KongSun 江山

# Kong Sun Holdings Limited

Stock Code: 295

Annual Report 08

# Contents

# Corporate Information

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|---|---|
| EXECUTIVE DIRECTORS | Tse On Kin *(Chairman)*<br>Chan Chi Yuen<br>Yu Pak Yan, Peter |
| INDEPENDENT NON-EXECUTIVE DIRECTORS | Lau Man Tak<br>Lo Miu Sheung, Betty<br>Wong Yun Kuen |
| COMPANY SECRETARY | Mak Wai Ho, Brandon |
| REGISTERED OFFICE | Unit C, 10th Floor,<br>Wings Building<br>110-116 Queen's Road Central, Central<br>Hong Kong |
| AUDITORS | SHINEWING (HK) CPA Limited<br>16th Floor, United Center<br>95 Queensway<br>Hong Kong |
| SOLICITORS | Henry Fok & Co. |
| PRINCIPAL BANKERS | Standard Chartered Bank (Hong Kong) Limited<br>The Bank of China (HK) Limited |
| SHARE REGISTRARS AND TRANSFER OFFICE | Computershare Hong Kong Investor Investor Services Limited<br>46th Floor, Hopewell Center<br>183 Queen's Road East<br>Hong Kong |
| STOCK CODE | 295 |
| CONTACT INFORMATION | Tel : 2868 1190<br>Fax : 2530 1770<br>Website : www.kongsunholdings.com |

# Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present the annual results of Kong Sun Holdings Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December, 2008.

With the hit of the worldwide financial crisis, the Company and the Group had gone through another hard year. The incorporation of the newly acquired businesses into the Group has been a great challenge and opportunity to the management. The lack of constant income to the Group had made the financial position of the Group precarious. After the acquisition of the manufacture and sales of life-like plants and properties development business, the Group could ensure steady income and cash flow being maintained.

The Group's results for the year under review generally reflected the financial difficulties of the Group which has long been facing. Loss attributable to shareholders continued to broaden to approximately HK$43,228,000 as compared to approximately HK$17,916,000 recorded in last year. Loss per share has also been increased to HK1.68 cents as compared to HK0.70 cents in the previous year. Further reduction in deficit and possible return to profitability will be our next target for the years to come.

The major investment of the Group now rests in Hong Kong and People's Republic of China. The Group will excel in its newly acquired businesses in order to re-establish steady investment income and more importantly, to improve shareholders returns.

Finally, I would like to take this opportunity to extend my sincere thanks to all our business partners, shareholders, directors and staff for their support and contribution to the Group during the past year. We look forward to a new and challenging year.

**TSE ON KIN**
*Chairman*

Hong Kong, 24 April 2009

# Management Discussion and Analysis

## Review of Operations

The Company's principal activity continued to be investment holding whilst its subsidiaries are mainly engaged in property investment and development, manufacture and sales of life-like plants and provision for financial services.

With the arrival of the worldwide financial crisis in October 2008, the Group has experienced another difficult year in 2008. The results under review generally reflected the situation. Loss attributable to shareholders has been broadened to approximately HK$43,228,000 as compared to approximately HK$17,916,000 recorded in last year. Improving the financial condition of the Group becomes the primary target of the management in the coming year.

## Property

The Group's property development and investment business, comprising commercial and residential projects in Hong Kong and Malaysia. The newly acquired businesses at the end of the year, which has not yet made any contribution to the results of the Group, and the lingering development progress in Malaysia has resulted in the poor performance of the Group.

## Other Investment Opportunities

Notwithstanding the continued deficit in our operating results, the Group has already strengthened its capital base by the issue of convertible notes by the end of the year and has already diversified its investment in manufacturing business as well as real estate markets and properties development in Hong Kong and Middle Asia. All these assist to form a better foundation to improve the Group's performance in the future.

## Financial Review

As at 31 December 2008, the total shareholders fund of the Group amounted to approximately HK$30.16 million, compared to approximately HK$55.34 million as at 31 December 2007. The debt ratio (based on the sum of current liability and long-term liability over the equity) of the Group as at 31 December 2008 was 6.1 while the ratio as at 31 December 2007 was 1.4.

The Group's business operation and investment are in Hong Kong, the PRC and Malaysia. The Group's income and expenditure were mainly dominated in HKD, RMB and MYR.

## Prospects

The Group has completed the issue of convertible notes, the acquisition of the manufacturing of life-like plant business and the real estate investment in Hong Kong by the end of 2008. Since all the new businesses have not made any contribution to the results of the Group during the year ended 31 December 2008, the operating income of the Group continues to shrink. Focus for the year will be to synchronize the Group's newly acquired businesses and provide synergy to the Group's existing business. Given the enlarged capital base and the injection of new businesses into the Group, it is believed that shareholders' return and the assets base of the Group will be elevated and strengthened. The Company will keep on looking for businesses and projects with good potential and return in the future.

# Biographical Details of Directors and Senior Management

**Mr. Tse On Kin**

*Chairman*

aged 47, has over 20 years of experience in corporate planning, operation, human resources and new markets development. Mr. Tse has a Bachelor degree in Public Policy and Administration from York University in Canada. Mr. Tse is currently the chairman of New Times Group Holdings Limited and a non-executive director of China Science Conservational Power Limited. Mr. Tse was also the former chairman of China Science Conservational Power Limited, an executive director of Mexan Limited and China National Resources Development Holdings Limited, the vice-chairman and chief executive officer of Great Wall Cybertech Limited (currently known as EPI (Holdings) Limited) and a non-executive director of Climax International Company Limited.

**Mr. Chan Chi Yuen**

*Executive Director*

aged 42, holds a Bachelor degree with honours in Business Administration and a Master of Science in Corporate Governance and Directorship. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants and is an associate member of The Institute of Chartered Accountants in England and Wales. Mr. Chan is a practicing certified public accountant and has extensive experience in financial management, corporate finance and corporate governance. Mr. Chan is currently a non-executive director of New Times Group Holdings Limited and an independent non-executive director of China Science Conversational Power Limited, Hong Kong Health Check and Laboratory Holdings Company Limited, Superb Summit International Timber Company Limited, Premium Land Limited and Dickson Group Holdings Limited. Mr. Chan was also an executive director of Amax Entertainment Holdings Limited and China E-Learning Group Limited.

**Mr. Yu Pak Yan, Peter (appointed on 1 August 2008)**

*Executive Director*

aged 58, has over 28 years of experience in real estate and financial services industries. Mr. Yu has a Bachelor degree in Management from Youngstown State University in Ohio, USA and a Master of Science degree in Financial Services from American College in Pennsyvania, USA. Mr. Yu is a member of the Certified Commercial Investment Member Institute and was the first Chinese-American elected to the board of the San Francisco Association of Realtors. Mr. Yu worked in Pacific Union Real Estate Company in the United States from 1980-1995 and held senior positions in MetLife and New York Life Insurance Company in managing Asian customers in North America. Mr. Yu is currently an independent non-executive director of Golden Resorts Group Limited.

# Biographical Details of Directors and Senior Management

**Mr. Lau Man Tak (appointed on 1 September 2008)**

*Independent Non-executive Director*

aged 39, graduated from Hong Kong Polytechnic University with a Bachelor degree in Accountancy. Mr. Lau has more than 15 years of finance, accounting and auditing experiences. Mr. Lau is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Hong Kong Securities Institute. Mr. Lau is currently an executive director of Warderly International Holdings Limited and an independent non-executive director of Golden Resorts Group Limited and Climax International Company Limited. Mr. Lau was also a former executive director of Solartech International Holdings Limited, Hua Yi Copper Holdings Limited and Premium Land Limited and a former independent non-executive director of Hong Kong Health Check and Laboratory Holdings Company Limited.

**Ms. Lo Miu Sheung, Betty**

*Independent Non-executive Director*

aged 47, graduated from University of Hong Kong with a Bachelor degree in Laws (LL.B). Ms. Lo is a qualified solicitor in Hong Kong and has over 20 years of experience in general legal practice. Ms. Lo was a former executive director of Climax International Company Limited and a former independent non-executive director of Golden Resorts Group Limited and Hua Yi Copper Holdings Limited.

**Dr. Wong Yun Kuen**

*Independent Non-executive Director*

aged 51, received his Ph.D. degree from Harvard University, and was “Distinguished Visiting Scholar” in Finance at the Wharton School of the University of Pennsylvania and a consultant at AIG Finance Products Corp. of USA. Dr. Wong has extensive experience in corporate finance, investment and derivative products. In addition, Dr. Wong is also an executive director of UBA Investments Limited, an independent non-executive director of Harmony Asset Limited, Grand Field Group Holdings Limited, Kaisun Energy Group Limited, China Yunnan Tin Minerals Group Company Limited, Bauhaus International (Holdings) Limited, Golden Resorts Group Limited, Superb Summit International Timber Company Limited, China E-Learning Group Limited and Climax International Company Limited.

# Directors' Report

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

## Principal Activities

The Company is an investment holding company. The principal activities of its subsidiaries are property investment and development, manufacture and sales of life-like plants and provision for financial services.

## Segment Information

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 8 to the financial statements.

## Results and Dividends

The Group's loss for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 23.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2008.

## Reserves

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 24 and other details of the reserves of the Company and the Group are set out in Note 36 to the financial statements.

## Distributable Reserves

At 31 December 2008, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK$281,049,000, may be distributed in the form of fully paid bonus shares.

## Fixed Assets

During the year, the Group acquired investment properties at fair value of HK$45,000,000.

Details of these and other movements during the year in the property, plant and equipment, prepaid lease payment and investment properties of the Group are set out in notes 19 and 21 to the consolidated financial statements respectively.

# Directors' Report

## Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 84. This summary does not form part of the audited financial statements.

## Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in respective Note 36 and 37 to the financial statements.

## Directors

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

**Executive directors**

| | |
|---|---|
| Tse On Kin *(Chairman)* | |
| Chan Chi Yuen | |
| Yu Pak Yan, Peter | – appointed on 1 August 2008 |
| Kong Li Szu | – resigned on 1 October 2008 |

**Independent non-executive directors**

| | |
|---|---|
| Lau Man Tak | – appointed on 1 September 2008 |
| Lo Miu Sheung, Betty | |
| Wong Yun Kuen | |
| Chan Chiu Hung | – resigned on 1 September 2008 |

In accordance with articles 77 of the Company's articles of association. Mr. Yu Pak Yan, Peter and Mr. Lau Man Tak will retire and, being eligible, will offer themselves for re-election at the for the forthcoming annual general meeting.

In accordance with articles 81 to 84 of the Company's articles of association, Mr. Chan Chi Yuen and Ms. Lo Miu Sheung, Betty will retire by relation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Ms. Lo Miu Sheung, Betty has informed the Company that she will retire at the for the forthcoming annual general meeting and does not offer herself re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## Biographical Details of Directors and Senior Management

Biographical details of the directors and senior management of the Company are set out on page 5 to 6.

# Directors' Report

## Directors' Interest in Contracts

No contracts of significance in relation to the Group's business to which the Company, its holding company, or any of its subsidiaries of fellow 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' and Chief Executives' Interests in Shares

At 31 December 2008, none of the directors or chief executives of the Company or their associates had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for securities transactions by Directors of Listed Companies.

## Directors' and Chief Executives' Rights to Acquire Shares or Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors or chief executives or their spouses or children under 18 years of age, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## Substantial Shareholders

At 31 December 2008, the following shareholders had interests, directly or indirectly, or short positions in the shares and underlying shares of the Company would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

| Name | Number of ordinary shares held | Percentage of issued share capital |
|---|---|---|
| Kong Fa | 1,053,850,042 | 32.92 |
| KSE | 403,375,794 | 12.60 |

Save as disclosed above, at 31 December 2008, the Company was not aware of any other person (other than the directors or chief executives of the Company) who had an interest, directly or indirectly, or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

# Directors' Report

## Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

## Connected Transactions

There are no transactions which would need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## Convertible Securities, Options, Warrants or Similar Rights

### Convertible bonds

| Amount outstanding as at 31 December 2008 | Interest rate | Subscription price | Number of new shares which may be issued at 31 December 2008 |
|---|---|---|---|
| (1) HK$109,000,000 | 8% | HK$0.025 | 4,360,000,000 |
| (2) HK$40,000,000 | 4% | HK$0.10 | 400,000,000 |

Other than the outstanding convertible bonds as set out in Note 33 to the consolidated financial statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights at 31 December 2008.

## Purchase, Redemption or Sale of Company's Listed Securities

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

## Liquidity and Financial Resources

At 31 December 2008, the Group had total assets of approximately HK$214,485,000 which were financed by current liabilities of approximately HK$143,875,000, non-current liabilities of approximately HK$40,452,000, minority interests of approximately HK$11,000 and shareholders' equity of approximately HK$30,147,000.

