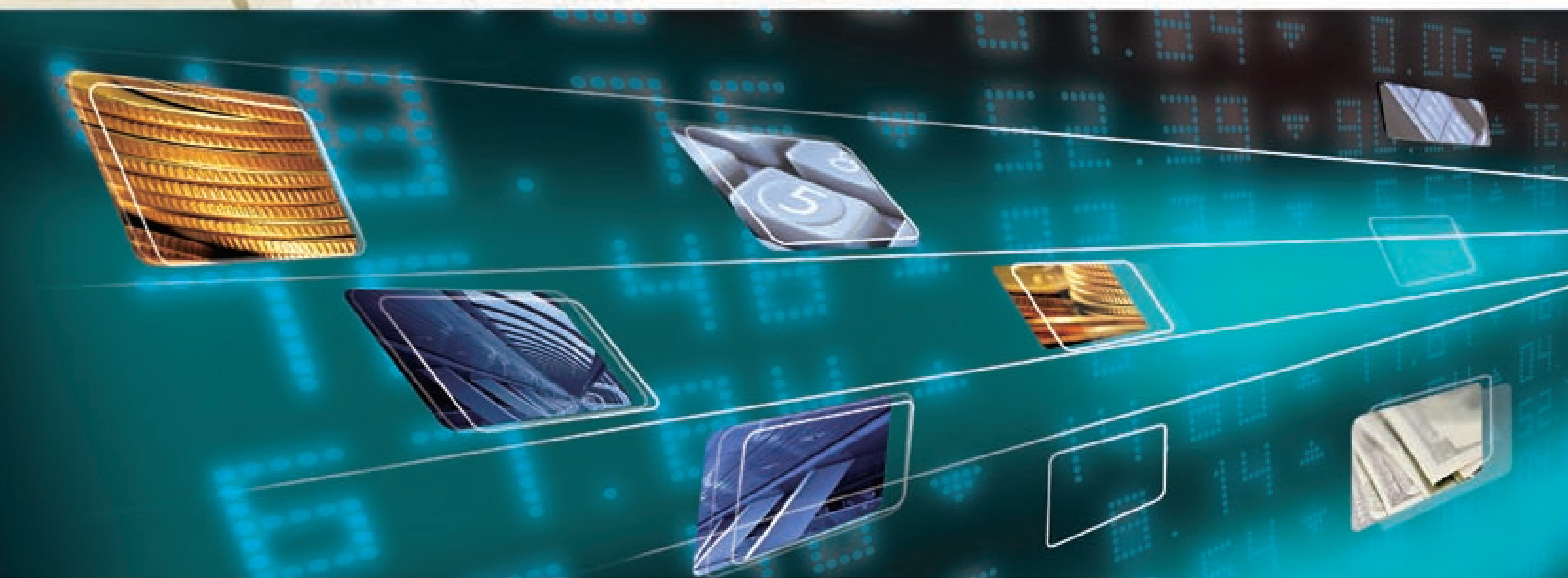
# MASTERMIND CAPITAL LIMITED
# 慧德投資有限公司*

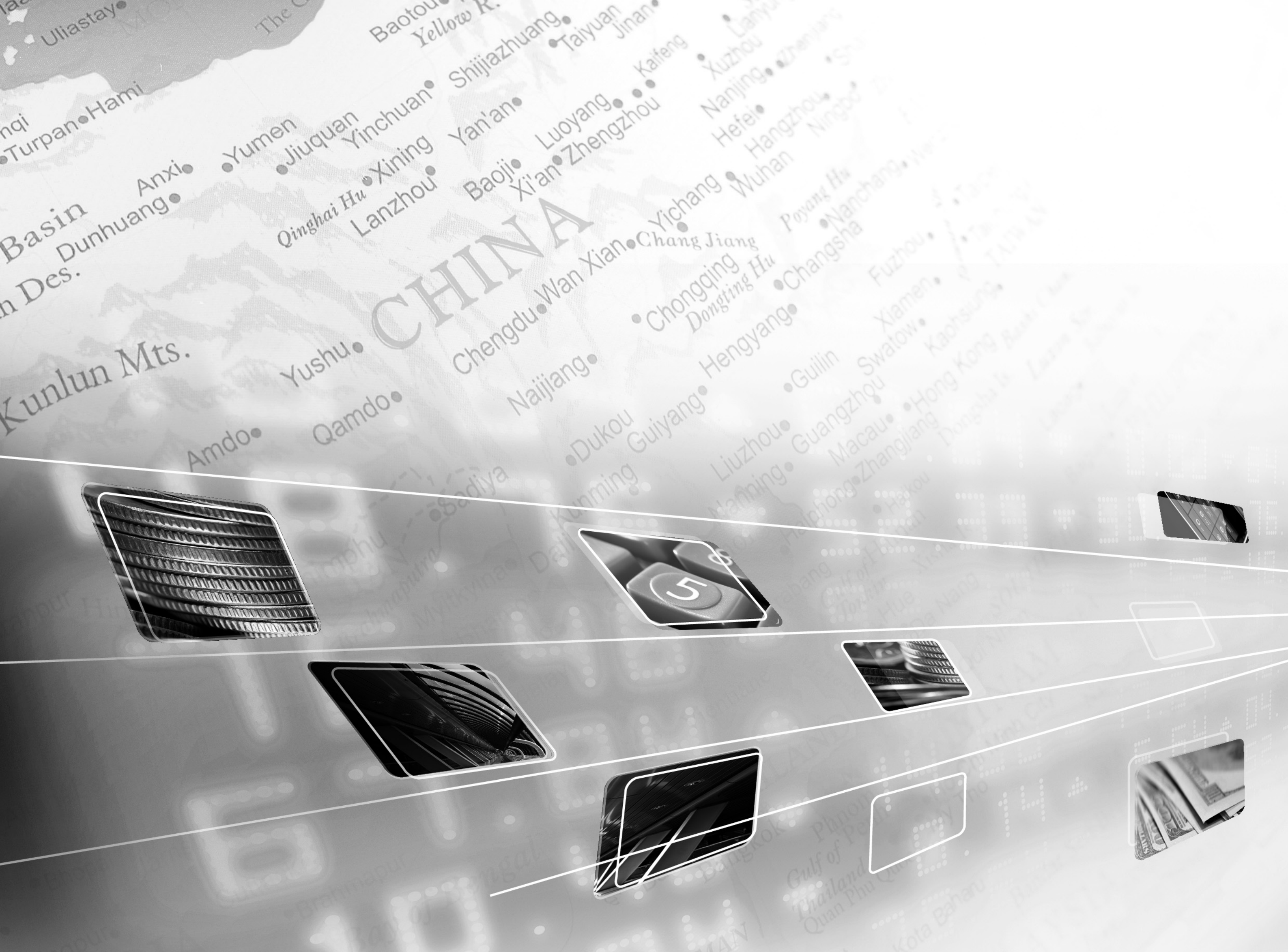
*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code : 905)**



ANNUAL REPORT 2008

* For identification purpose only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Anxi
Dunhuang
Qinghai Hu
Xining
Lanzhou
Baoji
Xi'an
Wuhan
Yichang
CHINA
Chengdu
Wan Xian
Chang Jiang
Poyang Hu
Nanchang
Changsha
Chongqing
Dongting Hu
Fuzhou
Xiamen
Kunlun Mts.
Yushu
Naijiang
Hengyang
Guilin
Swatow
Hong Kong
Qamdo
Amdo
Dukou
Guiyang
Liuzhou
Guangzhou
Macau
Zhangjiang
Kunming
Nanning
Sadiya
INDIA
Nagpur
Hyderabad
Vijayawada
Pune
Andaman Islands
ANDAMAN SEA
Phuket
Gulf of Thailand

# Contents

# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors:**
Mr. Mung Kin Keung *(Chairman)*
Mr. Ha Wing Ho, Peter
Mr. Leong Chi Wai
Mr. Leung King Yue, Alex

**Independent Non-executive Directors:**
Mr. Chee Man Sang, Eric
Mr. Lo Tak Kin
Ms. Yu Tin Yan, Winnie

## COMPANY SECRETARY

Mr. Ma Man Pong

## INVESTMENT MANAGER

Hua Yu Investment Management Limited

## PRINCIPAL BANKER

Hang Seng Bank Limited

## AUDITORS

Grant Thornton

## LEGAL ADVISERS

**Hong Kong Law**
Mason Ching & Associates

**Cayman Islands Law**
Maples and Calder Asia

## PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
PO Box 609
Grand Cayman, KY1-1107
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

## REGISTERED OFFICE

Ugland House
PO Box 309
Grand Cayman, KY1-1104
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS

28th Floor, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

## STOCK CODE

The Stock Exchange of Hong Kong Limited: 905

## COMPANY WEBSITE

www.mastermindcapitalhk.com

# Chairman's Statement

To call it a disaster would be an understatement for equities investors around the globe. However, compared to the developed economy China has been in relatively good shape with an annual GDP growth of 9% despite a rapidly decelerating second half which push the Chinese government to a U-turn in economic policy – from fighting inflating and overheating in first half to maintaining growth in the second half of 2008. Despite a vibrant economy and banks that are in relatively good shape, Chinese equities were not able to withstand the force of gravity as a result of high valuation and worldwide contraction of credits and withdrawal of liquidity, particularly from emerging markets.

