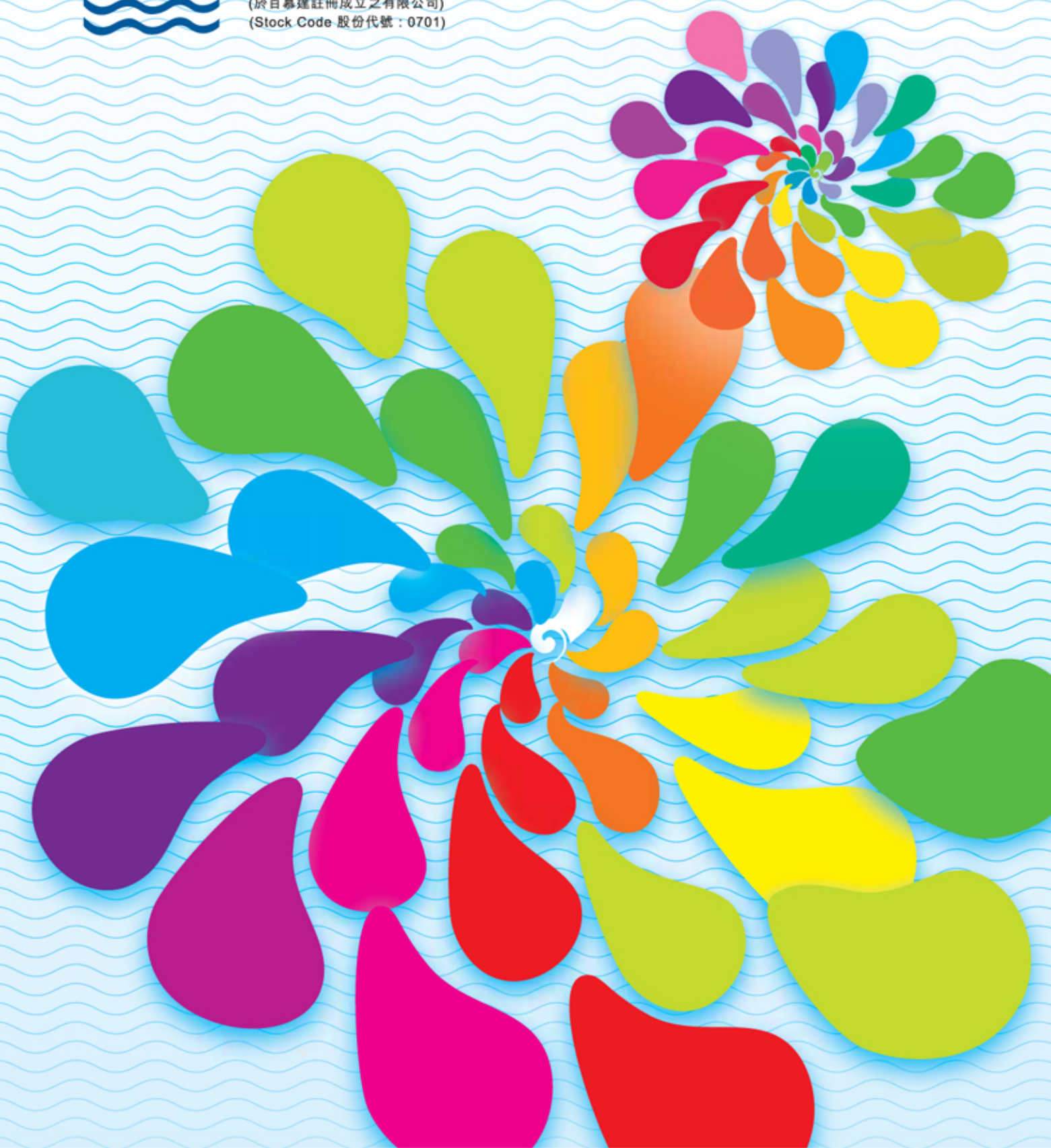




CNT GROUP LIMITED (北海集團有限公司)

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)
(Stock Code 股份代號: 0701)





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Tsui Tsin Tong (Honorary Chairman)

Lam Ting Ball, Paul (Chairman)

Tsui Ho Chuen, Philip (Executive Deputy Chairman)

Tsui Yam Tong, Terry (Managing Director)

Wong Chi Keung, Alvin

Non-executive Directors

Hung Ting Ho, Richard

Zhang Yulin

Ko Sheung Chi

Independent Non-executive Directors

Sir David Akers-Jones (Deputy Chairman)