# Directors' Report

## Employees and Remuneration Policy

At 31 December 2008, the Group employed 4 staffs. The Group employs and remunerates its staff based on their performance and experience.

## Events after the Balance Sheet Date

Details of the significant post balance sheet events of the Group are set out in Note 45 to the financial statements.

## Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of Hong Kong.

## Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

## Audit Committee

The Audit Committee has three independent non-executive directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial report matters including a review of the audited financial statements for the year ended 31 December 2008.

## Auditors

CCIF CPA Limited had been appointed as auditors of the Group for the year ended 31 December 2006. CCIF CPA Limited had resigned as auditors of the Group on 14 April 2008 and SHINEWING (HK) CPA Limited has been appointed as auditors of the Group for the year ended 31 December 2007 and 31 December 2008. A resolution for the reappointment of SHINEWING (HK) CPA Limited as auditor of the Group will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Tse On Kin**
*Chairman*

Hong Kong, 24 April 2009

# Corporate Governance Report

The Board is pleased to present this Corporate Governance Report of the Group for the year ended 31 December 2008.

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing Rules as promulgated by the Stock Exchange came into effect for accounting period commencing on 1st January 2005 (save for the provisions on internal controls which came into effect for accounting periods commencing from 1st July 2005 onwards.)

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") as set out in the CG Code. Throughout the year under review, the Company has complied with the Code Provisions, save for the deviation from Code Provision A.4.1 which is explained in the relevant paragraph in this report.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

## Corporate Governance

Under the code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. However, none of the existing independent non-executive directors of the Company is appointed for specific terms but they are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company, which stipulates that one-third of the directors for the time being, or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from the office by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code in this respect.

## The Board of Directors

### Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic, decisions and performances. The senior management was delegated the authority and responsibilities by the Board of the day-to-day management and operations of the Group. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management.

All directors have full and timely access to all relevant information in relation to the Company as well as the advice and services of the company secretary, if and when required, with a view ensuring that the Board procedures and all applicable rules and regulations are followed.

# Corporate Governance Report

There are established procedures for directors to seek independent professional advice for them to discharge their duties and responsibilities, where appropriate at the Company's expenses.

**Composition**

The Board currently comprises three executive directors, and three independent non-executive directors from different business and professional fields. The directors, including independent non-executive directors, have brought a wide spectrum of valuable business and professional expertise, experiences and independent judgement to the Board for its efficient and effective delivery of the Board function.

The Board of the Company comprises the following directors:

*Executive Directors:*
Tse On Kin
Chan Chi Yuen
Yu Pak Yan, Peter

*Independent non-executive Directors:*
Lau Man Tak *(Chairman of Audit Committee and member of Remuneration Committee)*
Lo Miu Sheung, Betty *(Member of Audit and Remuneration Committee)*
Wong Yun Kuen *(Chairman of Remuneration Committee and member of Audit Committee)*

The profiles of each director are set out in the "Biographical Details of Directors and Senior Management" section in this Annual Report.

On 1 September 2008, Mr. Chan Chiu Hung, Alex had tendered his resignation as an independent non-executive director of the Company and Mr. Lau Man Tak had been appointed as an independent non-executive director of the Company. The audit committee now comprises three independent non-executive directors of the Company, namely, Mr. Lau Man Tak, Ms. Lo Miu Sheung, Betty and Dr. Wong Yun Kuen. The Company has received written annual confirmation from each independent non-executive director of their independence pursuant to the requirements of Rules 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independence in accordance with the independence guidelines set out in the Listing Rules.

**Induction for Directors**

Each newly appointed director will receive comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has proper understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary. The directors are continually updated with legal and regulatory developments, and business and market changes to facilitate the discharge of the responsibilities.

# Corporate Governance Report

## Board and Board Committee Meetings

*Number of Meetings and Directors' Attendance*

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The Board met 12 times during the year ended 31 December 2008.

Agenda and Board papers together with all appropriate, complete and reliable information are normally sent to all directors before each Board meeting to keep the directors apprised to the latest developments and financial position of the Company and to enable them to make informed decisions. All directors are given the opportunity to include matters in the agenda for regular Board meetings. The Board and each director also have separate and independent access to senior management whenever necessary.

Minutes of all Board meetings sufficient details of matters considered and decisions reached are kept by the secretary of the meetings are open for inspection by the directors. The attendance of individual members of the Board and other Board Committees meetings during the year ended 31 December 2008 is set out in the table below:

| | Meetings attended/held | | |
|---|---|---|---|
| | **Board of Directors** | **Audit Committee** | **AGM/EGM** |
| *Executive directors* | | | |
| Tse On Kin | 12/12 | N/A | 2/2 |
| Chan Chi Yuen | 12/12 | N/A | 2/2 |
| Kong Li Szu – resigned on 1 October 2008 | 0/12 | N/A | 0/2 |
| Yu Pak Yan, Peter – appointed on 1 August 2008 | 1/12 | N/A | 0/2 |
| *Independent non-executive directors* | | | |
| Chan Chiu Hung, Alex – resigned on 1 September 2008 | 1/12 | 1/2 | 0/2 |
| Lau Man Tak – appointed on 1 September 2008 | 1/12 | 1/2 | 0/2 |
| Lo Miu Sheung, Betty | 0/12 | 0/2 | 0/2 |
| Wong Yun Kuen | 2/12 | 2/2 | 2/2 |

*Board Committees*

The Board has established 2 committees, namely the audit committee and the remuneration committee, (the remuneration committee has been established on 9 June 2006) for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference.

The majority of the members of each Board committees are independent non-executive directors. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

# Corporate Governance Report

*Remuneration Committee*

The remuneration committee comprises three independent non-executive directors of the Company, namely Mr. Lau Man Tak, Ms. Lo Miu Sheung, Betty and Dr. Wong Yun Kuen. Dr. Wong Yun Kuen is the chairman of the Remuneration Committee.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

*Audit Committee*

The audit committee comprises three independent non-executive directors of the Company, namely Mr. Lau Man Tak, Ms. Lo Miu Sheung, Betty and Dr. Wong Yun Kuen. Mr. Lau Man Tak is the chairman of the audit committee. None of the members of the audit committee is a former partner of the Company's existing external auditors.

The main duties of the audit committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor (if any) or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of management, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The audit committee held two meetings during the year ended 31 December 2008 to review the financial results and report of the Company.

## Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors. Having made specific enquiry of the directors, the directors confirmed that they have complied with the code throughout the year ended 31 December 2008.

# Corporate Governance Report

## Continuing disclosure requirements under Chapter 13 of the Listing Rules

Advance to entities under Rule 13.13 of the Listing Rules:

At 31 December 2008, the Group had a loan receivable of approximately HK$39,510,000 and the accrued loan interest receivable of approximately HK$5,358,000 due from a shareholder of the Group's associate, United Victoria (the "Borrower"). Pursuant to the loan agreement, interest of the loan is chargeable at 4% over prime rate per annum. The loan is secured by a pledge of the 20% equity interest in United Victoria owned by the Borrower. The loan was originally due for repayment in 2003. The loan and the interest receivables remain outstanding and overdue as at 31 December 2008. A provision of approximately HK$5,358,000 had been made against the accrued interest receivable in previous years. The loan receivable balance of HK$39,510,000 had been fully impaired during the year.

## Responsibilities in Respect of The Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Group and have adopted the accounting principles generally accepted in Hong Kong and compiled with the requirements of Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. As at 31 December 2008 directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going-concern basis. The reporting responsibilities of the Company's independent auditors are set out in the Independent Auditors' Report on page 18 to 19.

## Auditors' Remuneration

The remuneration paid to the external auditors of the Company in respect of audit services for the year ended 31 December 2008 amounted to HK$620,000.

There was no non-audit service rendered to the Company by its external auditors during the year under review.

## Investor Relations and Communications

To promote the relationship between the Company and investor and to enhance the transparency of the operation of the enterprise, the Board is committed to providing clear and updated information on the Company to shareholders through the publication of notices, circulars, interim and annual reports to shareholders.

# Corporate Governance Report

## Internal Control

The Board, recognizing its overall responsibility in ensuring the system of internal controls of the Company and for reviewing its effectiveness, is committed to implementing an effective and sound internal controls system to safeguard the interests of shareholders and the assets of the Group.

The management is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk

During the year, the Board has engaged an independent consultant to conduct a review on the financial reporting system and internal control procedures of the Group. The Board is reviewing the recommendations from the independent consultant.

# Independent Auditor's Report

信永中和 ShineWing

**SHINEWING** (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

**TO THE MEMBERS OF KONG SUN HOLDINGS LIMITED**
*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements of Kong Sun Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 20 to 83, 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 Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for 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.

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

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

# Independent Auditor's Report

## Basis for qualified opinion

Our report on the financial statements of the Group for the year ended 31 December 2007 was qualified in view of the limitations on the scope on certain consideration receivables.

Any adjustments found to be necessary to the opening balances as at 1 January 2008 may affect the comparative figures in respect of the net assets of the Group as at 31 December 2007 and the results and cash flows and the related disclosures in the notes to the financial statements of the Company and the Group for the year ended 31 December 2007 may not be comparable with the figures for the current year.

## Qualified opinion arising from limitation of audit scope for the corresponding figures

In our opinion, except for the effects of such adjustments on the opening balances that might have been found to be necessary had we been able to satisfy ourselves as to the matters described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the state of the Group and the Company's affairs 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 Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to Note 2 to the financial statements, which indicates that as of 31 December 2008 the Group had net current liabilities of approximately HK$25,195,000 and incurred loss of approximately HK$43,228,000 for the year then ended. These conditions, along with other matters as set forth in Note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

**SHINEWING (HK) CPA Limited**
*Certified Public Accountants*
**Ip Yu Chak**
Practising Certificate Number: P04798

Hong Kong
24 April 2009

# Consolidated Income Statement

*For the year ended 31 December 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Turnover | | – | – |
| Other revenue | 9 | 2,011 | 1,744 |
| Discount on acquisition of subsidiaries | 41 | 49,820 | – |
| Fair value change of convertible bonds | | 53,800 | – |
| Share of results of associates | 22 | (1,999) | (303) |
| Impairment loss recognised in respect of available-for-sale investment | 23 | – | (6,537) |
| Impairment loss recognised in respect of interests in associates | 22 | (91,020) | – |
| Impairment loss recognised in respect of loan receivables | 27 | (39,510) | – |
| Employee benefit expenses | | (1,114) | (1,004) |
| Other operating expenses | | (7,097) | (6,159) |
| Finance costs | 10 | (8,119) | (5,705) |
| Loss before tax | | (43,228) | (17,964) |
| Income tax credit | 11 | – | 48 |
| Loss for the year | 12 | (43,228) | (17,916) |
| Attributable to: | | | |
| Equity holders of the Company | | (43,227) | (17,915) |
| Minority interests | | (1) | (1) |
| | | (43,228) | (17,916) |
| Loss per share | | | |
| Basic | 16 | HK(1.68) cents | HK(0.70) cents |
| Diluted | 16 | N/A | N/A |

# Consolidated Balance Sheet

*As at 31 December 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 19 | **45,000** | – |
| Property, plant and equipment | 20 | **35,438** | – |
| Prepaid lease payments | 21 | **15,367** | – |
| Interests in associates | 22 | **–** | 91,605 |
| Available-for-sale investment | 23 | **–** | – |
| | | **95,805** | 91,605 |
| **Current assets** | | | |
| Inventories | 24 | **17,832** | – |
| Trade and bills receivables | 25 | **14,629** | – |
| Other receivables | 26 | **735** | 714 |
| Prepaid lease payments | 21 | **473** | – |
| Loan and interest receivables | 27 | **–** | 39,510 |
| Consideration receivables | 28 | **–** | – |
| Pledged deposits | 29 | **6,809** | 42 |
| Bank balances and cash | 30 | **78,202** | 953 |
| | | **118,680** | 41,219 |
| **Current liabilities** | | | |
| Trade and other payables | 31 | **38,717** | 23,515 |
| Other borrowings | 32 | **4,784** | 4,570 |
| Tax liabilities | | **356** | – |
| Convertible bonds designated at financial liabilities at fair value through profit or loss | 33 | **87,200** | – |
| Promissory notes | 34 | **12,818** | – |
| | | **143,875** | 28,085 |
| **Net current (liabilities) assets** | | **(25,195)** | 13,134 |
| **Total assets less current liabilities** | | **70,610** | 104,739 |
| **Non-current liabilities** | | | |
| Other payables | 31 | **–** | 11,761 |
| Other borrowings | 32 | **–** | 37,639 |
| Deferred tax liabilities | 35 | **11,200** | – |
| Convertible bonds designated at financial liabilities at fair value through profit or loss | 33 | **8,000** | – |
| Promissory notes | 34 | **21,252** | – |
| | | **40,452** | 49,400 |
| **Net assets** | | **30,158** | 55,339 |