The Shanghai A-share market index was the worst performing market in the world in 2008, losing 65% of its value. In Hong Kong, the Hang Seng Index and the Hang Seng China Enterprise Index were down 48% and 50% respectively for the year 2008.

In the fourth quarter of 2008 the China economy had lost its steam as a result of deteriorating world economy and macro tightening from the Chinese government that began two years ago as the central bank of China raised interest rates and required reserve ratio to freeze credits out of the economy. Consumers spending growth has decelerated while exports growth were rapidly approaching negative territory, not to mention unemployment which was on the rise.

The Chinese government has responded swiftly with both monetary and fiscal measures, cutting both interest rate and required reserve ratios while shelling out a RMB4 trillion stimulus package to improve infrastructure and healthcare, amongst other things. Subsequently stimulus policies for specific industry sectors have also been announced in quick succession.

At the time this report is published, there are already early signs of recovery in the Chinese economy – loan growth in January and February of 2009 has been record breaking, money supply M2 growth has accelerated, purchasing manager index has shown a V-shape recovery. However, consumer spending has remained slowed and export numbers continued to be worrying.

We strongly believe China will be the first to rebound from this crisis. China is flexible. Interest rate level in China is still relatively high at approximately 5%; government deficit to GDP level is low at 0.3% for fiscal year 2008; banks are lending to each other and are massively profitable with historical low level of bad loans; Labour market is not unionized and mobile, wage level is flexible; Finally, further government stimulus policies can be announced without the requirement to go through potentially lengthy bipartisan approval process.

During the year the Company has changed its name to Mastermind Capital Limited to reflect the new directions and initiatives. In November 2008 the Company has successfully raised approximately HK$28 million amidst the most difficult environment in equity markets worldwide. We are thankful of the support shown to the management by our shareholders.

Finally, I would like to extend my gratitude to all of my fellow directors and the Company's investment manager during the year 2008.

**Mung Kin Keung**
*Chairman*
Hong Kong, 27 March 2009

# Management Discussion and Analysis

## FINANCIAL REVIEW

During the year, the Group recorded a loss of approximately HK$2,356,000 (2007: approximately HK$3,259,000) after deducting administrative expenses and other operating expenses of approximately HK$2,361,000 (2007: approximately HK$3,298,000).

## FINANCIAL POSITION

As at 31st December, 2008, the Group had bank and cash balances of approximately HK$27,963,000 (2007: approximately HK$2,323,000).

The Group had no debt as at 31st December, 2008 (2007: Nil).

As at 31st December, 2008, the Group had net current assets of approximately HK$27,716,000, as compared to approximately HK$1,949,000 as at 31st December, 2007.

As at 31st December, 2008, the current ratio of the Group was 50.94 compared to 5.98 at 31st December, 2007.

## CHARGES ON ASSETS

As at 31st December, 2008, there were no charges on the Group's assets (2007: HK$Nil).

## FOREIGN CURRENCY FLUCTUATION

Most of the underlying investments and business transactions of the Group are denominated in Hong Kong dollars. The Board believes the foreign exchange risk is minimal.

## CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31st December, 2008 (2007: HK$Nil).

## EMPLOYEES AND REMUNERATION POLICY

The Group ensured that its employees are remunerated according to the prevailing manpower market conditions and individual performance and the remuneration policies are reviewed on a regular basis.

There is one employee, four executive directors and three independent non-executive directors. Remuneration policies are reviewed by the remuneration committee in accordance with the market situation and the performance of individual directors from time to time.

The Group's total staff costs (including directors' emoluments) for the year under review amounted to approximately HK$0.9 million (2007: approximately HK$1.4 million).

# Biographical Details of Directors and the Investment Manager

## EXECUTIVE DIRECTORS

**Mr. Mung Kin Keung** ("Mr. Mung"), aged 48, has been appointed as an executive director of the Company with effect from 9 March 2007. Mr. Mung holds a Conferment of Honorary Doctoral Degree from Sinte Gleska University of California. In November 2007, Mr. Mung was awarded the 9th World Outstanding Chinese Award by the World Chinese Business Investment Foundation. He has over 10 years' experience in areas of business management, strategic planning and development. Mr. Mung was appointed as an executive director of Hong Kong Resources Holdings Company Limited (Stock Code: 2882) on 27 November, 2008 and Shougang Concord Technology Holdings Limited (Stock Code: 521) on 16 February, 2009.

**Mr. Ha Wing Ho, Peter** ("Mr. Ha"), aged 46, has been appointed as an executive director of the Company with effect from 9 March 2007. Mr. Ha obtained LLB from the University of Wales in 1984 and PCLL from The University of Hong Kong in 1985. He is a partner of Messrs. Kok and Ha, Solicitors which was founded in 1989. He is also a director of Hong Kong Express Airways Limited.

**Mr. Leong Chi Wai** ("Mr. Leong"), aged 33, has been appointed as an executive director of the Company with effect from 9 March 2007. Mr. Leong holds a Bachelor Degree in Business Administration from the University of Hong Kong and has 10 years' experience in managing listed and unlisted direct investments, property investments and corporate finance activities. He was a senior manager of Yu Ming Investment Management Limited ("YMIM"), a licensed corporation permitted to engage in types 1, 4, 6, 9 regulated activities under the Securities and Futures Ordinance ("SFO"). Mr. Leong is licensed under the SFO to carry out securities advisory, corporate finance advisory and asset management activities. Mr. Leong is also a substantial shareholder of Hua Yu Investment Management Limited ("Hua Yu"), the investment manager of the Company pursuant to an investment management agreement entered into between the Company and Hua Yu on 12 May 2005.

**Mr. Leung King Yue, Alex** ("Mr. Leung"), aged 31, has been appointed as an executive director of the Company with effect from 9 March 2007. Mr. Leung holds a Bachelor Degree in Commerce specializing in Economics and Finance from the University of Melbourne in Australia and is a Chartered Financial Analyst of the United States of America. Mr. Leung started his career in investment banking with YMIM in 2000 focusing on private equity projects, corporate finance advisory, merger and acquisition transactions and listed equities. Mr. Leung then joined JK Capital Management Limited (formerly known as MYM Capital Limited), a then sister company of YMIM, in 2003 as a portfolio manager specializing in investments in global high yield fixed income securities and listed Chinese equities. He is licensed by the SFO to carry out securities advisory, corporate finance advisory and asset management activities. He is currently a Responsible Officer of both JK Capital Management Limited and Asian Asset Management Limited. He is also a director of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (Stock Code: 1076) and GreaterChina Technology Group Limited ("GCTG") (Stock Code: 8032).

# Biographical Details of Directors and the Investment Manager

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chee Man Sang, Eric** ("Mr. Chee"), aged 47, has been appointed as an independent non-executive director of the Company with effect from 9 March 2007. Mr. Chee is a practising Certified Public Accountant in Hong Kong and a senior partner of Chan Chee Cheng & Co., a firm of certified public accountants. Mr. Chee holds a Bachelor Degree in Commerce (majoring in Accounting) from Birmingham University. He had worked in two international accounting firms in Canada and Hong Kong. Mr. Chee is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Chee was appointed as an independent non-executive director of Hop Fung Group Holdings Limited (Stock Code: 2320) on 4 September 2003 and GCTG (Stock Code: 8032) on 18 February 2009.

**Mr. Lo Tak Kin** ("Mr. Lo"), aged 42, has been appointed as an independent non-executive director of the Company with effect from 9 March 2007. Mr. Lo is a practising Certified Public Accountant in Hong Kong and an associate member of the Hong Kong Institute of Certified Public Accountants and also a fellow member of the Association of Chartered Certified Accountants. Mr. Lo is currently a director of M Square CPA Limited, Certified Public Accountants and has extensive experience in auditing, tax planning and finance.