Danny T Wong

Chan Wa Shek

Steven Chow

COMPANY SECRETARY

Ma Lai King

ASSISTANT COMPANY SECRETARY

John Charles Ross Collis

AUDITORS

Ernst & Young

18th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong

REGISTRARS

Hong Kong

Tricor Tengis Limited

26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong

Bermuda

The Bank of Bermuda Limited

6 Front Street, Hamilton HM 11, Bermuda

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

DBS Bank (Hong Kong) Limited

REGISTERED OFFICE

Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

31st Floor and Units E & F on 28th Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong

WEBSITE

www.cntgroup.com.hk

CHAIRMAN'S STATEMENT

The year 2007 has been another successful year of the Group and its results continued to record profit this year. The Group's paint operation continued to benefit from the strong economic growth in the PRC. Despite the increase in raw material and labour costs, we are still able to maintain our profit margin. The launch of new paint products during the year enabled the Group to broaden our product range and strengthen our presence in the market. Additional selling and advertising expenses were incurred during the year to promote our paint products for the long term benefit of the Group.

There was also a significant improvement in the performance of our property investment operation during the year. The Group has disposed of certain investment properties in the PRC before the recent correction of the property market in the PRC and the resulting gain recognised in the accounts. On the other hand, the economic growth in Hong Kong together with the increase in inflation rate and the continuance of interest rates cuts resulting in an anticipation of the coming of negative real interest rates environment, has directed market resources to purchase assets, especially real estate properties, and therefore push up the prices of these assets. As a result, fair value gains on our investment properties in Hong Kong has been recognised in the accounts. During the year, the Group also completed the acquisitions of a luxury residential house and certain lots of land, both in Yuen Long, Hong Kong, in order to broaden our asset base and for the long term benefit of the Group.

RESULTS

Profit attributable to the equity holders of the parent company for the year was approximately HK\$12.30 million, compared with that of approximately HK\$18.74 million and HK\$7.16 million from continuing operations respectively last year. The paint business contributed an operating profit of approximately HK\$34.33 million, together with the gain on disposal of certain investment properties in the PRC and fair value gains on our investment properties, the Group continued to record a profit this year.

Revenue for the year amounted to approximately HK\$734.81 million, representing an increase of approximately 20.3% when compared with that of last year. Gross profit increased by approximately 17.7% when compared with that of last year to approximately HK\$218.41 million. The increase was mainly due to the increase in gross profit of paint operations.

OPERATIONS

Paint products

Revenue for the year amounted to approximately HK\$680.24 million, representing an increase of approximately 19.5% when compared with that of last year. The operation focused its business on the PRC market and achieved an increase of approximately 26.2% in revenue over that of 2006. The Group will continue to focus on the PRC market. Despite the increase in revenue, operating profit for the year amounted to approximately HK\$34.33 million representing a decrease of approximately 7.9% when compared with that of last year. This was mainly due to the increase in selling and advertising expenses for the development and promotion of our paint business, especially new products, for the long term benefit of the Group. During the year, the Group has held new products release conferences to promote our new anti-formaldehyde odourless paint products. It is a green environmental product that can decompose formaldehyde and is resistant to alkali and fungus.

Property investment

Revenue for the year amounted to approximately HK\$5.59 million, representing a decrease of approximately 8.4% when compared with that of last year. Operating profit for the year amounted to approximately HK\$14.80 million compared with a loss of approximately HK\$11.17 million last year. This was mainly due to the gain on disposal of certain investment properties in the PRC and the fair value gains on our investment properties recognised this year.

Others

Iron and steel trading

Revenue for the year amounted to approximately HK\$48.98 million, representing an increase of approximately 37.9% when compared with that of last year. The business continued to have steady contribution to the Group.

Other investments

Last year, the Group has disposed of certain investments and a significant amount of gains was recognised in the accounts. This was not recurrent this year resulting in a reduction in operating profit.

CHAIRMAN'S STATEMENT (continued)

OPERATIONS (continued)

Available-for-sale investments

Cemetery project

The Group has an effective 11.5% interest in the cemetery project situated in Si Hui City, Guangdong Province, the PRC. The principal activities of which are the development, construction, management and operation of a cemetery garden. The main types of products for the cemetery are outdoor grave lots, ordinary columbarium niches and luxury columbarium niches. During the year, the major shareholder of this investment has been changed to Midas International Holdings Limited, a listed company in Hong Kong. Sales and marketing campaigns have been launched, including a familiarization tour to the cemetery for members of the Funeral Business Association of Hong Kong. Sales network has been established in Hong Kong and it also plans to extend the network to Macau, Taiwan, Singapore and Malaysia for promoting the services of the cemetery to residents of Chinese origin in those areas.