# Consolidated Balance Sheet

*As at 31 December 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 36 | **320,116** | 256,116 |
| Reserves | | **(289,969)** | (200,789) |
| **Equity attributable to equity holders of the Company** | | **30,147** | 55,327 |
| **Minority interests** | | **11** | 12 |
| **Total equity** | | **30,158** | 55,339 |

The financial statements on pages 20 to 83 were approved and authorised for issue by the Board of Directors on 24 April 2009 and are signed on its behalf by:

*Director* *Director*

# Balance Sheet

*As at 31 December 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 17 | – | – |
| Amounts due from subsidiaries | 18 | – | 95,687 |
| | | – | 95,687 |
| **Current assets** | | | |
| Other receivables | 26 | 338 | 338 |
| Amounts due from subsidiaries | 18 | 163,311 | – |
| Bank balance and cash | 30 | – | 3 |
| | | 163,649 | 341 |
| **Current liabilities** | | | |
| Trade and other payables | 31 | 9,700 | 8,986 |
| Amounts due to subsidiaries | 18 | 17,135 | 28,106 |
| Other borrowings | 32 | 2,770 | 2,770 |
| Convertible bonds designated at financial liabilities at fair value through profit of loss | 33 | 87,200 | – |
| Promissory notes | 34 | 12,818 | – |
| | | 129,623 | 39,862 |
| **Net current assets (liabilities)** | | 34,026 | (39,521) |
| **Total asset less current liabilities** | | 34,026 | 56,166 |
| **Non-current liabilities** | | | |
| Other payables | 31 | – | 10,861 |
| Other borrowings | 32 | – | 21,639 |
| Convertible bonds designated at financial liabilities at fair value through profit or loss | 33 | 8,000 | – |
| Promissory notes | 34 | 21,252 | – |
| | | 29,252 | 32,500 |
| **Net assets** | | 4,774 | 23,666 |
| **Capital and reserves** | | | |
| Share capital | 36 | 320,116 | 256,116 |
| Reserves | 36 | (315,342) | (232,450) |
| **Total equity** | | 4,774 | 23,666 |

*Director* *Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2008*

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** *(Note 36 (a)(i))* | **Capital redemption reserve** *(Note 36 (a)(i))* | **General reserve** *(Note 36 (a)(ii))* | **Special reserve** *(Note 36 (a)(iii))* | **Exchange reserve** *(Note 36 (a)(iv))* | **Accumulated losses** | **Total** | **Minority interests** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2007 | 256,116 | 329,049 | 20 | 18,000 | 9,329 | 6,688 | (545,669) | 73,533 | 13 | 73,546 |
| Exchange differences arising on translation of foreign operations recognised directly in equity | – | – | – | – | – | (291) | – | (291) | – | (291) |
| Loss for the year and total recognised income and expense for the year | – | – | – | – | – | – | (17,915) | (17,915) | (1) | (17,916) |
| At 31 December 2007 and 1 January 2008 | 256,116 | 329,049 | 20 | 18,000 | 9,329 | 6,397 | (563,584) | 55,327 | 12 | 55,339 |
| Exchange differences arising on translation of foreign operations recognised directly in equity | – | – | – | – | – | 2,047 | – | 2,047 | – | 2,047 |
| Loss for the year and total recognised income and expense for the year | – | – | – | – | – | – | (43,227) | (43,227) | (1) | (43,228) |
| Issue of shares on conversion of convertible bonds | 64,000 | (48,000) | – | – | – | – | – | 16,000 | – | 16,000 |
| At 31 December 2008 | 320,116 | 281,049 | 20 | 18,000 | 9,329 | 8,444 | (606,811) | 30,147 | 11 | 30,158 |

# Consolidated Cash Flow Statement

*For the year ended 31 December 2008*

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loss before tax | (43,228) | (17,964) |
| Adjustments for: | | |
| Convertible bonds issue expenses | 3,125 | – |
| Fair value change of convertible bonds | (53,800) | – |
| Finance costs | 8,119 | 5,705 |
| Impairment loss recognised in respect of available-for-sale investment | – | 6,537 |
| Impairment loss recognised in respect of interests in associates | 91,020 | – |
| Impairment loss recognised in respect of loan receivables | 39,510 | – |
| Impairment loss recognised (reversed) in respect of other receivables | 390 | (14) |
| Discount on acquisition of subsidiaries | (49,820) | – |
| Payables waived by the creditors | – | (1,730) |
| Share of results of associates | 1,999 | 303 |
| **OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL** | (2,685) | (7,163) |
| Increase in trade and bills receivables | – | – |
| Increase in other receivables | (71) | (304) |
| Decrease in trade and other payables | (166) | (223) |
| **NET CASH USED IN OPERATING ACTIVITIES** | (2,922) | (7,690) |
| **INVESTING ACTIVITIES** | | |
| Acquisition of subsidiaries (net of cash and cash equivalents acquired) | 21,517 | – |
| Increase in pledged deposits | (6,767) | – |
| **NET CASH FROM INVESTING ACTIVITIES** | 14,750 | – |
| **FINANCING ACTIVITIES** | | |
| Proceeds from issue of convertible bonds | 125,000 | – |
| Repayments of other borrowings | (37,639) | (6,489) |
| Interest paid | (19,448) | (762) |
| Convertible bonds issue expenses paid | (3,125) | – |
| New other borrowings raised | – | 16,000 |
| Repayments of obligations under finance leases | – | (12) |
| **NET CASH FROM FINANCING ACTIVITIES** | 64,788 | 8,737 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 76,616 | 1,047 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | 953 | 34 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | 633 | (128) |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash** | 78,202 | 953 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 1. General Information

Kong Sun Holdings Limited (the "Company") is a limited company incorporated in Hong Kong and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The trading of the shares of the Company on the Stock Exchange was suspended with effective from 17 June 2004 at the request of the Company. On 17 December 2008, the trading of shares of the Company was resumed. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

At 31 December 2008, the directors consider the parent and ultimate holding company is Kong Fa Holding Limited, which is incorporated in the British Virgin Islands.

The financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries (together with the Company referred to as the "Group") are set out in note 17.

## 2. Basis of Preparation of Financial Statements

The financial statements have been prepared on a going concern basis notwithstanding the consolidated net current liabilities of approximately HK$25,195,000 as at 31 December 2008 and the loss of approximately HK$43,228,000 for the year then ended. In the opinion of the directors, the Group should be able to maintain itself as a going concern in the coming year taking into consideration the proposed arrangements which include, but are not limited to, the following:

(a) Subsequent to the balance sheet date, on 5 January 2009, convertible bonds in the principal amount of approximately HK$22,100,000, which has been classified as current liabilities in the consolidated balance sheet as at 31 December 2008 with a fair value of approximately HK$17,680,000, has been converted into 884,000,000 shares of the Company upon the partial conversion of the convertible bonds. The directors of the Company are in the opinion that the conversion has significantly reduced the Group's liabilities; and

(b) The directors anticipate that the Group will generate positive cash flows from its businesses.

On the basis that the convertible bonds of the Company has been partially converted subsequent to the balance sheet date and the implementation of other measures with a view to improve its working capital position and net financial position, the directors consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the twelve months from 31 December 2008. Accordingly, the directors are satisfied that it is appropriate to prepare these financial statements on a going concern basis. The financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

| | |
|---|---|
| Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| HK(IFRIC) – Interpretation ("Int") 11 | HKFRS 2 – Group and Treasury Share Transactions |
| HK(IFRIC) – Int 12 | Service Concession Arrangements |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

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

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[2] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[3] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[2] |
| HKAS 39 (Amendment) | Eligible hedged items[3] |
| HKFRS 1 (Revised) | First-time Adoption of HKFRSs[3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[2] |
| HKFRS 3 (Revised) | Business Combinations[3] |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments[2] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC)-Int 9 & HKAS 39 (Amendments) | Embedded Derivatives[7] |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estate[2] |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation[5] |
| HK(IFRIC)-Int 17 | Distribution of Non-cash Assets to Owners[3] |
| HK(IFRIC)-Int 18 | Transfers of Assets from Customers[6] |

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, which are effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods beginning on or after 1 July 2008.
5 Effective for annual periods beginning on or after 1 October 2008.
6 Effective for transfer of assets from customers received on or after 1 July 2009.
7 Effective for annual periods ending on or after 30 June 2009.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 4. Significant Accounting Policies

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

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

### Basis of consolidation

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

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

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

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

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

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 4. Significant Accounting Policies *(Continued)*

### Business combinations

The acquisition of a subsidiary is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "*Business Combinations*" are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### Discount on acquisition

A discount on acquisition arising on an acquisition of a subsidiary represents the excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

### Investments in subsidiaries

A subsidiary is an entity that is controlled by the Company, where the Company has power to govern the financial and operating policies of such entity so as to obtain benefits from its activities.

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

### Investments in associates

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

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

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 4. Significant Accounting Policies *(Continued)*

### Investments in associates *(Continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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

### Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered and title has been passed.

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

Rental income is recognised on a straight-line basis over the terms of the leases.

### Investment properties

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

### Property, Plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

### Prepaid lease payments

Prepaid lease payments represent lease prepayments paid or payable for the right to use the land on which various plants and buildings are situated for a definite period, are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation of prepaid lease payments is calculated on a straight-line basis over the expected period of the rights.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 4. Significant Accounting Policies *(Continued)*

**Leasing**

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

*The Company as lessor*

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

*The Group as lessee*

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

*Leasehold land and building*

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

**Inventories**

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

**Foreign currencies**

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year.

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

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 4. Significant Accounting Policies *(Continued)*

### Foreign currencies *(Continued)*

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

### Borrowing costs

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

### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

### Taxation

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 4. Significant Accounting Policies *(Continued)*

### Financial instruments

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

*Financial assets*

The Group's financial assets are classified into loans and receivables and available-for-sale investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

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

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, consideration receivables, loan and interest receivables, amounts due from subsidiaries, pledged deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. (see accounting policy on impairment loss on financial assets below).

*Available-for-sale investments*

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated the unlisted equity investment as available-for-sale investments, which is measured at cost less any identified impairment losses at balance sheet date.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 4. Significant Accounting Policies *(Continued)*

**Financial instruments** *(Continued)*

*Available-for-sale investments (Continued)*

At each balance sheet date and subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy an impairment loss on financial assets below).

*Impairment loss on financial assets*

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

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

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

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, amounts due from subsidiaries, loan and interest receivables and consideration receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 4. Significant Accounting Policies *(Continued)*

**Financial instruments** *(Continued)*

*Impairment loss on financial assets (Continued)*

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

*Financial liabilities and equity*

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss ("FVTPL") and other financial liabilities.

*Effective interest method*

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

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL, of which the interest expense is included in finance costs.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 4. Significant Accounting Policies *(Continued)*

**Financial instruments** *(Continued)*

*Financial liabilities at fair value through profit or loss*

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

*Convertible bonds*

Convertible bonds issued by the Company (including related embedded derivatives) are designated as financial liabilities at FVTPL on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

*Other financial liabilities*

Other financial liabilities including (trade and other payables, amounts due to subsidiaries, other borrowings and promissory notes) are subsequently measured at amortised cost, using the effective interest rate method.

*Equity instruments*

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

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 4. Significant Accounting Policies *(Continued)*

**Financial instruments** *(Continued)*

*Derecognition*

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

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

*Impairment losses on tangible assets*

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

## 5. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Key sources of estimation uncertainty**

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

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 5. Key Sources of Estimation Uncertainty *(Continued)*

**Key sources of estimation uncertainty** *(Continued)*

*Estimated impairment of interests in associates*

Determining whether the interests in associates is impaired requires an estimation of the future cash flows expected to arise and the expected dividend yield from the associates in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, impairment loss on interest in associates, together with the goodwill arising on acquisition of the associates, of approximately HK$91,020,000 (2007: nil) has been recognised as the directors of the Company are in the opinion that the expected future cash flow arise and dividend yield from the associates are remote. Details are set out in note 22(d).

*Estimated impairment loss of trade and other receivables, consideration receivables and loan and interest receivables*

The policy for making impairment loss on trade and other receivables, consideration receivables, loan and interest receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

*Fair value of convertible bonds*

The fair values of the convertible bonds were calculated using the Binomial Model. The models involve assumptions on the Company's credit spread, discount rate, expected credit rating and future cash flows. Should these assumptions change, there would be material changes to the valuation.