**Ms. Yu Tin Yan, Winnie** ("Ms. Yu"), aged 34, has been appointed as an independent non-executive director of the Company with effect from 9 March 2007. Ms. Yu was admitted as a Solicitor of the High Court of Hong Kong in 1999. Ms. Yu is currently an Associate of Messrs. Tony Kan & Co. Ms. Yu is also currently a Full Member and Director of the Association of Hong Kong Professionals Limited with which she serves as a Deputy General Secretary and Standing Committee Member.

## INVESTMENT MANAGER

Hua Yu Investment Management Limited ("Hua Yu") was incorporated in Hong Kong in 1998 and is Licensed Corporation under the SFO permitted to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities. Hua Yu is principally engaged in the business of investment management and provision of corporate advisory services.

On 12 May 2005, the Company entered into an investment management agreement ("the Agreement") with Hua Yu for a period of 2 years, with effect from 20 May 2005. The Agreement was subsequently renewed on 18 April 2007 and on 18 April 2008 respectively for a period of 1 year.

Investment management fees to Hua Yu is calculated at 0.375% of the net asset value per quarter, subject to a minimum of HK$150,000 per three months.

# Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2008.

## PRINCIPAL ACTIVITY

The principal activity of the Company is to act as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. The Group principally invests in listed and unlisted companies in Hong Kong and in other parts of the PRC.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 21 to 55.

## FINAL DIVIDEND

The Directors do not recommend the payment of any dividend for the year (2007: HK$ Nil).

## SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 18 to the financial statements.

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in notes 20 and 21 to the financial statements respectively.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 56.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

# Directors' Report

## DIRECTORS

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

**Executive Directors:**
Mr. Mung Kin Keung *(Chairman)*
Mr. Ha Wing Ho, Peter
Mr. Leong Chi Wai
Mr. Leung King Yue, Alex

**Independent Non-Executive Directors:**
Mr. Chee Man Sang, Eric
Mr. Lo Tak Kin
Ms. Yu Tin Yan, Winnie

In accordance with Article 157 of the Company's Articles of Association, one third of the directors shall retire from office by rotation at the AGM. Mr. Ha Wing Ho, Peter, Mr. Lo Tak Kin and Ms. Yu Tin Yan, Winnie will retire by rotation at the AGM and, being eligible, offer themselves for re-election at the AGM.

The term of office of each of the independent non-executive directors is the period up to his/her retirement by rotation in accordance with the Company's Articles of Association.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND INVESTMENT MANAGER

Brief biographical details of directors and investment manager are set out on pages 5 to 6.

## DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company which is not terminable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACT

During the year, Hua Yu, of which Mr. Leong Chi Wai is a director and a substantial shareholder, received from the Group investment management fees of HK$600,000 in connection with a management agreement signed between the Group and Hua Yu.

Saved as disclosed above, no other contract of significance to which the Company and any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# Directors' Report

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2008 and up to the date of this report, the directors of the Company do not have interests in companies of which their businesses compete or are likely to compete, either directly or indirectly, with the businesses of the Company as required to be disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2008, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of Part XV of the SFO were as follows:

Ordinary shares of HK$0.025 each in the Company as at 31 December 2008:

| | Corporate interests | % of issued share capital of the Company |
|---|---|---|
| 中國天地行物流控股集團有限公司 | 1,080,000,000 | 75 |

*Note:*

1,080,000,000 shares are held by 中國天地行物流控股集團有限公司 (for identification purpose China Tian Di Xing Logistics Holdings Limited), a company in which Mr. Mung Kin Keung holds 99.99% equity interests.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme ("the Scheme") on 23 May 2002. The purpose of the Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Participants include (a) any full-time employee, directors (including any non-executive director or independent non-executive director) and part time employee of the Company or of any of its subsidiaries; (b) any adviser or consultant (in the areas of financial or corporate managerial) to the Company or to any of its subsidiaries; and (c) any adviser, consultant, agent, business affiliates or any person or entity who provides research or other support directly or indirectly to the Group, and any employee, adviser or consultant to the investment management company for the Company.

The directors may, at their absolute discretion, make an offer to any participant to take up options. An offer is deemed to have been accepted by the grantee upon the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee and paying HK$1 by way of consideration for the grant thereof.

# Directors' Report

The subscription price for shares in the Company under the Scheme shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date on which an option is granted, (ii) the average closing prices of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date on which an option is granted, and (iii) the nominal value of a share of the Company on the date on which an option is granted.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 12,000,000 shares of the Company, being 10% of the total number of shares of the Company in issue as at the date of approval of the Scheme. An option may be exercised during a period to be notified by the directors but may not be exercised after the expiry of 10 years after the date of grant of the option.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted or to be granted to each participant under the Scheme in any 12-month period must not exceed 1 % of the total number of shares in issue of the Company. Any further grant of options in excess of the 1 % limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting. The Scheme will remain in force for a period of 10 years from 23 May 2002.

No options have been granted since the adoption of the Scheme.

## CONNECTED TRANSACTIONS

The following connected transactions occurred during the year.

### 1. Investment management agreement

The Company has appointed Hua Yu as its investment manager. As Hua Yu has extensive investment experience in the PRC and Hong Kong, the Company believes it will be beneficial to appoint Hua Yu as the investment manager in order to fully capture the investment opportunities in the PRC and Hong Kong.

Investment management fees to Hua Yu are calculated at 0.375% of the net asset value per quarter, subject to a minimum of HK$150,000 for every three months.

Hua Yu is regarded as a connected person of the Company for the purpose of the Listing Rules. Accordingly, the investment management agreement constitutes a continuing connected transaction of the Company.

The aggregate investment management fee paid/payable to Hua Yu for the year amounted to approximately HK$600,000.

2. **Custodian agreement**

   The Company has appointed Bank of Communications Trustee Limited (the "Custodian") as its custodian. The custodian agreement has no fixed term and shall continue in force until terminated by either party giving to the other not less than 30 days' notice in writing. During the year, the Company has paid HK$19,200 to the Custodian.

   The Custodian is regarded as a connected person of the Company for the purpose of the Listing Rules. Accordingly, the custodian constitutes a continuing connected transaction of the Company.

## PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the directors at the date of this report, the Company has complied with the public float requirement of the Listing Rules for the year ended 31 December 2008.

## AUDIT COMMITTEE

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both the external and internal controls and risk evaluation. As at 31 December 2008, the committee members comprised Mr. Chee Man Sang, Eric, (chairman of Audit Committee), Mr. Lo Tak Kin and Ms. Yu Tin Yan, Winnie. Two meetings were held by the committee during the year. The audited financial statements for the year ended 31 December 2008 have been reviewed by the Audit Committee.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of annual results for the year ended 31 December 2008.

## CHANGE OF COMPANY NAME

The change of name of the Company to "Mastermind Capital Limited" and the adoption of the Chinese name "慧德投資有限公司" for identification purpose only was effective on 11 November 2008.

## SUBSEQUENT EVENT

By passing of an ordinary resolution at the extraordinary general meeting on 12 January 2009, the Board adopted a new share option scheme (the "New Scheme") and simultaneously terminated the Scheme.

The purpose of the New Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Participants include (a) any full-time employee, directors (including any non-executive director or independent non-executive director) and part time employee with weekly working hours of 15 hours or above of the Company or of any of its subsidiaries; (b) any adviser or consultant (in the areas of financial or corporate managerial) to the Company or to any of its subsidiaries; and (c) any adviser, consultant, agent, business affiliates or any person or entity who provides research or other support directly or indirectly to the Group, and any employee, adviser or consultant to the investment management company for the Company.

# Directors' Report

The directors may, at their absolute discretion, make an offer to any participant to take up options. An offer is deemed to have been accepted by the grantee upon the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee and paying HK$1 by way of consideration for the grant thereof.

The subscription price for shares in the Company under the New Scheme shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date on which an option is granted, (ii) the average closing prices of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date on which an option is granted, and (iii) the nominal value of a share of the Company on the date on which an option is granted.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed 144,000,000 shares of the Company, being 10% of the total number of shares of the Company in issue as at the date of approval of the New Scheme. An option may be exercised during a period to be notified by the directors but may not be exercised after the expiry of 10 years after the date of grant of the option.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted or to be granted to each participant under the New Scheme in any 12-month period must not exceed 1 % of the total number of shares in issue of the Company. Any further grant of options in excess of the 1 % limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting. The New Scheme will remain in force for a period of 10 years from 12 January 2009.