OUTLOOK

Looking ahead, we expect that 2008 will be difficult. The subprime mortgage crisis in U.S. has resulted in the deterioration of its financial markets and slow down of its economy. The result of its funds injection in the credit markets and interest rates cuts is yet to being seen. While the U.S. faces the likelihood of an economic recession or even stagflation, the PRC continues its macro economic control policy with tightening monetary policy to ease the pressure of its inflation. Together with the introduction of New China Labour Law and New Corporate Income Tax Law, which increase the income tax rate for our foreign-invested PRC subsidiaries gradually from 15% to 25% in the coming 5 years, will inevitably increase our costs and challenges ahead. Despite the uncertain global economic conditions, we expect that the economic growth in the PRC and Hong Kong will continue in the year 2008 and the Group will focus on its paint operation. The Group will continue with its current growth momentum, devote its commitment to produce high quality green and safe products and increase its market share by reinforcing its sales and marketing team in the PRC.

Lam Ting Ball, Paul

Chairman

14 April 2008

RESULTS

Profit attributable to equity holders of the parent company for the year was approximately HK\$12.30 million compared with that of approximately HK\$18.74 million and HK\$7.16 million from continuing operations respectively last year. Revenue for the year amounted to approximately HK\$734.81 million, representing an increase of approximately 20.3% when compared with that of last year. Gross profit for the year amounted to approximately HK\$218.41 million, representing an increase of approximately 17.7% when compared with that of last year. The increase in gross profit was mainly due to the increase in gross profit of paint operations. Together with the fair value gains on our investment properties, the Group's results continued to record profit this year.

SEGMENT INFORMATION

Business segments

Paint operation continues to be the principal business of the Group with a revenue of approximately HK\$680.24 million accounting for approximately 92.6% of the Group's total revenue. It also represents an increase of approximately 19.5% when compared with that of last year. Despite the increase in revenue and gross profit for the year, segment result for the year amounted to approximately HK\$34.33 million representing a decrease of approximately 7.9% when compared with that of last year. This was mainly due to the increase in selling and advertising expenses for the development and promotion of our paint business, especially new products, for the long term benefit of the Group.

Property investment operation reported a revenue of approximately HK\$5.59 million, representing approximately 0.8% of the Group's total revenue. Segment result for the year amounted to approximately HK\$14.80 million compared with a loss of approximately HK\$11.17 million last year. This was mainly due to the gain on disposal of certain investment properties in the PRC and fair value gains on our investment properties recognised this year. During the year under review, the Group has disposed of levels 3 and 4 of Xinruike Building in Futian Bonded Zone, Shenzhen, the PRC for cash consideration of HK\$25 million and a gain of approximately HK\$3.15 million was recognised.

During the year under review, the Group has acquired a luxury residential house in "The Vineyard", Yuen Long, Hong Kong for cash consideration of approximately HK\$36.48 million. The Group has also completed the acquisition of certain lots of land in Au Tau, Yuen Long, Hong Kong and town planning application for a comprehensive residential development in the land has been made. Through the captioned acquisitions, the Group has broadened its property portfolio which could take advantage from the recent increase in property prices in Hong Kong and would also benefit the Group in the long term.

SEGMENT INFORMATION (continued)

Geographical segments

All of the Group's business is mainly in the PRC and Hong Kong. Revenue from operations in the PRC and Hong Kong amounted to approximately HK\$643.62 million (2006: HK\$507.20 million) and approximately HK\$91.18 million (2006: HK\$103.84 million) respectively.

LIQUIDITY AND FINANCIAL INFORMATION

The Group's business operation is generally financed by its internal funding and bank borrowings. Total cash balances amounted to approximately HK\$171.30 million as at 31 December 2007 compared with approximately HK\$128.46 million as at 31 December 2006. Bank and other borrowings amounted to approximately HK\$102.97 million as at 31 December 2007 compared with approximately HK\$73.44 million as at 31 December 2006. The Group's bank and other borrowings mainly bear interest at floating rates. Of the Group's total bank and other borrowings as at 31 December 2007, approximately HK\$38.19 million (37.1%) is payable within one year, approximately HK\$9.47 million (9.2%) is payable in the second year, approximately HK\$17.54 million (17.0%) is payable in the third to fifth years and the remaining balance of HK\$37.77 million (36.7%) is payable beyond the fifth year.