## 6. Capital Risk Management

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

The capital structure of the Group consists of debts, which included the other borrowings, promissory notes, convertible bonds, pledged deposits, bank balances and cash and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 7. Financial Instruments

### 7a) Categories of financial instruments

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| *Financial assets* | | | | |
| Loan and receivables (including cash and cash equivalents) | | | | |
| – amounts due from subsidiaries | **–** | – | **163,311** | 95,687 |
| – trade and bill receivables | **14,629** | – | **–** | – |
| – other receivables | **398** | 374 | **337** | 337 |
| – loan and interest receivables | **–** | 39,510 | **–** | – |
| – pledged deposits | **6,809** | 42 | **–** | – |
| – bank balances and cash | **78,202** | 953 | **–** | 3 |
| | **100,038** | 40,879 | **163,648** | 96,027 |
| *Financial liabilities* | | | | |
| Financial liabilities designated as fair value through profit or loss | | | | |
| – convertible bonds (see below) | **95,200** | – | **95,200** | – |
| Other financial liabilities measured at amortised cost | | | | |
| – promissory notes | **34,070** | – | **34,070** | – |
| – trade and other payables | **38,717** | 35,276 | **9,700** | 19,847 |
| – amounts due to subsidiaries | **–** | – | **17,135** | 28,106 |
| – other borrowings | **4,784** | 42,209 | **2,770** | 24,409 |
| | **77,571** | 77,485 | **63,675** | 72,362 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 7. Financial Instruments *(Continued)*

### 7a) Categories of financial instruments *(Continued)*

*Financial liabilities designated as at FVTPL*

In the management's opinion, the change in the fair value is unrepresentative of the change in its credit risk and the exposure is considered as insignificant.

### 7b) Financial risk management objectives and policies

The Group's and the Company's major financial instruments include trade and bills receivables, other receivables, loan and interest receivables, consideration receivables, amounts due from (to) subsidiaries, pledged deposits, bank balances and cash, trade and other payables, other borrowings, convertible bonds and promissory notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

i) Currency risk

Certain bank balances, interests in associates, loan and interest receivables and payables of the Group and the Company are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises. The Group's and the Company's exposure to currency risk is minimal as the foreign currencies balances are insignificant.

ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to certain variable-rate borrowings. The Group's exposure to interest rate risk is minimal as the balance of variable-rate borrowing is insignificant (see Note 32 for details of the borrowing).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate pledged deposits and bank balances (see Notes 29 and 30 for details). The Group's exposure to interest rate risk is minimal as the pledged bank deposits and bank balances have a short maturity period.

The Group currently does not have any interest rate hedging policy.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 7. Financial Instruments *(Continued)*

### 7b) Financial risk management objectives and policies *(Continued)*

*Credit risk*

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable balance at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

*Liquidity risk*

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

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 7. Financial Instruments *(Continued)*

### 7b) Financial risk management objectives and policies *(Continued)*

*Liquidity risk (Continued)*

Maturity analysis

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

**The Group**

**As at 31 December 2008**

| | **On demand/ within one year HK$'000** | **One to two years HK$'000** | **More than two years HK$'000** | **Total undiscounted cash flows HK$'000** |
|---|---|---|---|---|
| Trade and other payables | **38,717** | **–** | **–** | **38,717** |
| Other borrowings | **4,784** | **–** | **–** | **4,784** |
| Convertible bonds | **14,680** | **10,320** | **154,960** | **179,960** |
| Promissory notes | **14,773** | **1,014** | **36,842** | **52,629** |
| | **72,954** | **11,334** | **191,802** | **276,090** |

As at 31 December 2007

| | On demand/ within one year HK$'000 | One to two years HK$'000 | More than two years HK$'000 | Total undiscounted cash flows HK$'000 |
|---|---|---|---|---|
| Trade and other payables | 23,515 | 11,761 | – | 35,276 |
| Other borrowings | 4,576 | 39,302 | – | 43,878 |
| | 28,091 | 51,063 | – | 79,154 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 7. Financial Instruments *(Continued)*

### 7b) Financial risk management objectives and policies *(Continued)*

*Liquidity risk (Continued)*

Maturity analysis *(Continued)*

**The Company**

**As at 31 December 2008**

| | On demand/ within one year HK$'000 | One to two years HK$'000 | More than two years HK$'000 | Total undiscounted cash flows HK$'000 |
|---|---|---|---|---|
| Trade and other payables | 9,700 | – | – | 9,700 |
| Amounts due to subsidiaries | 17,135 | – | – | 17,135 |
| Other borrowings | 2,770 | – | – | 2,770 |
| Convertible bonds | 14,680 | 10,320 | 154,960 | 179,960 |
| Promissory notes | 14,773 | 1,014 | 36,842 | 52,629 |
| | 59,058 | 11,334 | 191,802 | 262,194 |

As at 31 December 2007

| | On demand/ within one year HK$'000 | One to two years HK$'000 | More than two years HK$'000 | Total undiscounted cash flows HK$'000 |
|---|---|---|---|---|
| Trade and other payables | 8,986 | 10,861 | – | 19,847 |
| Amounts due to subsidiaries | 28,106 | – | – | 28,106 |
| Other borrowings | 2,770 | 24,347 | – | 27,117 |
| | 39,862 | 35,208 | – | 75,070 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 7. Financial Instruments *(Continued)*

### 7c) Fair value

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

- the fair value of financial assets and financial liabilities (excluding derivative instruments) with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices, respectively;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

- The directors of the Company consider the fair value of non-current payables equal to its carrying amount as the impact of discounting is not significant.

The carrying amounts of financial assets and financial liabilities reported in the balance sheets of the Group approximate their fair values due to their immediate or short-term maturities.

## 8. Segment Reporting

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

### Business segments

The Group is currently engaged in property investment and development, manufacture and sales of life-like plants and provision for financial services. These segments are the basis on which the Group reports its primary segment information.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 8. Segment Reporting *(Continued)*

### Business segments *(Continued)*

### For the year ended 31 December

| | Property investment and development | | Financial services | | Manufacturing and sales of life-like plants | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 2008 HK$'000 | 2007 HK$'000 | 2008 HK$'000 | 2007 HK$'000 | 2008 HK$'000 | 2007 HK$'000 | 2008 HK$'000 | 2007 HK$'000 |
| Segment revenue | – | – | – | – | – | – | – | – |
| Segment result | (501) | (679) | – | – | – | – | (501) | (679) |
| Discount on acquisition of subsidiaries | 18,162 | – | – | – | 31,658 | – | 49,820 | – |
| Impairment loss recognised in respect of interests in associates | (91,020) | – | – | – | – | – | (91,020) | – |
| Impairment loss recognised in respect of loan receivables | – | – | (39,510) | – | – | – | (39,510) | – |
| Impairment loss recognised in respect of available-for-sale investment | – | (6,537) | – | – | – | – | – | (6,537) |
| Fair value change of in convertible bonds | | | | | | | 53,800 | – |
| Unallocated corporate operating income | | | | | | | 2,011 | 1,744 |
| Unallocated corporate operating expenses | | | | | | | (7,710) | (6,484) |
| | | | | | | | (33,110) | (11,956) |
| Finance costs | | | | | | | (8,119) | (5,705) |
| Share of results of associates | (1,999) | (303) | – | – | – | – | (1,999) | (303) |
| Loss before tax | | | | | | | (43,228) | (17,964) |
| Income tax credit | | | | | | | – | 48 |
| Loss for the year | | | | | | | (43,228) | (17,916) |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 8. Segment Reporting *(Continued)*

### Business segments *(Continued)*

### As at 31 December

| | Property investment and development | | Financial services | | Manufacturing and sales of life-like plants | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 |
| **Assets and liabilities** | | | | | | | | |
| Segment assets | **45,715** | 438 | **1** | 39,512 | **104,953** | – | **150,669** | 39,950 |
| Interests in associates | **–** | 91,605 | **–** | – | **–** | – | **–** | 91,605 |
| | **45,715** | 92,043 | **1** | 39,512 | **104,953** | – | **150,669** | 131,555 |
| Unallocated corporate assets | | | | | | | **63,816** | 1,269 |
| Total assets | | | | | | | **214,485** | 132,824 |
| Segment liabilities | **16,825** | 11,268 | **19** | 19 | **20,548** | – | **37,392** | 11,287 |
| Unallocated corporate liabilities | | | | | | | **146,935** | 66,198 |
| Total liabilities | | | | | | | **184,327** | 77,485 |

### For the year ended 31 December

| | Property investment and development | | Financial services | | Manufacturing and sales of life-like plants | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 |
| Other information | | | | | | | | |
| Capital expenditure through acquisition of subsidiaries | **45,491** | – | **–** | – | **50,787** | – | **96,278** | – |
| Payables waived by the creditors | **–** | (1,730) | **–** | – | **–** | – | **–** | (1,730) |
| Impairment loss recognised in respect of available-for-sale investment | **–** | 6,537 | **–** | – | **–** | – | **–** | 6,537 |
| Impairment loss recognised (reversed) in respect of other receivables | **390** | (14) | **–** | – | **–** | – | **390** | (14) |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 8. Segment Reporting *(Continued)*

### Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

| | PRC | | Hong Kong | | Malaysia | | Singapore | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 |
| As at 31 December | | | | | | | | | | |
| Segment assets | **25,568** | – | **175,222** | 25,540 | **13,670** | 107,284 | **25** | – | **214,485** | 132,824 |
| For the year ended 31 December | | | | | | | | | | |
| Segment Revenue | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| Capital expenditure through acquisition of subsidiaries | **49,998** | – | **46,280** | – | **–** | – | **–** | – | **96,278** | – |

## 9. Other Revenue

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Payables waived by the creditors | **–** | 1,730 |
| Impairment loss reversed in respect of other receivable | **–** | 14 |
| Sundry income | **2,011** | – |
| | **2,011** | 1,744 |

## 10. Finance Costs

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Interest on other borrowings wholly repayable within five years | **7,931** | 5,701 |
| Imputed interest expense on promissory notes | **188** | – |
| Interest on finance leases | **–** | 4 |
| | **8,119** | 5,705 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 11. Income Tax Credit

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Current tax: | | |
| Hong Kong Profits Tax – overprovision in prior years | **–** | 48 |

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits in Hong Kong for the two years ended 31 December 2008 and 2007.

No provision for overseas taxation has been made as the overseas subsidiaries have no assessable profits arising from their jurisdictions for the two years ended 31 December 2008 and 2007.

The tax credit for the years can be reconciled to the loss before tax per the consolidated income statement as follow:

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Loss before tax | **(43,228)** | (17,964) |
| Tax at the domestic income tax rate at 16.5% (2007: 17.5%) | **(7,132)** | (3,144) |
| Tax effect of income not taxable for tax purpose | **(17,395)** | (305) |
| Tax effect of expenses not deductible for tax purpose | **21,697** | 3,396 |
| Tax effect arising from the associates | **–** | (53) |
| Tax effect of tax loss not recognised | **2,877** | – |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(47)** | 106 |
| Overprovision in prior years | **–** | 48 |
| Income tax credit | **–** | 48 |

Details of the deferred tax liabilities are set out in note 35.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 12. Loss for the Year

Loss for the year has been arrived at after charging:

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Contributions to the retirement benefit scheme (including director's contribution) | – | – |
| Auditors' remuneration | 653 | 661 |
| Convertible bonds issue expenses | 3,125 | – |
| Impairment loss recognised in respect of other receivable | 390 | – |
| Operating lease rental on rented premises | 208 | 234 |

## 13. Directors' Remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is stated as follows:

**For the year ended 31 December 2008**

| | Directors' fees<br>HK$'000 | Salaries, allowances and benefits in kind<br>HK$'000 | Contributions to the retirement benefit scheme<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| **Executive directors:** | | | | |
| Tse On Kin *(Note 4)* | 102 | – | – | 102 |
| Kong Li Szu *(Note 9)* | – | – | – | – |
| Chan Chi Yuen *(Note 2)* | 480 | – | – | 408 |
| Yu Pak Yan, Peter *(Note 7)* | 25 | – | – | 25 |
| **Independent non-executive directors:** | | | | |
| Lo Miu Sheung, Betty *(Note 2)* | 60 | – | – | 60 |
| Wong Yun Kuen *(Note 4)* | 60 | – | – | 60 |
| Chan Chiu Hung *(Note 6)* | 67 | – | – | 67 |
| Lau Man Tak *(Note 8)* | 20 | – | – | 20 |
| | 814 | – | – | 814 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 13. Directors' Remuneration *(Continued)*

**For the year ended 31 December 2007**

| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Contributions to the retirement benefit scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Executive directors:** | | | | |
| Kong Li Szu | – | – | – | – |
| Kong Li Jer *(Note 1)* | – | – | – | – |
| Kong Lok King *(Note 1)* | – | – | – | – |
| Cham Yiu Keung *(Note 3)* | 36 | – | – | 36 |
| Tse On Kin *(Note 4)* | – | – | – | – |
| Chan Chi Yuen *(Note 2)* | 440 | – | – | 440 |
| **Independent non-executive directors:** | | | | |
| Lo Miu Sheung, Betty *(Note 2)* | 55 | – | – | 55 |
| Wong Yun Kuen *(Note 4)* | 45 | – | – | 45 |
| Chan Chiu Hung *(Note 6)* | 100 | – | – | 100 |
| Lo Tat Shing *(Note 5)* | 28 | – | – | 28 |
| | 704 | – | – | 704 |

*Notes:*

1. Resigned on 15 February 2007
2. Appointed on 15 February 2007
3. Resigned on 20 April 2007
4. Appointed on 20 April 2007
5. Resigned on 9 May 2007
6. Resigned on 1 September 2008
7. Appointed on 1 August 2008
8. Appointed on 1 September 2008
9. Resigned on 1 October 2008

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 13. Directors' Remuneration *(Continued)*

No emoluments were paid by the Group to any directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office for two years ended 31 December 2008 and 2007.