No options have been granted since the adoption of the New Scheme.

## AUDITORS

The Company's auditors, Grant Thornton retire and, being eligible, offer themselves for reappointment.

There have been no changes of auditors in the past three years.

By order of the Board

**Ma Man Pang**
*Secretary*

Hong Kong, 27 March 2009

# Corporate Governance Report

The Group is dedicated to maintain a credible framework of corporate governance with a view to being transparent, open and accountable to our shareholders.

On 1 January 2005, the Code of Best Practices was replaced by the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules. The Company adopted all the code provisions in the Code as its own code on corporate governance practices.

The Company has complied with code provisions as set out in the Code except for certain deviations which are mentioned below.

## THE BOARD

### Composition

The Board consists of four executive directors and three independent non-executive directors ("INED(s)"). Two of the INEDs have the appropriate professional accounting experience and expertise. One INED has the appropriate professional legal experience and expertise. The names and biographical details of each director are disclosed on pages 5 to 6 of this Annual Report.

The code provision A.2.1 of the Code states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

An individual chief executive officer was not appointed during the year ended 31 December 2008. The Board considers that based on the existing size and structure of the Company, the appointment of an individual chief executive officer of the Company is not necessary. Furthermore, the Company has engaged Hua Yu as its investment manager.

The code provision A.4.1 of the Code states that non-executive directors should be appointed for a specific term to election.

All independent non-executive directors are not appointed for specific term. They are, however, subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association.

Each INED has, pursuant to the guidelines set out in Rule 3.13 of the Listing Rules, confirmed he/she is independent of the Company and the Company also considers that they are independent. The term of office of each INED is not more than three years from date of appointment subject to the requirement that one-third of all the directors shall retire from office by rotation at each AGM pursuant to the Bye-Laws of the Company.

### Function

The Board is responsible both for how the Company is managed and the Company's direction. Approval of the Board is required for the strategy of the Group, major acquisition and disposal, major capital investment, dividend policy, appointment and retirement of directors, remuneration policy and other major operational and financial matters.

# Corporate Governance Report

The Board held four regular Board meetings during the year 2008. Due notice and board papers were given to all directors prior to the meeting in accordance with the Listing Rules and the Code. Details of individual attendance of directors are set out in the table below:

**Attendance of individual directors at Board meetings in 2008**

| | |
|---|---|
| **Number of meetings** | **4** |
| | |
| **Executive Directors:** | |
| Mr. Mung Kin Keung *(Chairman)* | 2/4 |
| Mr. Ha Wing Ho, Peter | 3/4 |
| Mr. Leong Chi Wai | 3/4 |
| Mr. Leung King Yue, Alex | 2/4 |
| | |
| **Independent Non-Executive Directors:** | |
| Mr. Chee Man Sang, Eric | 3/4 |
| Mr. Lo Tak Kin | 4/4 |
| Ms. Yu Tin Yan, Winnie | 2/4 |

The Board has established procedures to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense.

## BOARD COMMITTEES

To strengthen the functions of the Board and to enhance its expertise, there are three Board committees namely, the Audit Committee, the Remuneration Committee and the Nomination Committee formed under the Board, with each performing different functions.

## AUDIT COMMITTEE

The Audit Committee comprises three INEDs.

The role and function of the Audit Committee include:

– to serve as a focal point for communication between other directors and the auditors in respect of the duties relating to financial and other reporting, internal controls, audits, and such other matters as the Board may determine from time to time.

– to review the appointment of auditors on an annual basis including the review of the audit scope and approval of the audit fees.

– to review the annual and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to the financial reporting requirements.

# Corporate Governance Report

- to assist the Board in fulfilling its responsibility by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group and the adequacy of the audits.

Set out below is the summary of work done in year 2008:

- to review the financial statements for the year ended 31 December 2007 and for the six months ended 30 June 2008; and

- to review the effectiveness of the internal controls system.

The Audit Committee held two meetings during the year. Details of individual attendance of its members are set out in the table below:

**Attendance of individual members at Audit Committee meetings in 2008**

| | |
|---|---|
| **Number of meetings** | **2** |
| **INEDs** | |
| Chee Man Sang, Eric *(Chairman of Audit Committee)* | 2/2 |
| Lo Tak Kin | 2/2 |
| Yu Tin Yan, Winnie | 1/2 |

## REMUNERATION COMMITTEE

The Board has established a Remuneration Committee, comprising three INEDs and the Chairman of the Company, which meets at least once a year. The role and function of the Remuneration Committee include formulation of the remuneration policy, reviewing and recommending to the Board the annual remuneration policy, and determination of the remuneration of the directors.

The code provision B.1.3 of the Code states that the terms of reference of the remuneration committee provides the discharge of certain specific duties by the remuneration committee.

No Remuneration Committee meeting was held during the financial year of 2008. The Remuneration Committee held its meeting in February 2009 to discuss and approve the remuneration of executive directors.

## NOMINATION COMMITTEE

The Board has established a Nomination Committee, comprising three INEDs and the Chairman of the Company, which meets at least once a year. The role and function of the Nomination Committee include reviewing the structure, size and composition of the Board, to assess the independence of INEDs and recommend to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors.

No Nomination Committee meeting was held during 2008 as there has been no changes of the Board since 9 March 2007.

# Corporate Governance Report

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees (as defined in the Code). All directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year 2008.

## AUDITORS' REMUNERATION

During the year, the fees paid/payable to the Company's auditors amounted to HK$180,000 in respect of audit services.

## INTERNAL CONTROL

The Board is responsible for ensuring a sound and effective system of internal control which is designed for (i) safeguarding the interests of the shareholders; (ii) safeguarding assets of the Company and its subsidiaries against misappropriation; (iii) ensuring proper maintenance of accounting records for the provision of reliable financial information; and (iv) ensuring compliance with relevant legislation and regulations. Such system of internal control is aimed at limiting the risks faced by the Company to an acceptable level but not at eliminating all the risks. Hence, such system can only provide reasonable but not absolute assurance that there will not be any material misstatement in the financial information and there will not be any financial loss or fraud.

The key procedures established by the Board to provide effective internal control include (i) a defined management structure with clear lines of responsibility; (ii) an appropriate organizational structure which adequately provides the necessary information flow for management decisions; (iii) effective financial reporting control to ensure the recording of complete, accurate and timely accounting and management information; and (iv) assurance through the Audit Committee that appropriate internal control policies are in place and functioning effectively.

Through the Audit Committee, the Board continues to review the effectiveness of the internal control system which includes financial, operational, compliance and risk management controls. The review process consists of (i) operational management's assurance of the maintenance of control; and (ii) control issues identified by external auditors during statutory audit. The Audit Committee, supported by reviews the adequacy of resources, qualifications and experiences of staff responsible for the accounting and financial reporting functions.

For the year under review, the Board had conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries, including financial, operational and compliance controls and risk management functions.

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 and employee, and the Group's assets.

# Corporate Governance Report

## SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include AGM, annual report, various notices, announcements and circulars. The Company has also maintained a corporate website which enables shareholders, investors and the public to receive timely and updated information on the Company.

## DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The directors acknowledge that it is their responsibilities in preparing the Financial Statements. The statement of the auditors about their reporting responsibilities on the Financial Statements is set out in the Independent Auditors' Report on pages 18 to 20.

# Independent Auditors' Report

Grant Thornton
均富

Member of Grant Thornton International Ltd

**To the members of Mastermind Capital Limited**
**(Formerly known as Apex Capital Limited)**
*(incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Mastermind Capital Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 55, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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

# Independent Auditors' Report

## AUDITORS' RESPONSIBILITY (Continued)

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

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

## BASIS OF QUALIFIED OPINION

The Group has an available-for-sale financial asset in an unlisted equity security, Tianjin Standard International Building Materials Industry Co., Ltd., for a total cost of HK$17,461,000. As further detailed in note 15(i), the directors of the Company had made full impairment provision of this amount against the carrying value of this asset in previous years for the sake of prudence as they were unable to obtain any financial information relating to this entity. We have not been able to obtain the information we need from the Company, nor were there any satisfactory alternative procedures we could perform, in order to assess whether the amount of impairment provision and the carrying value of this asset at 31 December 2008 were fairly stated. Any adjustments to the carrying amount of this asset found to be necessary as at 31 December 2008 would have a consequential effect on the net assets of the Group at that date and the loss for the Group for the year then ended.

## QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the carrying amount of the available-for-sale financial asset, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

# Independent Auditors' Report

## QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE (Continued)

In respect alone of the limitation on our work relating to the carrying value of the available-for-sale financial asset, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

**Grant Thornton**
*Certified Public Accountants*
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong
27 March 2009

# Consolidated Income Statement

For the year ended 31 December 2008

| | Notes | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 6 | **5** | 14 |
| Other income | 6 | **–** | 25 |
| Administrative expenses | | **(2,361)** | (3,183) |
| Other operating expenses | | **–** | (115) |
| **Loss before income tax** | 7 | **(2,356)** | (3,259) |
| Income tax expense | 10 | **–** | – |
| **Loss for the year attributable to the equity holders of the Company** | 11 | **(2,356)** | (3,259) |
| **Loss per share** | | | (Restated) |
| **Basic (HK cents)** | 12 | **(0.54)** | (0.94) |
| **Diluted (HK cents)** | 12 | **N/A** | N/A |

# Consolidated Balance Sheet

For the year ended 31 December 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **–** | – |
| Available-for-sale financial assets | 15 | **189** | – |
| | | **189** | – |
| **Current assets** | | | |
| Prepayments | | **308** | 17 |
| Cash at banks | | **27,963** | 2,323 |
| | | **28,271** | 2,340 |
| **Current liability** | | | |
| Accruals and other payables | 16 | **555** | 391 |
| **Net current assets** | | **27,716** | 1,949 |
| **Net assets** | | **27,905** | 1,949 |
| **EQUITY** | | | |
| Share capital | 18 | **36,000** | 6,000 |
| Reserves | 20 | **(8,095)** | (4,051) |
| **Total equity** | | **27,905** | 1,949 |
| Net asset value per share (HK$) | 22 | **0.02** | 0.01 |

**Mung Kin Keung**
*Director*

**Ha Wing Ho, Peter**
*Director*

# Balance Sheet

For the year ended 31 December 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **–** | – |
| Interests in subsidiaries | 14 | **10** | 10 |
| Available-for-sale financial assets | 15 | **–** | – |
| | | **10** | 10 |
| **Current assets** | | | |
| Prepayments | | **308** | 17 |
| Cash at banks | | **27,961** | 2,321 |
| | | **28,269** | 2,338 |
| **Current liabilities** | | | |
| Accruals and other payables | 16 | **365** | 391 |
| Amount due to a subsidiary | 17 | **76** | 91 |
| | | **441** | 482 |
| **Net current assets** | | **27,828** | 1,856 |
| **Net assets** | | **27,838** | 1,866 |
| **EQUITY** | | | |
| Share capital | 18 | **36,000** | 6,000 |
| Reserves | 21 | **(8,162)** | (4,134) |
| **Total equity** | | **27,838** | 1,866 |

**Mung Kin Keung**
*Director*

**Ha Wing Ho, Peter**
*Director*

# Consolidated Cash Flow Statement

For the year ended 31 December 2008

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss before income tax | (2,356) | (3,259) |
| Adjustments for: | | |
| Property, plant and equipment written off | – | 64 |
| Interest income on financial assets carried at amortised costs | (5) | (14) |
| Other receivables written off | – | 115 |
| Other payables written back | – | (25) |
| Operating loss before working capital changes | (2,361) | (3,119) |
| (Increase)/Decrease in prepayments | (291) | 174 |
| Increase/(Decrease) in accruals and other payables | 164 | (770) |
| Decrease in amounts due to directors | – | (281) |
| *Net cash used in operating activities* | (2,488) | (3,996) |
| **Cash flow from investing activities** | | |
| Purchase of available-for-sale financial assets | (189) | – |
| Interest received | 5 | 14 |
| *Net cash (used in)/generated from investing activities* | (184) | 14 |
| **Cash flow from financing activities** | | |
| Proceeds from shares issued | 30,000 | – |
| Shares issue expenses | (1,688) | – |
| *Net cash generated from financing activities* | 28,312 | – |
| **Net increase/(decrease) in cash and cash equivalents** | 25,640 | (3,982) |
| **Cash and cash equivalents at 1 January** | 2,323 | 6,305 |
| **Cash and cash equivalents at 31 December** | 27,963 | 2,323 |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

| | Equity attributable to the equity holders of the Company | | | |
|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Accumulated losses** | **Total equity** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2007 | 6,000 | 112,189 | (112,981) | 5,208 |
| Loss for the year (total recognised income and expense for the year) | – | – | (3,259) | (3,259) |
| At 31 December 2007 and 1 January 2008 | 6,000 | 112,189 | (116,240) | 1,949 |
| Loss for the year (total recognised income and expense for the year) | – | – | (2,356) | (2,356) |
| Proceeds from issued shares | 30,000 | – | – | 30,000 |
| Shares issue expenses | – | (1,688) | – | (1,688) |
| **At 31 December 2008** | **36,000** | **110,501** | **(118,596)** | **(27,905)** |

# Notes to the Financial Statements

For the year ended 31 December 2008

## 1. GENERAL INFORMATION

Mastermind Capital Limited (Formerly known as Apex Capital Limited) (the "Company") was incorporated in the Cayman Islands on 21 April 1998, as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's registered office is Ugland House, PO Box 309, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business is 28th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

The directors consider 中國天地行物流控股集團有限公司, a company incorporated in Hong Kong, to be the ultimate holding company.

The principal activity of the Company is to act as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. The Company and its subsidiaries (collectively referred to as the "Group") principally invest in listed and unlisted companies in Hong Kong and in other parts of the People's Republic of China, excluding Hong Kong (the "PRC").

Pursuant to the special resolution passed on 10 November 2008, the Company changed its name from "Apex Capital Limited" to "Mastermind Capital Limited" with effect from 11 November 2008.

The financial statements set out on pages 21 to 55 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These financial statements are presented in HK dollars, unless otherwise stated. These financial statements for the year ended 31 December 2008 were approved for issue by the board of directors on 27 March 2009.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2008.

| | |
|---|---|
| HK (IFRIC) – Int 11 | HKFRS 2: Group and Treasury Share Transactions |
| HKAS 39 and HKFRS 7 (Amendments) | Reclassification of Financial Assets |

These new HKFRSs had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HKAS 32, HKAS 39 & HKFRS 7 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HKAS 39 (Amendment) | Eligible Hedged Items[2] |
| HKFRS 1 and HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate[1] |
| HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards[2] |
| HKFRS 2 (Amendment) | Share-based Payment – Vesting Conditions and Cancellations[1] |
| HKFRS 3 (Revised) | Business Combinations[2] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes[3] |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate[1] |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation[4] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[2] |
| HK(IFRIC) – Int 18 | Transfer of Assets from Customers[6] |
| Various | Annual Improvements to HKFRS 2008[5] |

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 July 2008

4 Effective for annual periods beginning on or after 1 October 2008

5 Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRSs

6 Effective for transfer of assets from customers received on or after 1 July 2009

# Notes to the Financial Statements

For the year ended 31 December 2008

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

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncements.

Among these new standards and interpretations, *HKAS 1 (Revised) Presentation of Financial Statements* is expected to materially change the presentation of the Group's financial statements. The amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosures.

In addition, *HKFRS 8 Operating Segments* may result in new or amended disclosures. The directors are in the process of identifying reportable operating segments as defined in HKFRS 8.

The directors are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial position.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for financial instruments classified as available-for-sale financial assets which are stated at fair values. The measurement bases are fully described in the accounting policies below.

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

### 3.2 Basis of consolidation

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

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

### 3.3. Subsidiaries

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

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

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

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

### 3.4 Property, plant and equipment

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

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Leasehold improvements | 50% |
| Furniture, fixtures and equipment | 20% |

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

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

# Notes to the Financial Statements

For the year ended 31 December 2008

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

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

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

### 3.5 Leases

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

***Operating lease charges as lessee***

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the right to use assets held under operating leases, payments made under the leases are charged to the consolidated income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the consolidated income statement in the accounting period in which they are incurred.

### 3.6 Financial assets

The Group's accounting policy for financial assets other than interests in subsidiaries are set out below.

Financial assets other than hedging instruments are classified into the category of available-for-sale financial assets.

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

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, that is, the date that the Group commits to purchase or sell the asset. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

### 3.6 Financial assets (Continued)

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

***Available-for-sale financial assets***

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity would be recycled to the consolidated income statement. Interest calculated using the effective interest method is recognised in the consolidated income statement. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the consolidated income statement.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

***Impairment of financial assets***

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2008

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

### 3.6 Financial assets (Continued)

***Impairment of financial assets (Continued)***

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

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

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

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the consolidated income statement as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the consolidated income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss were recognised. Reversal of impairment losses in such circumstances are recognised in the consolidated income statement.