The Group's bank and other borrowings were mainly in HK\$ and RMB and hence the risk of currency exposure was insignificant.

Gearing ratio of the Group which is expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 16.5% as at 31 December 2007 compared with 11.9% as at 31 December 2006. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.57 times as at 31 December 2007 compared with 1.65 times as at 31 December 2006.

Equity and net asset value

During the year under review, the proposed reduction of the share premium account and the capital redemption reserve account of the Company was approved by the shareholders. Amounts of approximately HK\$701.69 million standing to the credit of the share premium account and approximately HK\$6.17 million standing to the credit of the capital redemption reserve account of the Company were being cancelled accordingly. The aggregate amount of the credit arising from the cancellations of approximately HK\$707.86 million was transferred to the contributed surplus account of the Company, out of which an amount of approximately HK\$562.96 million was utilized to set off against the accumulated losses of the Company as at 31 December 2006.

LIQUIDITY AND FINANCIAL INFORMATION (continued)

Equity and net asset value (continued)

During the year under review, the proposed declaration of final dividend of HK1 cent per share for the year ended 31 December 2006 by way of distribution out of the contributed surplus account of the Company was also approved by the shareholders. The 2006 final dividend in the amount of approximately HK\$15.40 million was payable by allotment of new shares with a cash option to the shareholders. As a result, approximately 34.20 million new shares were issued by the Company pursuant to the captioned scrip dividend scheme.

Shareholders' funds of the Group as at 31 December 2007 was approximately HK\$679.88 million compared with approximately HK\$669.77 million as at 31 December 2006. Adjusted capital of the Group, being shareholders' funds less the unrealized leasehold land and building revaluation reserve and investment property revaluation reserve, as at 31 December 2007 was approximately HK\$624.95 million compared with approximately HK\$614.83 million as at 31 December 2006. Net asset value per share as at 31 December 2007 was HK\$0.43 compared with HK\$0.44 as at 31 December 2006.

Contingent liabilities

At 31 December 2007, guarantee issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 31 December 2007 amounted to HK\$74.76 million compared with HK\$40.16 million as at 31 December 2006.

Pledge of assets

Certain land and buildings, investment properties, trade receivables and cash deposits with aggregate net book value of HK\$408.48 million (31 December 2006: HK\$332.24 million) were pledged as collaterals for bank and other borrowings. At 31 December 2007, total outstanding secured bank and other borrowings amounted to HK\$99.77 million as compared with HK\$60.16 million as at 31 December 2006.

STAFF

Headcount as at 31 December 2007 was 1,095 (31 December 2006: 1,147). Staff costs (excluding directors' emoluments) amounted to HK\$87.35 million for the year as compared with HK\$81.65 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is formulated on the performance of individual employees. In addition, the Group also provides an attractive staff option scheme.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the businesses of the Group. During the year ended 31 December 2007, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the “CG Code”) issued by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), except that the non-executive directors are not appointed for a specific term. According to the Company’s bye-laws, the non-executive directors are subject to re-election at least once every three years.

THE BOARD

During the year and up to the date of this report, the board comprises the following members:

| | | |
|--|---|---|
| Executive Directors | : | Tsui Tsin Tong (Honorary Chairman) Lam Ting Ball, Paul (Chairman) Tsui Ho Chuen, Philip (Executive Deputy Chairman) Tsui Yam Tong, Terry (Managing Director) Wong Chi Keung, Alvin |
| Non-executive Directors | : | Hung Ting Ho, Richard Zhang Yulin Ko Sheung Chi (<i>appointed on 1 February 2007</i>) |
| Independent Non-executive Directors | : | Sir David Akers-Jones (Deputy Chairman) Li Hui Yan (<i>resigned on 1 February 2007</i>) Danny T Wong Chan Wa Shek (<i>appointed on 1 February 2007</i>) Steven Chow (<i>appointed on 1 February 2007</i>) |

The biographical details of the directors and the relationships among them are set out in the “Biographies of directors and senior management” on pages 21 to 23.

The role of the Chairman is separate from that of the Managing Director. Their respective responsibilities are clearly established and set out in writing. The Chairman is responsible for ensuring that the board is functioning effectively with good corporate governance practices and procedures; whilst the Managing Director is responsible for managing the Group’s businesses including implementation of major strategies and initiatives set by the board.