No director waived or agreed to waive his emoluments in the two years ended 31 December 2008 and 2007.

## 14. Employee's Emoluments

For the two years ended 31 December 2008 and 2007 the five highest paid individuals included, four directors (2007: four directors) of the Company whose emoluments have been included in note 13. The emoluments of the remaining one individual (2007: one individual) are as follows:

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **300** | 300 |
| Contributions to the retirement benefit scheme | **–** | – |
| | **300** | 300 |

The emoluments of the one individual (2007: one) are within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2008** | 2007 |
| Nil – HK$1,000,000 | **1** | 1 |

For the two years ended 31 December 2008 and 2007, no emoluments were paid by the Group to the five highest paid individuals (including directors and other employees) as an inducement to join or upon joining the Group or as a compensation for loss of office.

## 15. Dividend

No dividend was paid or proposed during the two years ended 31 December 2008 and 2007, nor has any dividend been proposed since the balance sheet date.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 16. Loss per Share

The calculation of basic loss per share for the year is based on the loss for the year attributable to equity holders of the Company of approximately HK$43,227,000 (2007: HK$17,915,000) and the weighted average number of 2,576,947,743 (2007: 2,561,167,000) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31 December 2008 has not be presented as the effect of any dilution is anti-dilutive. No diluted loss per share has been presented for the year ended 31 December 2007 as there was no diluting events existed during the year.

## 17. Investments in Subsidiaries

| | **The Company** | |
|---|---|---|
| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
| Unlisted shares, at cost | **5,000** | 5,000 |
| Less: impairment loss | **(5,000)** | (5,000) |
| | **–** | – |

**(a) Impairment loss recognised in respect of investments in subsidiaries**

The amount of approximately HK$5,000,000 (2007: HK$5,000,000) mainly represents the investment cost in a subsidiary, namely Peace Hill Securities Company Limited ("Peace Hill"). The main assets of Peace Hill are the investments in a subsidiary, namely Dual Aim Sdn. Bhd., remaining inactive during 2008 that sustained loss since the acquisition by Peace Hill in 2001. After considering the poor operating performance of Peace Hill and its investments, the directors are of the view that Peace Hill would not have any value to the Company and the carrying amount of the investment in Peace Hill is fully impaired.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 17. Investments in Subsidiaries *(Continued)*

**(b)** The following list contains only the particulars of subsidiaries which in the opinion of the directors, those subsidiaries principally affect the results, assets and liabilities of the Group. To give details of other subsidiaries would in the opinion of the directors, result in particulars of excessive length. The class of shares held is ordinary unless otherwise stated.

| | | | Proportion of nominal value of issued and paid up capital | | | |
|---|---|---|---|---|---|---|
| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital | Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity |
| Coast Holdings Ltd. | Hong Kong | 100,000 shares of HK$1 each | 100% | – | 100% | Properties investment |
| Dongguan United Art Plastic Products Ltd | PRC | HK$49,000,000 (RMB55,066,200) | 100% | – | 100% | Manufacturing and sale of decorative products |
| FT Far East Ltd. | Hong Kong | 2 shares of HK$1 each | 100% | – | 100% | Trading of Christmas trees, decorative plants, silk decorative flowers and other decorative products |
| FT China Ltd. | Hong Kong | 2 shares of HK$1 each | 100% | – | 100% | Manufacturing and sale of decorative products |
| Kingston Property Investment Ltd. | Hong Kong | 20,000 shares of HK$1 each | 100% | – | 100% | Properties investment |
| Pacpo Investments Limited | Hong Kong | 2 shares of US$1 each | 100% | 100% | – | Inactive |
| Peace Hill | Hong Kong | 5,000,000 shares of HK$1 each | 100% | 100% | – | Investment holding |
| Star Wave Investments Limited | Hong Kong | 1 share of HK$1 each | 100% | 100% | – | Inactive |

None of the subsidiaries had issued any debt securities subsisting at the end of the year or any time during the year.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 18. Amounts Due from (to) Subsidiaries

| | The Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Amounts due from subsidiaries | **762,284** | 618,184 |
| Less: Impairment loss recognised | **(598,973)** | (522,497) |
| | **163,311** | 95,687 |
| Amounts due to subsidiaries | **(17,135)** | (28,106) |

**(a)** The amounts due from (to) subsidiaries were unsecured, interest-free and repayable on demand. The directors of the Company consider that the fair values of the amounts due from (to) subsidiaries approximate to their carrying amounts.

In view of the uncertainty of the recovery of the outstanding balance in those subsidiaries which sustained losses and had poor operating performance and that the subsidiaries were not financially capable of repaying to the Company, the directors concluded that it is appropriate to make an impairment loss on the amounts due from subsidiaries. As at 31 December 2008, there is accumulated impairment loss of approximately HK$598,973,000 (2007: HK$522,497,000) recognised on the amounts due from subsidiaries, after considering the profitability, financial positions, cash flows and future prospects of these subsidiaries, and certain key assumptions. Further details are set out in note 18(b).

**(b)** Movements of impairment losses recognised in respect of amounts due from subsidiaries are analysed as follows:

| | The Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| At 1 January | **522,497** | 522,497 |
| Impairment loss recognised during the year | **76,476** | – |
| At 31 December | **598,973** | 522,497 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 18. Amounts Due from (to) Subsidiaries *(Continued)*

**(b)** Movements of impairment losses recognised in respect of amounts due from subsidiaries are analysed as follows: *(Continued)*

The operating performance of the subsidiaries was unsatisfactory due to intense competition. In the opinion of the directors it is uncertain that sufficient cash flows would be generated by the subsidiaries in the foreseeable future as the subsidiaries suffered financial difficulties and sustained loss. The directors concluded that it is appropriate to make an impairment loss on the amounts due from subsidiaries. As at 31 December 2008, the directors consider that the accumulated impairment losses of approximately HK$598,973,000 (2007: HK$522,497,000) are sufficient.

## 19. Investment Properties

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Investment properties, stated at fair value | | |
| Acquired on acquisition of subsidiaries and at 31 December 2008 | **45,000** | – |

The investment properties of the Group are situated in Hong Kong and held under medium-term leases.

The fair value of the Group's investment properties at 31 December 2008 have been arrived at on the basis of a valuation carried out on that day by Stephen J Y Chan Surveyors, independent qualified professional valuers not connected with the Group. Stephen J Y Chan Surveyors have appropriate qualifications and recent experience in the valuation of similar properties in relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

The Group leases out certain investment properties under operating leases, for an initial period of 1 to 3 years, with an option to renew on renegotiated terms.

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

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 20. Property, Plant and Equipment

### The Group

| | Buildings | Leasehold improvement | Plant and machinery | Motor vehicles | Furniture fixtures and equipment | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST | | | | | | |
| Acquired on acquisition of subsidiaries and at 31 December 2008 | 28,215 | 1,521 | 5,535 | – | 167 | 35,438 |
| CARRYING AMOUNT | | | | | | |
| At 31 December 2008 | 28,215 | 1,521 | 5,535 | – | 167 | 35,438 |

Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion. The other items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Plant and machinery | 6.67% |
| Furniture, fixtures and equipment | 20% |
| Motor vehicles | 30% |
| Leasehold improvement | Over the shorter of the term of the lease and 5 years |

## 21. Prepaid Lease Payments

### The Group

The prepaid lease payments represent leasehold land outside Hong Kong held under medium-term leases and analysed for reporting purpose as:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Non-current asset | **15,367** | – |
| Current asset | **473** | – |
| | **15,840** | – |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 22. Interests in Associates

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Cost of investments in unlisted associates | **93,468** | 93,468 |
| Share of post-acquisition results, net of dividends received | **(4,261)** | (2,262) |
| Exchange realignments | **1,813** | 399 |
| | **91,020** | 91,605 |
| Impairment loss recognised in respect of interests in associates *(note (d))* | **(91,020)** | – |
| | **–** | 91,605 |

Included in the costs of investments in associates is a goodwill of approximately HK$14,568,000 (2007: HK$14,568,000) arising on acquisition of an associate in prior years.

*Notes:*

(a) As at 31 December 2008, the Group had interests in the following associates:

| Name of associate | Form of business structure | Place of incorporation and operation | Class of share held | Proportion of nominal value of issued capital and paid up capital: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|---|---|
| United Victoria Sdn. Bhd. ("United Victoria") | Incorporated | Malaysia | Ordinary shares | 50% | – | 50% | Investment holding |
| Aset Nusantara Development Sdn. Bhd ("Aset Nusantara") | Incorporated | Malaysia | Ordinary shares | 21% | – | 42% | Property development |

(b) Goodwill on acquisition of United Victoria

The goodwill arose from the acquisition of United Victoria, which holds 42% equity interest in Aset Nusantara.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 22. Interests in Associates *(Continued)*

*Notes: (Continued)*

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

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Total assets | 620,546 | 887,166 |
| Total liabilities | (387,994) | (404,625) |
| Net assets | 232,552 | 482,541 |
| Group's share of net assets of associates | 48,143 | 77,037 |
| Revenue | – | 889 |
| Loss for the year | (9,517) | (1,441) |
| Group's share of results of associates for the year | (1,999) | (303) |

(d) Impairment on interest in associates

During the year ended 31 December 2008, directors of the Company conducted a review on the Group's interest in associates and determined to fully impair the interest in associates amounted to approximately HK$91,020,000 as a result of the following reasons.

The directors of the Company has conducted a review on the existing business, operation and future prospects of the associates and concluded that it is unlikely that the associates will generate any cash flow and dividend yield towards the Group in the foreseeable future. Accordingly, the directors decided to fully impair the interest in associates, together with the goodwill arising on acquisition of the associate in prior years.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 23. Available-for-sale Investment

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **6,537** | 6,537 |
| Less: Impairment loss recognised | **(6,537)** | (6,537) |
| | **–** | – |

The above investment represents the Group's investment in 5% equity interest in Pioneer Heritage Sdn. Bhd. ("Pioneer Heritage"), a private company incorporated in Malaysia having issued share capital of MYR50,000,000. Pioneer Heritage is principally engaged in property holding in Malaysia. It is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

At 31 December 2007, the directors of the Company conducted a review of the above investment. According to the latest available financial information, Pioneer Heritage was short of cash. The directors considered that it is unlikely for any future cash flow that would be flowed into the Company. A full impairment loss of approximately HK$6,537,000 was therefore recognised on this investment as at two years ended 31 December 2007 and 2008.

## 24. Inventories

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Raw Materials | **15,602** | – |
| Work in Progress | **1,930** | – |
| Finished goods | **300** | – |
| | **17,832** | – |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 25. Trade and Bills Receivables

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Trade receivables | **9,946** | – |
| Bill receivables | **4,683** | – |
| | **14,629** | – |

The aging analysis of trade and bills receivables as at of the balance sheet date:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| 1-30 Days | **4,131** | – |
| 31-90 Days | **2,580** | – |
| 91-180 Days | **7,875** | – |
| 181-360 Days | **8** | – |
| 1-2 years | **30** | – |
| Over 2 years | **5** | 14,937 |
| | **14,629** | 14,937 |
| Less: Impairment loss recognised | **–** | (14,937) |
| | **14,629** | – |

The Group allows a credit period normally ranging from 0 day to 90 days to its trade customers.