*(ii)* *Financial assets carried at cost*

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

Impairment losses recognised in an interim period in respect of available for sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period.

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

### 3.7 Impairment of non-financial assets

Property, plant and equipment and interests in subsidiaries are subject to impairment testing. They are tested for impairment whenever there are indications that the asset's carrying amount may not be recovered.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment losses recognised for cash-generating units is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

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

### 3.8 Accounting for income tax

Income tax comprises current tax and deferred tax.

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

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

# Notes to the Financial Statements

For the year ended 31 December 2008

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

### 3.8 Accounting for income tax (Continued)

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

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

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

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

### 3.9 Cash and cash equivalents

Cash and cash equivalents include cash at banks.

### 3.10 Share capital

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

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

### 3.11 Retirement benefits costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans. The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries or the maximum mandatory contribution as required by the MPF Scheme and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

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

### 3.11 Retirement benefits costs and short term employee benefits (Continued)

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

### 3.12 Financial liabilities

The Group's financial liabilities include accruals and other payables. Financial liabilities are recognised when, and only when the Group becomes a party to the contractual provisions of the instruments. All interest related charges are recognised as an expense in finance costs in the consolidated income statement.

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

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

***Accruals and other payables***

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

### 3.13 Revenue recognition

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

### 3.14 Foreign currency translation

The consolidated financial statements are presented in HK$, which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK$000") unless otherwise stated. In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the consolidated income statement.

# Notes to the Financial Statements

For the year ended 31 December 2008

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

### 3.14 Foreign currency translation (Continued)

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

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity.

### 3.15 Related parties

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

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

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

(iii) the Group and the party are subject to common control;

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

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

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

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

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

### 3.16 Segment reporting

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

In respect of geographical segment reporting, unallocated costs include corporate expenses that cannot be allocated on a reasonable basis to the reporting segments. Segment assets consist primarily of prepayments and available-for-sale financial assets, and mainly exclude cash at banks. Segment liabilities comprise operating liabilities and exclude items such as taxation.

### 3.17 Provisions and contingent liabilities

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

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

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 when determining whether an investment in available-for-sale financial assets is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the expected time span the Group will hold on to this investment.

# Notes to the Financial Statements

For the year ended 31 December 2008

## 5. SEGMENT INFORMATION

A geographical analysis of the Group's revenue, segments assets and capital expenditure information is not presented as the Group's revenue, assets and capital expenditure are generated/located in Hong Kong.

All of the Group's turnover and contribution to operating results are attributable to its investment activities.

## 6. REVENUE AND OTHER INCOME

| | 2008 | 2007 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Revenue: | | |
| Interest income | 5 | 14 |
| Other income: | | |
| Other payables written back | – | 25 |

## 7. LOSS BEFORE INCOME TAX

| | 2008 | 2007 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Loss before income tax is arrived at after charging: | | |
| Auditors' remuneration | 180 | 200 |
| Property, plant and equipment written off | – | 64 |
| Investment management fees | 600 | 600 |
| Operating lease charges on office premises | – | 76 |
| Other receivables written off | – | 115 |

## 8. EMPLOYEE BENEFIT EXPENSE (including directors' remuneration)

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Salaries | **916** | 1,406 |
| Defined contribution plan | **35** | 33 |
| | **951** | 1,439 |

Directors' and senior management's remuneration are included above. Details are disclosed in note 9.

## 9. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

### (a) Remuneration of the directors

| | Fees HK$'000 | Salaries and allowances HK$'000 | Retirement benefits scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **2008** | | | | |
| **Executive directors** | | | | |
| Mr. Mung Kin Keung# *(note 1)* | **120** | **–** | **6** | **126** |
| Mr. Ha Wing Ho, Peter# *(note 2)* | **120** | **–** | **6** | **126** |
| Mr. Leong Chi Wai# | **120** | **–** | **6** | **126** |
| Mr. Leung King Yue, Alex# | **96** | **–** | **5** | **101** |
| **Independent non-executive directors** | | | | |
| Mr. Chee Mang Sang, Eric# | **60** | **–** | **–** | **60** |
| Mr. Lo Tak Kin# | **60** | **–** | **–** | **60** |
| Ms. Yu Tin Yan, Winnie# | **60** | **–** | **–** | **60** |
| | **636** | **–** | **23** | **659** |

*Notes:*

1. The monthly salary of Mr. Mung Kin Keung was revised from HK$10,000 to HK$80,000 with effect from 1 March 2009.

2. The monthly salary of Mr. Ha Wing Ho, Peter was revised from HK$10,000 to HK$30,000 with effect from 1 March 2009.

# Notes to the Financial Statements

For the year ended 31 December 2008

## 9. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

### (a) Remuneration of the directors (Continued)

| | Fees | Salaries and allowances | Retirement benefits scheme contributions | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| 2007 | | | | |
| **Executive directors** | | | | |
| Mr. Phang Yul Cher Yeow* | 40 | – | – | 40 |
| Mr. Chu Kin Wang, Peleus* | 60 | – | 2 | 62 |
| Ms. Huang Song* | 20 | – | 2 | 22 |
| Mr. Zhou Chao* | 119 | – | 2 | 121 |
| Mr. Mung Kin Keung# | 100 | – | 5 | 105 |
| Mr. Ha Wing Ho, Peter# | 100 | – | 5 | 105 |
| Mr. Leong Chi Wai# | 100 | – | 5 | 105 |
| Mr. Leung King Yue, Alex# | 80 | – | 4 | 84 |
| **Non executive directors** | | | | |
| Mr. Fong Chi Hou* | 10 | – | – | 10 |
| Mr. Wang Yao Dong* | 10 | – | – | 10 |
| **Independent non-executive directors** | | | | |
| Ms. Lam Lin Chu* | 10 | – | – | 10 |
| Mr. Liu Wing Ting, Stephen* | 20 | – | – | 20 |
| Ms. Tse Po Chu* | 20 | – | – | 20 |
| Mr. Chee Mang Sang, Eric# | 50 | – | – | 50 |
| Mr. Lo Tak Kin# | 50 | – | – | 50 |
| Ms. Yu Tin Yan, Winnie# | 50 | – | – | 50 |
| | 839 | – | 25 | 864 |

* *Resigned on 9 March 2007.*

\# *Appointed on 9 March 2007.*

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: Nil).

No emolument was paid by the Group to the directors or any of the five highest paid individual as an inducement to join or upon joining the Group, or as compensation for loss of office (2007: Nil).

## 9. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

### (b) Five highest paid individuals

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

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries | 280 | 153 |
| Defined contribution plan | 12 | 8 |
| | 292 | 161 |

The emoluments of the five highest paid individuals, including the directors, fell within the following band:

| | Number of individuals | |
|---|---|---|
| | 2008 | 2007 |
| Emolument band | | |
| Nil – HK$1,000,000 | 5 | 5 |

# Notes to the Financial Statements

For the year ended 31 December 2008

## 10. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided in the financial statements as the Group had no estimated assessable profits arising in or derived from Hong Kong during the year (2007: Nil).

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss before income tax | **(2,356)** | (3,259) |
| Tax at applicable rate of 16.5% (2007: 17.5%) | **(389)** | (570) |
| Tax effect of non-deductible expenses | **2** | 61 |
| Tax effect of non-taxable revenue | **(1)** | (3) |
| Tax effect of temporary difference not recognised | **–** | (42) |
| Tax losses not recognised as deferred tax asset | **388** | 554 |
| Income tax expense | **–** | – |

The Hong Kong SAR Government enacted a reduction in the Profits Tax Rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009. Accordingly, the relevant current and deferred tax liabilities have been calculated using the new tax rate of 16.5%.

At 31 December 2008, a deferred tax asset of approximately HK$7,580,000 (2007: HK$7,628,000) in respect of tax losses available to offset future profits was not recognised in the financial statements as it is not certain that the Group will generate future taxable profits to enable it to utilise such tax losses. This tax loss has no expiry date.

## 11. LOSS FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to the equity holders of the Company of HK$2,356,000 (2007: HK$3,259,000), a loss of HK$2,340,000 (2007: HK$3,252,000) has been dealt with in the financial statements of the Company.