THE BOARD (continued)

The non-executive directors (the majority of whom are independent) have diversified expertise and experiences. They provide invaluable contribution and independent judgement on issues of strategic development, performance and accountability. The Company currently has four independent non-executive directors which represent one-third of the board and one independent non-executive director possesses appropriate professional accounting qualifications or financial management expertise. The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and the Company considers that all independent non-executive directors are independent.

The board has reserved for its decision or consideration matters covering the Group’s overall strategy, annual budgets, annual and interim results, major acquisitions and disposals, recommendations on directors’ appointment or re-appointment and other significant operational and financial matters. The board has delegated the day-to-day operations of the Group to management under the leadership of the Managing Director.

THE BOARD (continued)

The board meets regularly to discuss and review the Group's overall strategy as well as the operation and financial performance of the Group. During the year, the board held fifteen board meetings (of which four were regular meetings) and approved resolutions in writing. The attendance record of each director is set out below:

| | Number of board meetings (comprising four regular meetings) attended/held | Number of resolutions in writing in lieu of meeting consented/passed |
|---|---|--|
| Executive Directors | | |
| Tsui Tsin Tong | 9/15 | 1/1 |
| Lam Ting Ball, Paul | 14/15 | 1/1 |
| Tsui Ho Chuen, Philip | 15/15 | 1/1 |
| Tsui Yam Tong, Terry | 15/15 | 1/1 |
| Wong Chi Keung, Alvin | 15/15 | 1/1 |
| Non-executive Directors | | |
| Hung Ting Ho, Richard | 3/15 | 1/1 |
| Zhang Yulin | 2/15 | 1/1 |
| Ko Sheung Chi (<i>appointed on 1 February 2007</i>) | 2/15 | 0/1 |
| Independent Non-executive Directors | | |
| Sir David Akers-Jones | 4/15 | 1/1 |
| Li Hui Yan (<i>resigned on 1 February 2007</i>) | 0/15 | 0/1 |
| Danny T Wong | 3/15 | 1/1 |
| Chan Wa Shek (<i>appointed on 1 February 2007</i>) | 4/15 | 0/1 |
| Steven Chow (<i>appointed on 1 February 2007</i>) | 4/15 | 0/1 |

Board meetings are scheduled to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a regular board meeting is given to all directors who are given an opportunity to include matters for discussion in the agenda. Agenda and accompanying board papers are sent to all directors at least 3 days before the date of a regular board meeting (and so far as practicable for such other board meetings). Draft and final versions of minutes of regular board meetings are circulated to all directors for their comment and records respectively. All directors are kept informed in a timely manner of major changes that may affect the Group's businesses, including relevant rules and regulations. Written procedures are also in place for the directors to obtain independent professional advice in performing their duties at the expense of the Company in appropriate circumstances.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The board is responsible for the appointment of directors and will take into consideration criteria such as expertise, experience, integrity and commitment of the candidates as recommended by the executive directors when considering new director appointments. During the year, based on the recommendation of the executive directors, the board approved the appointment of Mr. Ko Sheung Chi as non-executive director and Mr. Chan Wa Shek and Dr. Steven Chow as independent non-executive directors by resolutions in writing signed by all directors.

All directors appointed by the board are subject to re-election at the first general meeting after their appointment. Every director (including the non-executive directors) is required to be re-elected at least once every three years at annual general meeting pursuant to the Company's bye-laws.

BOARD COMMITTEES

The board has established the following committees with defined terms of reference (posted on the Company's website), which are of no less exacting terms than those set out in the code provisions of the CG Code: the audit committee and the remuneration committee.

Audit Committee

During the year, the audit committee consisted of three independent non-executive directors: Sir David Akers-Jones (Chairman), Messrs. Li Hui Yan (resigned on 1 February 2007), Danny T Wong and Chan Wa Shek (appointed on 1 February 2007).

The audit committee met twice in 2007 to review with the qualified accountant and the external auditors the reporting of financial and other information to the shareholders (including the 2006 annual results and 2007 interim results before recommending them to the board for approval), the accounting principles and practices adopted by the Group, the effectiveness and objectivity of the audit process and the internal control system of the Group. The audit committee also keeps under review the independence and objectivity of the external auditors and the non-audit services provided by the external auditors to the Group. The attendance record of each committee member is set out below:

| Directors | Number of committee meetings attended/held |
|--|--|
| Sir David Akers-Jones (Chairman) | 2/2 |
| Li Hui Yan (<i>resigned on 1 February 2007</i>) | 0/2 |
| Danny T Wong | 1/2 |
| Chan Wa Shek (<i>appointed on 1 February 2007</i>) | 2/2 |

BOARD COMMITTEES (continued)

Remuneration Committee

During the year, the remuneration committee comprised two independent non-executive directors and one executive director: Sir David Akers-Jones (Chairman), Messrs. Lam Ting Ball, Paul, Li Hui Yan (resigned on 1 February 2007) and Chan Wa Shek (appointed on 1 February 2007).