The aging analysis of trade receivables that are past due but not impaired is as follow:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| 1-30 Days | **97** | – |
| 31-90 Days | **1,931** | – |
| 91-180 Days | **7,875** | – |
| 181-360 Days | **8** | – |
| 1-2 years | **30** | – |
| Over 2 years | **5** | – |
| Total | **9,946** | – |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 25. Trade and Bills Receivables *(Continued)*

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

The movement in the impairment of trade receivables is as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| At 1 January | **14,937** | 14,937 |
| Amount written-off | **(14,937)** | – |
| At 31 December | **–** | 14,937 |

At 31 December 2007, included in the impairment of trade receivables are individually impaired trade receivables with an aggregate balance of approximately HK$14,937,000 (2008: nil) which had been overdue for over one year as at the balance sheet date without any settlement during the year, and/or were due from debtors with financial difficulties. The Group does not hold any collateral over these balances.

The Group's trade receivables that are denominated in currencies other than the functional currency of the relevant group entities before the impairment loss recognised are as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| United States dollars | **1,883** | – |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 26. Other Receivables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** **HK$'000** | 2007 HK$'000 | **2008** **HK$'000** | 2007 HK$'000 |
| Other receivables | **207** | 4,636 | **–** | – |
| Prepayments and deposits | **528** | 340 | **338** | 338 |
| Amount due from an associate *(note (a))* | **369** | 353 | **–** | – |
| | **1,104** | 5,329 | **338** | 338 |
| Less: Impairment loss recognised *(note (b))* | **(369)** | (4,615) | **–** | – |
| | **735** | 714 | **338** | 338 |

**(a) Amount due from an associate**

The amount due from an associate is unsecured, interest-free and is payable on demand.

**(b) Impairment loss**

Movements of impairment losses are analysed as follows:

| | The Group | |
|---|---|---|
| | **2008** **HK$'000** | 2007 HK$'000 |
| At 1 January | **4,615** | 4,629 |
| Amount written-off | **(4,615)** | – |
| Impairment loss recognised (reversed) in respect of other receivable | **390** | (14) |
| Exchange realignment | **(21)** | – |
| At 31 December | **369** | 4,615 |

As at 31 December 2008, the amount due from an associate is fully impaired as the directors of the Company are in the opinion that the recoverable amount of the amount due from an associate of approximately HK$369,000 are uncertain due to the prolong ageing and without any settlement for years, therefore decided to fully impair the amount. As at 31 December 2007, the directors concluded the individual impaired balances made of approximately HK$4,615,000 on other receivables of the Group, in light of the fact that some of the other receivables were long outstanding for over one year as at the balance sheet date without any settlement during the year and that some other receivables were due from debtors with financial difficulties, are adequate.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 27. Loan and Interest Receivables

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| **Loan receivables** | | |
| Secured | | |
| – amount due from a shareholder of an associate *(note (a))* | **39,510** | 39,510 |
| Unsecured | | |
| – amounts due from others *(note (b))* | **49,683** | 49,683 |
| Gross loan receivables | **89,193** | 89,193 |
| Less: Impairment loss recognised | **(89,193)** | (49,683) |
| Net loan receivables | **–** | 39,510 |
| **Interest receivables** | | |
| Secured loan receivables | | |
| – amount due from a shareholder of an associate *(note (a))* | **5,358** | 5,358 |
| Unsecured loan receivables | | |
| – amounts due from others *(note (b))* | **4,526** | 4,526 |
| Gross interest receivables | **9,884** | 9,884 |
| Less: Impairment loss recognised | **(9,884)** | (9,884) |
| Net interest receivables | **–** | – |
| | **–** | 39,510 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 27. Loan and Interest Receivables *(Continued)*

### (a) Secured loans and interest receivables

*Amount due from a shareholder of an associate*

At 31 December 2008 the Group had a loan receivable of approximately HK$39,510,000 (2007: HK$39,510,000) and a loan interest receivable of approximately HK$5,358,000 (2007: HK$5,358,000) due from a shareholder of United Victoria (the "Borrower"). Pursuant to the loan agreement, interest is charged at 4% over prime rate per annum. The loan is secured by, as collateral, a pledge of the 20% equity interest in United Victoria owned by the Borrower. The loan was originally due for repayment in 2003. The loan and the interest receivables remain outstanding and overdue as at 31 December 2008.

At 31 December 2008, the directors of the Company are of the opinion that the recoverability of the outstanding balance is uncertain due to the prolong ageing and without any settlement for years. Accordingly, impairment loss of HK$39,510,000 has been recognised during the year.

### (b) Unsecured loan and interest receivables

*Amounts due from others*

As at 31 December 2008, the Group had loan receivables of approximately HK$49,683,000 (2007: HK$49,683,000) and interest receivables of HK$4,526,000 (2007: HK$4,526,000) due from independent third parties.

As at 31 December 2008, the directors concluded the accumulated impairment losses made on the loan receivables of approximately HK$49,683,000 (2007: HK$49,683,000) and on interest receivables of approximately HK$4,526,000 (2007: HK$4,526,000) of the Group are adequate, in view of the uncertainty of the recovery of the outstanding balances in that there was default in repayment of the outstanding balance which is unsecured and that the Group lost contact with the debtors.

### (c) Movements of impairment losses recognised in respect of loan and interest receivables are analysed as follows:

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| **Loan receivables** | | |
| At 1 January | **49,683** | 49,683 |
| Impairment loss recognised | **39,510** | – |
| At 31 December | **89,193** | 49,683 |
| **Interest receivables** | | |
| At 1 January and at 31 December | **9,884** | 9,884 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 28. Consideration Receivables

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Net proceeds on disposal of: | | |
| Subsidiaries | | |
| Pioneer Heritage – amount due from Pioneer Heritage *(note (a))* | **7,609** | 7,609 |
| Less: Impairment loss recognised | **(7,609)** | (7,609) |
| | **–** | – |

**(a) Disposal of 65% interest in Pioneer Heritage, a subsidiary, and amount due from Pioneer Heritage**

As at 31 December 2008, included in above is an amount of approximately HK$7,609,000 (2007: HK$7,609,000) due from Pioneer Heritage, an investee company of the Group, representing the outstanding net consideration receivable on disposal of 65% equity interest in Pioneer Heritage pursuant to a disposal agreement entered in year 2003.

In view of the uncertainty of the recovery of the outstanding balance, the directors made a full impairment on the outstanding net consideration receivables of approximately HK$7,609,000. The impairment of approximately HK$7,609,000 on the consideration receivable was firstly recognised in 2004 as over the years the Group and Pioneer Heritage were unable to reach a consensus on the terms and schedule of repayment and that the amount under consideration was overdue. Pioneer Heritage claimed that it was currently in liquidity problem and was short of cash and/or current assets to repay the debts. Accordingly, the directors of the Company are of the opinion that the accumulated impairment loss is adequate.

**(b) Movements of impairment losses are analysed as follows:**

| | The Group | |
|---|---|---|
| | 2008 HK$'000 | 2007 HK$'000 |
| At 1 January | **7,609** | 83,517 |
| Amount written-off | **–** | (75,908) |
| At 31 December | **7,609** | 7,609 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 29. Pledged Deposits

**The Group**

At 31 December 2008, pledged deposit amounting to approximately HK$5,604,000 (2007: nil) has been pledged to secure an undrawn facility. An amount of approximately HK$1,165,000 (2007: nil) bank deposit has been pledged to the PRC customs authorities. In addition, bank deposit amounting to approximately HK$40,000 (2007: HK$42,000) has been pledged for issuance of a guarantee letter for constructions.

The pledged bank deposits carry fixed interest rates ranging from 0.36% to 3.88% per annum (2007: 3.88% per annum).

## 30. BANK BALANCES AND CASH

Bank balances carries interest at prevailing market rate for both years.

## 31. Trade and Other Payables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** **HK$'000** | 2007 HK$'000 | **2008** **HK$'000** | 2007 HK$'000 |
| Trade payables *(note (a))* | **16,261** | 4,564 | **–** | – |
| Other payables and accrued charges | **13,670** | 22,462 | **6,281** | 16,418 |
| Amount due to a shareholder *(note (b))* | **3,029** | 2,340 | **–** | – |
| Amounts due to related companies *(note (b))* | **5,757** | 142 | **3,419** | – |
| Amounts due to directors *(note (b))* | **–** | 5,768 | **–** | 3,429 |
| | **38,717** | 35,276 | **9,700** | 19,847 |
| Less: amounts due within one year shown under current liabilities | **(38,717)** | (23,515) | **(9,700)** | (8,986) |
| | **–** | 11,761 | **–** | 10,861 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 31. Trade and Other Payables *(Continued)*

### (a) Trade payables

The following is an aging analysis of trade payables as at the balance sheet date:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| 1–30 Days | **2,388** | – |
| 31–90 Days | **434** | – |
| 91–180 Days | **9,075** | – |
| 181–360 Days | **–** | – |
| Over 1 year | **4,364** | 4,564 |
| | **16,261** | 4,564 |

Included in trade payables are amounts of approximately MYR1,722,000, equivalent to HK$3,827,000 (2007: MYR1,834,000, equivalent to HK$4,077,000) which are denominated in MYR.

### (b) Amounts due to related companies/a shareholder/directors

The amounts due to related companies/a shareholder/directors are unsecured, interest-free and repayable on demand. Mr Kong Li Szu, the director of certain subsidiaries of the Company, is also the director of the related companies.

## 32. Other Borrowings

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Carrying amount repayable: | | | | |
| On demand or within one year | **4,784** | 4,570 | **2,770** | 2,770 |
| In the second year | **–** | 37,639 | **–** | 21,639 |
| | **4,784** | 42,209 | **2,770** | 24,409 |
| Less: amounts due within one year shown under current liabilities | **(4,784)** | (4,570) | **(2,770)** | (2,770) |
| | **–** | 37,639 | **–** | 21,639 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 32. Other Borrowings *(Continued)*

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Other borrowings | | | | |
| – secured *(note (a))* | **–** | 14,700 | **–** | 14,700 |
| – unsecured *(note (b))* | **4,784** | 27,509 | **2,770** | 9,709 |
| | **4,784** | 42,209 | **2,770** | 24,409 |

**(a) Other borrowings, secured**

(i) At 31 December 2007, the Group's and the Company's other borrowings of approximately HK$14,700,000 (2008: nil) due to a financial institution bore interest at 15% (2008: nil) per annum and were secured by the following:

(i) personal guarantees from the Company's former directors, Mr. Kong Li Jer and Mr. Kong Li Szu.

(ii) corporate guarantee granted by Best Spot Investments Limited ("Best Spot"), a wholly-owned subsidiary of the Company; and

(iii) charge over all the issued share capital of Best Spot.

The amount has been fully repaid during the year ended 31 December 2008.

**(b) Other borrowings, unsecured**

(i) At 31 December 2008, the Group's other borrowings of approximately HK$1,800,000 (2007: HK$1,800,000) due to an independent third party bears interest at 1% (2007: 1%) over the prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited.

(ii) At 31 December 2008, the Group's and the Company's other borrowings of approximately HK$2,770,000 (2007: HK$2,770,000) was due to an independent third party and are interest-free and repayable on demand.

(iii) At 31 December 2008, the Group's other borrowings of approximately HK$214,000 (2007: nil) was due to an independent third party and are interest-free and repayable on demand.

(iv) At 31 December 2007, the Group's and the Company's other borrowings of approximately HK$22,939,000 and HK$6,939,000, respectively, were due to an independent third party and are carried at an interest rate of 7.25% and repayable on demand. The amounts have been repaid during the year ended 31 December 2008.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 33. Convertible Bonds

During the year ended 31 December 2008, the Company had issued 3 series of convertibles bonds.

### (a) CB 1 and CB 2

On 16 December 2008, the Company issued unsecured convertibles bonds with principal value of HK$100,000,000 ("CB 1") and HK$25,000,000 ("CB 2"), respectively, with maturity date on 16 December 2011. Both CB 1 and CB 2 bear interests at 8% per annum payable semi-annually in arrears on 30 June and 31 December in each year. Please refer to the Company's circular and announcement dated 31 December 2007 and 6 June 2008, respectively, for details.

The principal terms of CB 1 and CB 2 are as follows:

– The holders of CB 1 and CB 2 are entitled to convert any part of the principal amount into new ordinary shares of the Company at a conversion price of HK$0.10 each (subject to adjustment) at any time within three years from the date of issue of CB 1 and CB 2.

– The Company has the right at any time during the conversion period to redeem the whole or part, in multiples of HK$1,000,000, of the principal amount of CB 1 and CB 2.

– The holders of the CB 1 and CB 2 have the right at any time during the period after end of the twenty-four months from the date of issue until the maturity date to redeem the whole or part of the principal amount.

– The Company has the right at any time during the conversion period to mandatorily convert the whole or part of the CB 1 or CB 2 into the Company's shares.

– The holders of the CB 1 and CB 2 are entitled to receive three bonus shares for every new share falling to be allotted and issue upon exercise of the conversion rights attached to the CB 1 and CB 2.