## 12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to the equity holders of the Company of HK$2,356,000 (2007: HK$3,259,000) and on the weighted average number of 439,000,000 (2007: 348,000,000 (restated)) ordinary shares in issue during the year.

Diluted loss per share has not been presented as there were no dilutive potential shares for the years ended 31 December 2007 and 2008.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | The Group and the Company | | |
|---|---|---|---|
| | Leasehold improvements | Furniture, fixtures and equipment | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 1 January 2007** | | | |
| Cost | 302 | 20 | 322 |
| Accumulated depreciation | (251) | (7) | (258) |
| **Net book amount** | 51 | 13 | 64 |
| **Year ended 31 December 2007** | | | |
| Opening net book amount | 51 | 13 | 64 |
| Written off | (51) | (13) | (64) |
| **Closing net book amount** | – | – | – |
| **At 31 December 2007, 1 January 2008 and 31 December 2008** | | | |
| Cost | – | – | – |
| Accumulated depreciation | – | – | – |
| **Net book amount** | – | – | – |

## 14. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at costs | **10** | 10 |
| Amounts due from subsidiaries | **48,918** | 48,918 |
| Less: Impairment loss | **(48,918)** | (48,918) |
| | **10** | 10 |

The amounts due from subsidiaries are in the nature of current accounts and are unsecured, interest free and have no fixed terms of repayment.

# Notes to the Financial Statements

For the year ended 31 December 2008

## 14. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the Company's subsidiaries at 31 December 2008 are as follows:

| Name | Place of incorporation | Particulars of issued capital | Percentage of issued capital held by the Company *Directly* | *Indirectly* | Principal activities and place of operations |
|---|---|---|---|---|---|
| Gold Canal International Limited | British Virgin Islands ("BVI") | 10 ordinary shares of US$1 each | – | 100% | Investment holding in Hong Kong |
| Mega Way International Limited | Hong Kong | 10,000 ordinary shares of HK$1 each | 100% | – | Investment holding in Hong Kong |
| New Portfolio Limited | BVI | 1 ordinary share of US$1 | 100% | – | Investment holding in Hong Kong |
| Speedy Zone Limited | BVI | 1 ordinary share of US$1 | 100% | – | Inactive |

## 15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Listed equity securities in Hong Kong, at market value | **189** | – | **–** | – |
| Unlisted equity securities, at cost | **20,525** | 20,525 | **3,064** | 3,064 |
| Accumulated impairment losses | **(20,525)** | (20,525) | **(3,064)** | (3,064) |
| | **–** | – | **–** | – |
| | **189** | – | **–** | – |

# Notes to the Financial Statements

For the year ended 31 December 2008

## 15. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

The movement of available-for-sale financial assets is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Beginning of the year | **–** | – | **–** | – |
| Additions | **189** | – | **–** | – |
| End of the year | **189** | – | **–** | – |

Particulars of available-for-sale financial assets in respect of listed equity securities as at 31 December 2008 are as follows:

| **Name** | **Place of incorporation** | **Particulars of equity interest held** | **Percentage of equity interest held** | **Cost** | **Market value as at 31 December 2008** | **Percentage of the Group's total assets as at 31 December 2008** |
|---|---|---|---|---|---|---|
| | | | | ***HK$'000*** | ***HK$'000*** | |
| Shougang Concord Technology Holdings Limited ("SCTHL") | Hong Kong | 556,000 ordinary shares (2007: Nil) | Less than 1% (2007: Nil) | 189 (2007: Nil) | 189 (2007: Nil) | 0.66% (2007: Nil) |

SCTHL is principally engaged in manufacture and sale of digital television and provision of digital television technical services, manufacture and distribution of telephone accessories, power cords and adapters, development and provision of system integration solutions, system design and sale of system hardware. No dividend was received during the year (2007: Nil). According to the latest published financial statements of SCTHL, it had net assets value of approximately HK$1,029,486,000 as at 31 December 2008.

Mr. Mung Kin Keung, a director of the Company, has been appointed as an executive director of SCTHL with effect from 16 February 2009.

# Notes to the Financial Statements

For the year ended 31 December 2008

## 15. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Particulars of available-for-sale financial assets in respect of unlisted equity securities are as follows:

| Name | *Notes* | Place of incorporation | Percentage of equity interest held | Cost | | Accumulated impairment losses | | Carrying value | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | | | | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Tianjin Standard | *(i)* | PRC | 21% | **17,461** | 17,461 | **(17,461)** | (17,461) | **–** | – |
| Koffman Asset Holding Limited ("Koffman Asset") | *(ii)* | BVI | 9.1% | **3,064** | 3,064 | **(3,064)** | (3,064) | **–** | – |
| | | | | **20,525** | 20,525 | **(20,525)** | (20,525) | **–** | – |

(i) Tianjin Standard is principally engaged in the manufacture and trading of building materials and provision of related consultancy services. In the opinion of the directors, the Group has not been in a position to exercise any significant influence over the financial and operating policies of Tianjin Standard as the Group has no representative in the board of directors of Tianjin Standard. Accordingly, Tianjin Standard has been accounted for as an available-for-sale financial asset.

In March 2007, there was a substantial change in the composition of the management and board of directors of the Company as a result of the changes in the major shareholders of the Company. In respect of the Tianjin Standard investment, the current board of directors (the "New Directors") have very little background information and knowledge, and have not met nor have they been able to contact the management of Tianjin Standard. The New Directors, despite their best efforts, were unable to obtain any financial information, including the unaudited management accounts of Tianjin Standard for the years from 2006 to 2008. In view of the above, and for the sake of prudence, the New Directors had made full impairment provision against the carrying value of this asset.

(ii) Koffman Asset is a company principally involved in an insurance brokerage business which operated in Hong Kong. Koffman Asset was in financial difficulties and had ceased operations since 2004, and accordingly an impairment charge was made against the full investment cost in 2004.

## 16. ACCRUALS AND OTHER PAYABLES

All amounts are short term and hence the carrying values of accruals and other payables are considered to be reasonable approximation of fair values.

## 17. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary is in the nature of current accounts and is unsecured, interest-free and repayable on demand.

## 18. SHARE CAPITAL

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Number of shares** | **HK$'000** | *Number of shares* | *HK$'000* |
| Authorised: | | | | |
| Ordinary shares of HK$0.025 each | | | | |
| At 1 January | **400,000,000** | **10,000** | 400,000,000 | 10,000 |
| Increase in authorised ordinary shares *(Note (a))* | **1,600,000,000** | **40,000** | – | – |
| At 31 December | **2,000,000,000** | **50,000** | 400,000,000 | 10,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of HK$0.025 each | | | | |
| At 1 January | **240,000,000** | **6,000** | 240,000,000 | 6,000 |
| Issue of ordinary shares of HK$0.025 each *(Note (b))* | **1,200,000,000** | **30,000** | – | – |
| At 31 December | **1,440,000,000** | **36,000** | 240,000,000 | 6,000 |

The share capital of the Company comprises only fully paid ordinary shares with a par value of HK$0.025 each. All shares are equally eligible to receive dividends and to the repayment of capital and represent one vote at shareholders' meetings of the Company.

*Notes:*

(a) By a special resolution dated 10 November 2008, the authorised share capital of the Company was increased from HK$10 million divided into 400 million ordinary shares of HK$0.025 each to HK$50 million by the creation of a further 1,600 million ordinary shares of HK$0.025 each ranking pari passu in all respects with the existing shares of the Company.

(b) On 15 August 2008, the Company entered into an underwriting agreement for the open offer of 480,000,000 new shares at HK$0.0695 per share on the basis of two offer shares for every one share held on record date ("Open Offer").

On 10 October 2008, the Company entered into a supplemental underwriting agreement to amend the Open Offer to the effect that, the Company to issue 1,200,000,000 new shares at HK$0.025 per share ("Amended Offer Shares") on the basis of five offer shares for every one share held on record date ("Amended Open Offer"). An ordinary resolution in respect of the Amended Open Offer was passed at the extraordinary general meeting held on 10 November 2008. The Amended Offer Shares rank pari passu in all respects with the existing share capital of the Company. The Amended Open Offer was completed on 2 December 2008.

# Notes to the Financial Statements

For the year ended 31 December 2008

## 19. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Scheme") on 23 May 2002. The directors may, at their absolute discretion, make an offer to any participant to take up options. An offer is deemed to have been accepted by the grantee upon the duplicate of the offer letter comprising acceptance of the offer being duly signed by the grantee and paying HK$1 by way of consideration for the grant thereof.