The remuneration of the executive directors are determined by the remuneration committee and the remuneration of the non-executive directors are determined by the board on the recommendation of the remuneration committee, by reference to their duties and responsibilities, performance, experiences, time commitment and the market conditions. No director is involved in deciding his own remuneration. In 2007, the remuneration committee held one meeting to review the remuneration policy and the remuneration packages of the directors and to approve the bonus payment to the executive directors. The committee also approved the pay increases of certain executive directors by resolutions in writing. The attendance record of each committee member is set out below:

| Directors | Number of committee meetings attended/held | Number of resolutions |
|--|--|--|
| | | in writing in lieu of meeting consented/passed |
| Sir David Akers-Jones (Chairman) | 1/1 | 1/1 |
| Lam Ting Ball, Paul | 1/1 | 1/1 |
| Li Hui Yan (<i>resigned on 1 February 2007</i>) | 0/1 | 0/1 |
| Chan Wa Shek (<i>appointed on 1 February 2007</i>) | 1/1 | 1/1 |

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). After specific enquiry by the Company, all directors confirmed they have complied with the required standard set out in the Model Code and the Company's own code during the year ended 31 December 2007 or during the period from their appointment to 31 December 2007 (as for the directors appointed during 2007).

The Company has also established and adopted the Model Code to regulate dealings in the securities of the Company by certain employees of the Group who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

EXTERNAL AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's external auditors, Ernst & Young, is set out below:

| Services rendered to the Group | Fees paid/payable HK\$ |
|--------------------------------|---------------------------|
| Audit services | 1,980,000 |
| Non-audit services | 188,000 |
| | <u>2,168,000</u> |

The non-audit services rendered by the external auditors included: a review of the Group's 2007 interim results, the tax consulting services and the audit examination of the Group's occupational retirement schemes.

INTERNAL CONTROL

The board has overall responsibility for maintaining a sound and effective internal control system of the Group. The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. The board has conducted a review of the effectiveness of the Group's internal control system during the year with a view to enhance its internal control system.

RESPONSIBILITY STATEMENTS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing the financial statements for the year ended 31 December 2007, the directors have selected appropriate accounting policies and applied them consistently, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent auditors' report" on pages 33 to 34.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to maintain a high level of transparency in communicating with the shareholders. Information in relation to the Group is disseminated to the shareholders in a timely manner through a number of communication channels including interim and annual reports, announcements and circulars.

The 2007 annual general meeting of the Company provided an opportunity for communication between the shareholders and the board, at which the chairmans of the board, the audit committee and the remuneration committee and other board members had attended to answer questions from the shareholders. Details of the rights of the shareholders and the procedures for demanding a poll were included in the circular to the shareholders and explained at the commencement of the meeting. Poll results were announced at the meeting and published in newspapers on the business day following the meeting. A separate resolution was proposed at the meeting on each substantial issue, including the re-election of directors. All the resolutions proposed in 2007 for the shareholders' approval were passed.

On behalf of the board of
CNT GROUP LIMITED

Lam Ting Ball, Paul

Chairman

14 April 2008

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries and associates are set out in notes 20 and 21, respectively, to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 142.

The directors do not recommend the payment of any dividend for the year ended 31 December 2007.

MAJOR SUPPLIERS AND CUSTOMERS

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

REPORT OF THE DIRECTORS (continued)

SUMMARY OF FINANCIAL INFORMATION

The following table summarises the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified/restated as appropriate. This summary does not form part of the audited financial statements.