During the year ended 31 December 2008, an aggregate of 640,000,000 shares, of which 480,000,000 shares was issued as bonus shares, of HK$0.10 each were issued to the holder of the CB 1 upon the conversions of the convertible note with total principal amount of HK$16,000,000 at an average conversion price of HK$0.025 each.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 33. Convertible Bonds *(Continued)*

### (b) CB 3

On 16 December 2008, the Company issued unsecured convertible bonds with principal value of HK$40,000,000 ("CB 3") upon the completion of the acquisition of FT China Limited and FT Far East Limited (see note 41 for details). CB 3 bears interests at 4% per annum payable annually in arrears with the first payment to be made on the date falling 12 months from the date of issue and with maturity date on 16 December 2011.

The principal terms of CB 3 are as follows:

– The holders of CB 3 are entitled to convert any part of the principal amount into new ordinary shares of the Company at a conversion price of HK$0.10 each (subject to adjustment) at any time within three years from the date of issue of CB 3.

– The holder of the CB 3 have the right at any time during the period after end of the twenty months from the date of issue until the maturity date to redeem the whole or part of the principal amount.

– The Company has the right at any time during the conversion period to mandatorily convert the whole or part of the CB 3 into the Company's shares.

As CB 1, CB 2 and CB 3 contain various embedded derivatives, the directors of the Company determined that the convertible bonds do not contain any equity component and the entire bonds were designated as "financial liabilities at FVTPL" which requires the bonds to be carried at fair value at the balance sheet date and the changes in fair values are recognised in the consolidated income statement. During the year ended 31 December 2008, a gain on change in fair value of approximately HK$53,800,000 (2007: nil) is recognised in the consolidated income statement.

**The Group and the Company**

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Convertible bonds measured at fair value: | | |
| Issue of convertible bonds | **165,000** | – |
| Change in fair value | **(53,800)** | – |
| Conversion to shares | **(16,000)** | – |
| At the end of the year | **95,200** | – |
| The balance is analysed into the following components: | | |
| CB 1 | **67,200** | – |
| CB 2 | **20,000** | – |
| CB 3 | **8,000** | – |
| | **95,200** | – |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 33. Convertible Bonds *(Continued)*

The fair value of the bonds at each of the balance sheet date was calculated using the Binomial Model. The inputs into the model were as follows:

| **CB 1, CB 2 and CB 3** | **31 December 2008** |
|---|---|
| Stock price | HK$0.020 |
| Exercise price | HK$0.10 |
| Risk-free rate | 0.786% |
| Volatility | 61.89% |

## 34. Promissory Notes

On 16 December 2008, the Company issued unsecured promissory notes with principal value of HK$13,445,260 ("PN 1") and HK$33,800,000 ("PN 2") upon the completion of the acquisitions of FT China Limited, FT Far East Limited, Coast Holdings Limited and Kingston Property Investment Limited during the year (see note 41 for details). Please refer to the Company's circular dated 31 December 2007 for details.

**(a) PN 1**

PN 1 bears interests at 4% per annum payable monthly commencing from one month after the date of the issue. PN 1 is repayable in one lump sum on or before six months from the date of the issue or one month after the resumption of trading the shares of the Company on the Stock Exchange, whichever is earlier. Subsequent to the balance sheet date, on 15 January 2009, the Company and the noteholder of PN 1 mutually agreed to extend the maturity date of PN 1 to 15 July 2009. The Company has the option to redeem PN 1 in whole or in part at any time after three months from the date of the issue of PN 1 up to the date immediately prior to maturity. The carrying value of PN 1 as at 31 December 2008 amounted to approximately HK$12,818,000.

**(b) PN 2**

PN 2 bears interests at 3% per annum payable monthly commencing from one month after the date of the issue. PN 2 is repayable on or before sixty months from the date of the issue of PN 2, that is, 16 December 2013, or such other date as mutually agreed in writing by the Company and the noteholders. The Company has the option to redeem PN 2 in whole or in part at any time after three months from the date of the issue of PN 2 up to the date immediately prior to maturity. The carrying value of PN 2 as at 31 December 2008 amounted to approximately HK$21,252,000.

The liability component of PN 1 and PN 2 are subsequently measured at amortised cost, using the effective interest rates at 13.30%. The directors of the Company determined that no value has been assigned for the redemption options of the Company as it is considered to be insignificant in value.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 35. Deferred Tax Liabilities

The followings are the major deferred tax liability not recognised by the Company and movements thereon during the current and prior years:

| | Revaluation of prepaid lease payment HK$'000 | Revaluation of investment property HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2007 and 1 January 2008 | – | – | – |
| Acquisition of subsidiaries | 6,837 | 4,363 | 11,200 |
| At 31 December 2008 | 6,837 | 4,363 | 11,200 |

At the balance sheet date, the Group has unused tax losses of approximately HK$172 million (2007: HK$140 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$93,000 (2007: nil) that can be carried forward for 5 years from the year in which the respective loss arose. Other losses may be carried forward indefinitely.

## 36. Share Capital and Reserves

**The Company and the Group**

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Number of shares '000** | **Amount HK$'000** | Number of shares '000 | Amount HK$'000 |
| **Authorised:** | | | | |
| Ordinary shares of HK$0.10 each | | | | |
| At 1 January | **4,000,000** | **400,000** | 4,000,000 | 400,000 |
| Increase of share capital | **36,000,000** | **3,600,000** | – | – |
| At 31 December | **40,000,000** | **4,000,000** | 4,000,000 | 400,000 |
| **Issued and fully paid:** | | | | |
| Ordinary shares of HK$0.10 each | | | | |
| At 1 January | **2,561,167** | **256,116** | 2,561,167 | 256,116 |
| Issue of shares upon conversion of convertible bonds | **640,000** | **64,000** | – | – |
| At 31 December | **3,201,167** | **320,116** | 2,561,167 | 256,116 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 36. Share Capital and Reserves *(Continued)*

*Notes:*

By the approval of the extraordinary meeting of the Company held on 17 January 2008, the authorised share capital of the Company was increased from HK$400,000,000 divided into 4,000,000,000 Shares to HK$4,000,000,000 divided into 40,000,000,000 shares each by the creation of an additional 3,600,000,000 unissued shares of HK$0.10 each. Such new shares, upon issue, shall rank pari passu in all respects with the then existing shares.

On 22 December 2008, 640,000,000 shares of HK$0.10 each were issued to the convertible bonds holders upon the partial conversion of the convertible bonds in principal amount of HK$16,000,000 at a conversion price of HK$0.025 each.

All the above shares rank pari passu in all aspects with other shares in issue.

**Reserve of the Company**

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2007 | 329,049 | 20 | (555,686) | (226,617) |
| Loss for the year and total recognised income and expense for the year | – | – | (5,833) | (5,833) |
| At 31 December 2007 and 1 January 2008 | 329,049 | 20 | (561,519) | (232,450) |
| Loss for the year and total recognised income and expense for the year | – | – | (34,892) | (34,892) |
| Issue of shares on conversion of convertible bonds | (48,000) | – | – | (48,000) |
| At 31 December 2008 | 281,049 | 20 | (596,411) | (315,342) |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 36. Share Capital and Reserves *(Continued)*

### (a) Nature and purpose of reserves

*(i) Share premium and capital redemption reserve*

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

*(ii) General reserve*

The general reserve is for general business development.

*(iii) Special reserve*

The special reserve represents adjustment relating to the Group's share of post acquisition profits and reserves in an investee company which became an associate of the Group in 2003.

*(iv) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy as stated in note 3.

### (b) Distributability of reserves

As at 31 December 2008 and 2007, the Company had no reserve available for distribution to equity holders of the Company.

## 37. Share Option Scheme

The Company has a share option scheme which was adopted on 30 June 2003, whereby the Board are authorised to grant options to selected participants, including employees and directors of any company in the Group, to subscribe for shares of the Company. The exercise price of the options is determined by the Board at the time of grant, and shall be the highest of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant. The vesting period, the exercisable period and the number of shares subject to each option are determined by the Board at the time of grant. No option has been granted by the Company under the scheme since its adoption.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 38. Litigation

### (a) Mr. Cheung Yik Wang

On 3 November 2003, an action was commenced by Mr. Cheung Yik Wang ("CYW"), who claims himself as an investor of Easternet Limited which owns 46% of Xswim (Holding) Limited ("Xswim Holding") which is a 54% owned subsidiary of the Company, against Mr. Kong Li Szu ("Mr Kong") as 1st defendant, the Company's ex-director, and the Company as 2nd defendant for recovering a sum of HK$11,600,000 together with interest and costs in connection with a cheque issued on 20 December 2002 by the Company to CYW which was dishonoured upon presentation for payment. It was alleged that the cheque was issued by the Company as a guarantee for payment of a cheque issued by Mr. Kong. A defence was filed by the Company on 19 January 2004. CYW also filed a reply to defence on 17 February 2004. Up to the date of approval of the report, this action is still in progress and no hearing date has been fixed.

In the opinion of the directors, in 2002, Xswim Holding, a non-wholly owned subsidiary of the Company, and its subsidiaries ("Xswim Group") advanced the Company an aggregate of approximately HK$15,241,000. In 2002, the Company repaid Xswim Group HK$5,600,000 leaving a balance of approximately HK$9,641,000 outstanding (the "Outstanding Balance") and requested CYW to advance HK$2,000,000 (the "Intended Loan") to the Company. As a result, the Company and Mr. Kong respectively issued on 20 December 2002 a cheque with an amount of HK$11,600,000 each payable to CYW as securities for the Outstanding Balance and the Intended Loan, although CYW has never advanced the Intended Loan to the Company. The Company repaid in full the Outstanding Balance to Xswim Group in 2003. Upon the full repayment of the Outstanding Balance in 2003, in the opinion of the directors, the Company no longer had legal or financial obligations to pay CYW and thus refused to present the cheque previously issued to CYW in 2003. As at 31 December 2008, with the advices by the Company's legal adviser, the directors are of the opinion that the Group has proper and valid defences to the CYW's action and accordingly, no provision for loss has been accounted for in these financial statements.

### (b) Ex-landlord

On 30 March 2004, an action was commenced by the landlord of the office premises of the Group (the "Ex-landlord") against Pacpo Hong Kong Limited ("Pacpo Hong Kong"), a wholly owned subsidiary of the Company, for overdue rental, building management and miscellaneous fees, together with arrears of rental up to the date of delivery of vacant possession of the said office premises, interests, cost and/or other relief of approximately HK$207,000. This case was heard by The High Court of The Hong Kong Special Administrative Region on 21 June 2004 and judgement was issued in favour of the Ex-landlord. Accordingly, the Group is liable to pay the Ex-landlord approximately HK$712,000. However, the Group only settled approximately HK$226,000 in aggregate to the Ex-landlord. In December 2004, the Group and the Ex-landlord entered into a settlement arrangement, under which the Group agrees to pay the outstanding debts of approximately HK$486,000 by 14 monthly instalments, the first of which is to be paid in January 2005. In the meantime, the landlord shall withhold any action to enforce the judgement. However, the Group has defaulted the settlement of the aforesaid amount.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 38. Litigation *(Continued)*

### (b) Ex-landlord *(Continued)*

By a consent order dated 20 February 2009, the Ex-landlord agreed to accept the sum of approximately HK$474,000 in full and final settlement of the Order dated 21 June 2004 of Master Levy in High Court and discharged Pacpo Hong Kong from all further liabilities. The amount has been subsequently settled in March 2009.

### (c) Koffman Securities

On 13 May 2004, an action was commenced by Koffman Securities Limited ("Koffman Securities") against Kong Sun Resources Limited ("Kong Sun Resources"), as 1st defendant, a wholly owned subsidiary of the Company, and the Company's director, Mr. Kong, as 2nd defendant, for specific performance of an option to repurchase certain investment properties (the "Premises") of the Group. The Premises was previously sold to the Group in 2002 for a consideration of HK$21,000,000 by Koffman Securities satisfied by the issuance of 56,000,000 ordinary shares of the Company (the "Consideration Shares") the Premises, which was subsequently disposed of by the Group in 2005. It is alleged that Kong Sun Resources and Mr. Kong gave an oral guarantee that:

(i) Kong Sun Resources would make good and pay to Koffman Securities of those Consideration Shares sold at a market price not less than HK$0.375 per share in the period of thirty six months commencing from 10 June 2002 so that Koffman Securities would receive not less than HK$0.375 per Consideration Share; and

(ii) Kong Sun Resources granted Koffman Securities an option to repurchase the Premises for a consideration of HK$21,000,000 at any time within a period of five years commencing from 10 May 2002, as security for the due and punctual performance of the alleged obligation mentioned in (i) above.