The subscription price for shares in the Company under the Scheme shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date on which an option is granted, (ii) the average closing prices of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date on which an option is granted, and (iii) the nominal value of a share of the Company on the date on which an option is granted.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 12,000,000 shares of the Company, being 10% of the total number of shares of the Company in issue as at the date of approval of the Scheme. An option may be exercised during a period to be notified by the directors but may not be exercised after the expiry of 10 years after the date of grant of the option.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted or to be granted to each participant under the Scheme in any 12-month period must not exceed 1% of the total number of shares in issue of the Company. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting. The Scheme will remain in force for a period of 10 years from 23 May 2002.

No options have been granted since the adoption of the Scheme.

## 20. RESERVES – THE GROUP

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Share premium | **110,501** | 112,189 |
| Accumulated losses | **(118,596)** | (116,240) |
| | **(8,095)** | (4,051) |

Movements in the Group's reserves during the year are set out in the consolidated statement of changes in equity to the financial statements.

Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for distribution of paying dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

## 21. RESERVES – THE COMPANY

| | **Share premium** | **Accumulated losses** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2007 | 112,189 | (113,071) | (882) |
| Loss for the year | – | (3,252) | (3,252) |
| At 31 December 2007 and 1 January 2008 | 112,189 | (116,323) | (4,134) |
| Shares issue expenses | (1,688) | – | (1,688) |
| Loss for the year | – | (2,340) | (2,340) |
| **At 31 December 2008** | **110,501** | **(118,663)** | **(8,162)** |

# Notes to the Financial Statements

For the year ended 31 December 2008

## 22. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of the Group as at 31 December 2008 of HK$27,905,000 (2007: HK$1,949,000) and the 1,440,000,000 (2007: 240,000,000) ordinary shares in issue.

## 23. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following related party transactions during the year:

| | *Note* | **2008** *HK$'000* | 2007 *HK$'000* |
|---|---|---|---|
| Investment management fees to Hua Yu Investment Management Limited ("Hua Yu") | *(a)* | **600** | 600 |

(a) On 12 May 2005, the Company entered into an investment management agreement (the "Agreement") with Hua Yu for a period of 2 years, with effect from 20 May 2005. The Agreement was subsequently renewed on 18 April 2007 and 18 April 2008 respectively for a period of 1 year.

Investment management fees to Hua Yu are calculated at 0.375% of the net asset value per quarter, subject to a minimum of HK$150,000 for every three months.

(ii) Key management personnel compensation

Details of key management compensation are set out in note 9 to the financial statements.

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from its operating activities. The Group does not have written risk management policies and guidelines. However, the board of directors of the Company (the "Board") meets periodically to analyse and formulate measures to manage the Group's exposure to market risk (including foreign currency risk, interest rate risk and other price risk), liquidity risk and credit risk. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk (including foreign currency risk, interest rate risk and other price risk), liquidity risk and credit risk are kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The most significant financial risks to which the Group is exposed are discussed below.

# Notes to the Financial Statements

For the year ended 31 December 2008

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

As at the balance sheet date, the Group's financial instruments mainly consisted of available-for-sale financial assets, cash at banks and accruals and other payables.

### (i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group has no interest bearing liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to risk resulting from changes in interest rates is not significant.

### (ii) Foreign currency risk

The Group has no significant foreign currency risk due to limited foreign currency transactions as the Group mainly operates in Hong Kong with majority of the business transactions denominated and settled in HK$.

### (iii) Credit risk

Credit risk arises from the possibilities that the counterparty to a transaction is unwilling or unable to fulfill its obligation which results in the Group suffering financial loss. The carrying amounts of cash at banks included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

All the Group's cash at banks are deposited with major banks located in Hong Kong, therefore the Board considers that credit risk for such is minimal. The Group has no other significant concentration of credit risk.

### (iv) Other price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group is exposed to change in market prices of listed equity in respect of its investments in listed equity classified as available-for-sale financial assets.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date. For sensitivity analysis purpose, the sensitivity rate is 50% in the current year as a result of the volatile financial market.

If equity prices had been 50% higher/lower, other components of equity for the year ended 31 December 2008 would increase/decrease by approximately HK$94,000 (2007: HK$Nil). This is mainly due to the changes in fair value of available-for-sale financial assets.

# Notes to the Financial Statements

For the year ended 31 December 2008

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (v) Liquidity risk

In the management of liquidity risk, the Board monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations, investment opportunities and expected expansion. The Group finances its working capital requirements by the funds generated from operations and capital placement. Based on the assessment of the directors, liquidity risk encountered by the Group is minimal.

The following tables detail the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group and the Company can be required to pay:

**The Group**

| | **2008** | | | |
|---|---|---|---|---|
| | **Carrying amount** *HK$'000* | **Total contractual undiscounted cash flow** *HK$'000* | **Within one year or on demand** *HK$'000* | **More than one year but less than two years** *HK$'000* |
| Accruals and other payables | **555** | **(555)** | **(555)** | **–** |

| | 2007 | | | |
|---|---|---|---|---|
| | Carrying amount *HK$'000* | Total contractual undiscounted cash flow *HK$'000* | Within one year or on demand *HK$'000* | More than one year but less than two years *HK$'000* |
| Accruals and other payables | 391 | (391) | (391) | – |

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (v) Liquidity risk (Continued)

**The Company**

| | **2008** | | | |
|---|---|---|---|---|
| | **Carrying amount** | **Total contractual undiscounted cash flow** | **Within one year or on demand** | **More than one year but less than two years** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Accruals and other payables | **365** | **(365)** | **(365)** | **–** |
| Amount due to a subsidiary | **76** | **(76)** | **(76)** | **–** |
| Total | **441** | **(441)** | **(441)** | **–** |

| | 2007 | | | |
|---|---|---|---|---|
| | Carrying amount | Total contractual undiscounted cash flow | Within one year or on demand | More than one year but less than two years |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Accruals and other payables | 391 | (391) | (391) | – |
| Amount due to a subsidiary | 91 | (91) | (91) | – |
| Total | 482 | (482) | (482) | – |

# Notes to the Financial Statements

For the year ended 31 December 2008

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (vi) Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities recognised as at the balance sheet date may also be categorised as follows. See notes 3.6 and 3.12 for explanations about how the categorisation of financial instruments affects their subsequent measurement.

**Financial assets:**

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash at banks | **27,963** | 2,323 |
| Available-for-sale financial assets | **189** | – |
| | **28,152** | 2,323 |

**Financial liabilities:**

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Financial liabilities measured at amortised cost: | | |
| – Accruals and other payables | **555** | 391 |

## 25. CAPITAL MANAGEMENT

The Group's objectives of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide adequate returns for shareholders in the long term and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

In order to maintain or adjust the capital structure, the Group adjusts the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies or process during the year. Management regards total equity presented on the face of the balance sheet as capital, for capital management purpose.

The Company is not subject to externally imposed capital requirements.

## 26. POST BALANCE SHEET EVENTS

By passing of an ordinary resolution at the extraordinary general meeting on 12 January 2009, the Board adopted a new share option scheme (the "New Scheme") and simultaneously terminated the Company's existing share option scheme adopted on 23 May 2002. No options have been granted under the New Scheme up to the date of this report.

# Financial Summary

A summary of the financial results and the assets, liabilities and equity of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| **Results** | | | | | |
| Turnover | 49 | 177 | 38 | 14 | **5** |
| Loss from operations | (7,100) | (5,223) | (10,206) | (3,259) | **(2,356)** |
| Finance costs | (7) | (25) | (144) | – | **–** |
| Loss before income tax | (7,107) | (5,248) | (10,350) | (3,259) | **(2,356)** |
| Income tax expense | – | – | – | – | **–** |
| Loss for the year | (7,107) | (5,248) | (10,350) | (3,259) | **(2,356)** |

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| **Assets and liabilities** | | | | | |
| Property, plant and equipment | 227 | 219 | 64 | – | **–** |
| Investment property | – | 3,860 | – | – | **–** |
| Available-for-sale financial assets | – | 6,874 | – | – | **189** |
| Investments in securities | 9,464 | – | – | – | **–** |
| Current assets | 2,996 | 3,357 | 6,611 | 2,340 | **28,271** |
| Current liabilities | (1,545) | (1,261) | (1,467) | (391) | **(555)** |
| Non-current liabilities | (52) | (2,565) | – | – | **–** |
| Net assets | 11,090 | 10,484 | 5,208 | 1,949 | **27,905** |
| Equity | 11,090 | 10,484 | 5,208 | 1,949 | **27,905** |