| | Year ended 31 December | | | | |
|---|------------------------|------------------|------------------|------------------|------------------|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| RESULTS | | | | | |
| CONTINUING OPERATIONS | | | | | |
| Revenue | <u>734,806</u> | <u>611,052</u> | <u>551,244</u> | <u>465,135</u> | <u>387,146</u> |
| Operating profit/(loss) | <u>19,094</u> | <u>8,474</u> | <u>(839)</u> | <u>(153,675)</u> | <u>(66,868)</u> |
| Share of loss of a jointly-controlled entity | — | — | — | — | (223) |
| Share of profits and losses of associates | <u>885</u> | <u>1,936</u> | <u>396</u> | <u>(3,035)</u> | <u>(20,058)</u> |
| Profit/(loss) before tax | <u>19,979</u> | <u>10,410</u> | <u>(443)</u> | <u>(156,710)</u> | <u>(87,149)</u> |
| Tax | <u>(10,976)</u> | <u>(3,505)</u> | <u>(2,705)</u> | <u>(3,791)</u> | <u>(6,456)</u> |
| Profit/(loss) from continuing operations | <u>9,003</u> | <u>6,905</u> | <u>(3,148)</u> | <u>(160,501)</u> | <u>(93,605)</u> |
| DISCONTINUED OPERATIONS | | | | | |
| Gain on disposal of discontinued operations | — | 11,581 | — | — | — |
| Loss from discontinued operations | — | — | (3,719) | (35,132) | (100,257) |
| Profit/(loss) for the year | <u>9,003</u> | <u>18,486</u> | <u>(6,867)</u> | <u>(195,633)</u> | <u>(193,862)</u> |
| ATTRIBUTABLE TO: | | | | | |
| Equity holders of the parent | <u>12,302</u> | <u>18,739</u> | <u>(7,865)</u> | <u>(195,967)</u> | <u>(173,666)</u> |
| Minority interests | <u>(3,299)</u> | <u>(253)</u> | <u>998</u> | <u>334</u> | <u>(20,196)</u> |
| | <u>9,003</u> | <u>18,486</u> | <u>(6,867)</u> | <u>(195,633)</u> | <u>(193,862)</u> |
| ASSETS, LIABILITIES AND MINORITY INTERESTS | | | | | |
| Total assets | <u>990,761</u> | <u>903,881</u> | <u>1,236,798</u> | <u>972,767</u> | <u>1,150,003</u> |
| Total liabilities | <u>(307,245)</u> | <u>(227,410)</u> | <u>(590,633)</u> | <u>(321,200)</u> | <u>(337,577)</u> |
| Minority interests | <u>(3,632)</u> | <u>(6,699)</u> | <u>(6,051)</u> | <u>(5,302)</u> | <u>(3,533)</u> |
| | <u>679,884</u> | <u>669,772</u> | <u>640,114</u> | <u>646,265</u> | <u>808,893</u> |

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 15 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 16 to the financial statements. Further details of the Group's investment properties are set out on page 143.

PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group during the year are set out in note 17 to the financial statements. Further details of the Group's properties under development are set out on page 144.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 36 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37 to the financial statements and the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company had no reserves available for distribution. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders in certain circumstances, prescribed by Section 54 thereof. In addition, the Company's share premium account and capital redemption reserve may be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS (continued)

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$760,000.

DIRECTORS

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

Executive Directors

Tsui Tsin Tong

Lam Ting Ball, Paul

Tsui Ho Chuen, Philip

Tsui Yam Tong, Terry

Wong Chi Keung, Alvin

Non-executive Directors

Hung Ting Ho, Richard

Zhang Yulin

Ko Sheung Chi (*appointed on 1 February 2007*)

Independent Non-executive Directors

Sir David Akers-Jones

Li Hui Yan (*resigned on 1 February 2007*)

Danny T Wong

Chan Wa Shek (*appointed on 1 February 2007*)

Steven Chow (*appointed on 1 February 2007*)

In accordance with the Company's bye-laws, Messrs. Tsui Ho Chuen, Philip, Wong Chi Keung, Alvin, Hung Ting Ho, Richard and Sir David Akers-Jones will retire from office at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT**Directors**

| Name | Age | Position held | Number of years of service | Business experience |
|--|------------|------------------------------|---------------------------------------|---|
| Executive Directors | | | | |
| Tsui Tsin Tong GBS, LLD, JP Standing Member, National Committee of The Chinese People's Political Consultative Conference | 68 | Honorary Chairman | 23 | More than 37 years' experience in the investment and property fields |
| Lam Ting Ball, Paul | 66 | Chairman | 35 | More than 35 years' experience in the paint industry |
| Tsui Ho Chuen, Philip | 44 | Executive Deputy Chairman | 23 | Solicitor |
| Tsui Yam Tong, Terry | 62 | Managing Director | 21 | More than 35 years' experience in administration and management |
| Wong Chi Keung, Alvin | 45 | Finance Director | 4 | More than 20 years' experience in finance and accounting |