Koffman Securities claimed (i) against Kong Sun Resources to transfer the Premises to Koffman Securities for a consideration of HK$21,000,000 or such consideration as the court may determine, and (ii) against Kong Sun Resources and Mr. Kong the sum of approximately HK$12,889,000 being the total amount of outstanding differences in the price of the Consideration Shares disposed of and the alleged oral guarantee amount of HK$0.375 per Consideration Share together with damages, interest, cost and/or other relief.

By a consent order dated 24 September 2008, Koffman Securities dismissed its claims against Mr. Kong and Kong Sun Resources with no order as to costs.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 39. Contingent Liabilities

### Champ Capital Limited

Pursuant to an exclusive franchisee agreement dated 1 January 2003 (the "Franchisee Agreement") entered into between Xswim Technology, a non-wholly owned subsidiary of the Company, and Champ Capital Limited (the "Franchisee"), Xswim Technology granted the Franchisee an exclusive right to trade the computer products and office equipment of Xswim Technology in Guangdong Province and Beijing, the PRC, for a period from 1 January 2003 to 1 April 2007. In addition, Xswim Technology agreed to buy back the underlying franchise licence for HK$15,000,000 upon termination of the Agreement, both in the case of normal or early termination, and to spend HK$1,000,000 as merchandising assistance in promoting the products of Xswim Technology.

As the Franchisee had breached the Agreement to perform its duty, inter alia, to trade the products of Xswim Technology in Guangdong Province and Beijing, the PRC, Xswim Technology had terminated the Franchisee Agreement with effect from 28 November 2003. Although there were no clauses stipulated in the Franchisee Agreement that the breach would discharge the obligations of Xswim Technology to buy back the franchise licence and to pay the merchandising assistance, the directors are of the opinion that the Group had no legal or financial obligations to buy back the franchise licence and to pay the merchandising assistance when the Franchisee failed to discharge its obligation by, inter alia, trading the products of Xswim Technology in Guangdong Province and Beijing, the PRC. No action has been taken by the Franchisee in respect of the abovementioned clause up to the date of approval of this report.

With the advices by the Company's external legal adviser, the directors are of the opinion that the Franchisee would not be entitled or able to (i) exercise the option to resell the underlying franchise licence to the Group, or (ii) demand the Group payment of the merchandising assistance in promoting the products of Xswim Technology, on the ground that the Franchisee Agreement was likely to be void and not enforceable by the courts of Hong Kong, at which the Franchisee Agreement was construed. Accordingly, no provision for commitment or loss for the franchise licence and merchandising assistance has been accounted for in these financial statements.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 40. Related Party Transactions

**(a)** As at 31 December 2008, Hua Yi Copper Holdings Limited ("Hua Yi") and an independent third party provided corporate guarantee to a bank to secure the general banking facilities granted to the Group. A director of Hua Yi, Mr. Chu Yuk Kuen, is also the director of FT Far East Limited, a wholly owned subsidiary of the Company.

**(b)** As at 31 December 2007, the Company's other borrowings of approximately HK$14,700,000 (2008: nil) due to a financial institution were personal guaranteed by the Company's former directors, Mr. Kong Li Jer and Mr. Kong Li Szu (see note 32 for details).

**(c)** **Compensation of directors and key management personnel**

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

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Short-term employee benefits | **1,114** | 1,004 |
| Post-employment benefits | **–** | – |
| | **1,114** | 1,004 |

The remuneration of directors and key executive is determined by the Remuneration Committee having regards to the performance of individuals and market trends.

The balances with related parties are disclosed in notes 18, 26 and 31, respectively.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 41. Acquisition of Subsidiaries

### (i) Acquisition of FT Group

On 19 May 2007, Eternal Gain Investments Limited ("Eternal Gain"), a wholly owned subsidiary of the Company, the Company and Brightpower Assets Management Limited ("Brightpower"), an independent third party, entered into a sale and purchase agreement (the "FT Agreement") whereby Eternal Gain would acquire from Brightpower the entire issued share capital of two companies, namely FT Far East Limited ("FTFE") and FT China Limited (collectively refer to as the "FT Group"), held by Brightpower for an aggregate consideration of HK$1. Please refer to the Company's circular dated 31 December 2007 for details.

Upon the completion of the FT Agreement on 16 December 2008, Brightpower had assigned to Eternal Gain all benefits and rights in respect of the indebtedness in the amount of HK$80,786,000 due to Brightpower by FTFE for a consideration of HK$53,445,259. The aggregate consideration of HK$53,445,260 has been satisfied by the way of (i) a promissory note in principal amount of HK$13,445,260 and (ii) a convertible bond in principal amount of HK$40,000,000 issued by the Company to Brightpower (see notes 32 and 31 for details of the promissory notes and convertible bonds, respectively).

### (ii) Acquisition of CHL and KPIL

On 28 June 2007, Lead Power Investments Limited ("Lead Power"), a wholly owned subsidiary of the Company, and two independent third parties (the "Vendors") entered into an agreement (the "CK Agreement") whereby Lead Power will acquire from the Vendors the entire issued share capital of two companies, namely Coast Holdings Limited ("CHL") and Kingston Property Investment Limited ("KPIL"), each for a consideration of HK$1. Please refer to the Company's circular dated 31 December 2007 for details.

Upon the completion of the CK Agreement on 16 December 2008, one of the Vendors ("Vendor A") had assigned all the benefits and rights in respect of the indebtedness in the amount of approximately HK$18,067,000 and HK$21,958,000 due to Vendor A by CHL and KPIL respectively for a consideration of HK$15,999,999 and HK$17,799,999 respectively. The aggregate consideration of HK$33,800,000 has been satisfied by the way of a promissory note in principal amount of HK$33,800,000 issued by the Company to Vendor A (see note 32 for details of the promissory notes).

These transactions have been accounted for by the purchase method of accounting.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 41. Acquisition of Subsidiaries *(Continued)*

The net assets acquired, being the fair value, in the transaction, and the discount on acquisition arising, are as follows:

| | FT Group | | | CHL and KPIL | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Acquiree's carrying amount before combination HK$'000 | Fair value adjustments HK$'000 | Fair value HK$'000 | Acquiree's carrying amount before combination HK$'000 | Fair value adjustments HK$'000 | Fair value HK$'000 | Acquiree's carrying amount before combination HK$'000 | Fair value adjustments HK$'000 | Fair value HK$'000 |
| Investment properties | – | – | – | 18,556 | 26,444 | 45,000 | 18,556 | 26,444 | 45,000 |
| Property, plant and equipment | 34,544 | 403 | 34,947 | 491 | – | 491 | 35,035 | 403 | 35,438 |
| Prepaid lease payments | 2,807 | 13,033 | 15,840 | – | – | – | 2,807 | 13,033 | 15,840 |
| Inventories | 17,832 | – | 17,832 | – | – | – | 17,832 | – | 17,832 |
| Trade and bills receivables | 14,629 | – | 14,629 | – | – | – | 14,629 | – | 14,629 |
| Other receivables | 188 | – | 188 | 152 | – | 152 | 340 | – | 340 |
| Bank balances and cash | 21,517 | – | 21,517 | – | – | – | 21,517 | – | 21,517 |
| Trade and other payables | (13,293) | – | (13,293) | (1,831) | – | (1,831) | (15,124) | – | (15,124) |
| Other borrowings | (214) | – | (214) | – | – | – | (214) | – | (214) |
| Tax liabilities | (204) | – | (204) | (152) | – | (152) | (356) | – | (356) |
| Deferred tax liabilities | – | (6,837) | (6,837) | – | (4,363) | (4,363) | – | (11,200) | (11,200) |
| | 77,806 | 6,599 | 84,405 | 17,216 | 22,081 | 39,297 | 95,022 | 28,680 | 123,702 |
| Discount on acquisition | | | (31,658) | | | (18,162) | | – | (49,820) |
| Total consideration | | | 52,747 | | | 21,135 | | | (73,882) |
| Satisfied by: | | | | | | | | | |
| Convertible bonds issued | | | 40,000 | | | – | | | 40,000 |
| Promissory note issued | | | 12,747 | | | 21,135 | | | 33,882 |
| | | | 52,747 | | | 21,135 | | | 73,882 |
| Net cash inflow arising on acquisitions: | | | | | | | | | |
| Bank balances and cash acquired | | | 21,517 | | | – | | | 21,517 |

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 41. Acquisition of Subsidiaries *(Continued)*

No contribution from the newly acquired subsidiaries to the Group's loss for the year since the completion of the above acquisitions. If the acquisitions of FT Group, CHL and KPIL had been completed on 1 January 2008, total group revenue for the year ended 31 December 2008 would have been approximately HK$206,224,000 and loss for the year ended 31 December 2008 would have been approximately HK$82,923,000. The pro forma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

## 42. Major Non-cash Transactions

As detailed in note 41 to the financial statements, the Group acquired FT Group, CHL and KPIL at the aggregate consideration of approximately HK$87,245,000 during the year ended 31 December 2008. The amounts were settled in the way of issue of certain convertible bonds and promissory notes by the Company during the year ended 31 December 2008.

During the year ended 31 December 2007, the Group has entered the following non-cash transactions:

(i) One of the directors has repaid the bank and other borrowings of approximately HK$3,016,000 on behalf of the Group; and

(ii) Amount of HK$6,939,000 in relation to the bank borrowings (HK$6,194,000) together with interest thereon and the litigation expenses (HK$745,000) due by the Company to Industrial and Commercial International Capital Limited ("ICIC") was assigned by ICIC to an independent third party.

## 43. Operating Lease

### The Group as lessee

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

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Within one year | **45** | – |

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 2 years with fixed monthly rentals.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 43. Operating Lease *(Continued)*

**The Group as lessor**

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

**The Group**

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Within one year | **1,363** | – |
| In the second year | **25** | – |
| | **1,388** | – |

The investment properties are expected to generate rental yields of 5.43% on an ongoing basis. Leases are negotiated for the terms ranged from 1 to 3 years with fixed monthly rentals.

## 44. Capital Commitments

**The Group**

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Capital expenditure in respect of the leasehold improvement contracted for but not provided in the consolidated financial statements | **1,253** | – |

## 45. Post Balance Sheet Event

**(a) Conversion of convertible bonds**

On 5 January 2009, 884,000,000 shares of HK$0.10 each were issued to the convertible bonds holders upon the partial conversion of the convertible bonds in principal amount of HK$22,100,000 at an average conversion price of HK$0.025 each.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 45. Post Balance Sheet Event *(Continued)*

### (b) Extension of memorandum of understanding in respect of property development in Cambodia

On 10 April 2008, Elite Corner Limited ("Elite Corner"), a wholly owned subsidiary of the Company and Ms. Chau Dinh Nhi ("Ms. Chau"), an independent third party, entered into a Memorandum of Understanding ("MOU"), under which, Ms. Chau granted a sole and exclusive right to Elite Corner to develop a piece of land with a total area of approximately 37,498 square metres located in the Siem Reap province of Cambodia into hotel resort and commercial complex.

Pursuant to the terms of the MOU, Elite Corner has the sole and exclusive right for the period from 10 April 2008 up to 9 April 2009 ("Exclusive Period") to negotiate with Ms. Chau with a view to agreeing on the terms of and executing a formal agreement. Subsequent to the balance sheet date, on 16 April 2009, Elite Corner and Ms. Chau mutually agreed to extend the Exclusive Period from 9 April 2009 to 9 October 2009. More details are set out in the Company's announcement dated 20 April 2009.

# Five-Year Financial Summary

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

## Results

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 | |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 Continuing operations | HK$'000 Discontinued operations |
| **TURNOVER** | **–** | – | – | 221 | 12,269 | 60 |
| **PROFIT/(LOSS) BEFORE TAXATION** | **(43,228)** | (17,964) | (12,664) | (99,741) | (30,372) | 373 |
| Taxation | **–** | 48 | – | – | (164) | – |
| **PROFIT/(LOSS) FOR THE YEAR** | **(43,228)** | (17,916) | (12,664) | (99,741) | (30,536) | 373 |
| ATTRIBUTABLE TO: | | | | | | |
| Equity holders of the Company | **(43,227)** | (17,915) | (12,663) | (99,735) | (30,335) | 373 |
| Minority interests | **(1)** | (1) | (1) | (6) | (201) | – |
| | **(43,228)** | (17,916) | (12,664) | (99,741) | (30,536) | 373 |

## Assets And Liabilities and Minority Interests

| | At 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 | |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 Continuing operations | HK$'000 Discontinued operations |
| TOTAL ASSETS | **214,485** | 132,824 | 138,026 | 137,923 | 242,872 | – |
| TOTAL LIABILITIES | **(184,327)** | (77,485) | (64,480) | (57,669) | (62,885) | – |
| MINORITY INTERESTS | **(11)** | (12) | (13) | (14) | (20) | – |
| | **30,147** | 55,327 | 73,533 | 80,240 | 179,967 | – |