REPORT OF THE DIRECTORS (continued)

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Directors (continued)

| Name | Age | Position held | Number of years of service | Business experience |
|--|-----|---|-------------------------------|--|
| Non-executive Directors | | | | |
| Hung Ting Ho, Richard | 54 | Non-executive Director | 6 | More than 30 years' experience in business and financial management |
| Zhang Yulin | 44 | Non-executive Director | 1 | More than 11 years' experience in finance and management |
| Ko Sheung Chi | 51 | Non-executive Director | 1 | More than 27 years' experience in general management |
| Independent Non-executive Directors | | | | |
| Sir David Akers-Jones GBM, KBE, CMG, JP | 81 | Deputy Chairman and Independent Non-executive Director | 17 | Former Chief Secretary specialising in land planning and housing development |
| Danny T Wong | 62 | Independent Non-executive Director | 4 | More than 33 years' experience in finance, accounting and management |
| Chan Wa Shek CBE, ISO | 77 | Independent Non-executive Director | 1 | Former Commissioner of Correctional Services of Hong Kong |
| Steven Chow | 63 | Independent Non-executive Director | 1 | More than 31 years' experience in finance and management |

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Senior management

The businesses of the Group are under the direct responsibility of four directors, namely, Messrs. Tsui Tsin Tong, Lam Ting Ball, Paul, Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry.

Notes:

- (1) Mr. Tsui Tsin Tong and Mr. Tsui Yam Tong, Terry are brothers and Mr. Tsui Ho Chuen, Philip is the son of Mr. Tsui Tsin Tong.
- (2) Mr. Tsui Yam Tong, Terry is the sole director and shareholder of Rapid Growth Ltd. ("RGL"), a substantial shareholder of the Company.
- (3) Mr. Hung Ting Ho, Richard is the chairman of Midas International Holdings Limited ("Midas") which is an associated company of Chuang's Consortium International Limited ("Chuang's Consortium"), a shareholder of the Company discloseable under Part XV of the Securities and Futures Ordinance (the "SFO"). He is also a director of a joint venture company engaging in the cemetery business in Si Hui City, the PRC which is owned as to 87.5% by Midas and 12.5% by the Company.
- (4) Mr. Zhang Yulin is a director and an employee of Broadsino Investment Company Limited ("Broadsino"), which is interested in 6.22% of the issued share capital of the Company.
- (5) Mr. Ko Sheung Chi is the chairman of Chuang's China Investments Limited ("Chuang's China"), a director of Profit Stability Investments Limited ("Profit Stability") and the managing director of Chuang's Consortium, all being the shareholders of the Company discloseable under Part XV of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. Hung Ting Ho, Richard is the chairman of Midas (a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) which engaged in the businesses of property investment in the PRC during the year and up to March 2008. Mr. Ko Sheung Chi holds directorships in Chuang's Consortium and Chuang's China (both companies listed on the Stock Exchange) and certain private companies (the "Private Companies") which engage in the businesses of property development and investment in Hong Kong and the PRC. As the above-mentioned businesses are managed by separate publicly listed companies with independent management and the properties owned by the Private Companies are of different types and/or in different locations from those of the Group, the Group operates its businesses independently of the businesses of the above-mentioned companies. Save as disclosed above, none of the directors or any of their respective associates have any interests in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' SERVICE CONTRACTS

Save as set out below, no director 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.

- (a) On 11 May 2002, a director's service agreement was entered into between the Company and Mr. Lam Ting Ball, Paul for a term of nine years expiring on 2 May 2011. Under the agreement, Mr. Lam is entitled to the payment of a monthly salary of HK\$89,000 and an accommodation allowance of not more than HK\$70,000 per month (revised). The agreement provides that the Company may terminate the agreement by giving Mr. Lam not less than six months' notice in writing and in the event that the Company shall terminate Mr. Lam's employment, Mr. Lam is entitled to receive a compensation that equals to the total amount of Mr. Lam's remuneration including salary and year-end payment of one month's salary (exclusive of fringe benefits) for the remaining term of his employment.
- (b) On 11 May 2002, a director's service agreement was entered into between the Company and Mr. Tsui Yam Tong, Terry for a term of nine years expiring on 2 May 2011. Under the agreement, Mr. Tsui is entitled to the payment of a monthly salary of HK\$110,000 and an accommodation allowance of not more than HK\$100,000 per month. The agreement provides that the Company may terminate the agreement by giving Mr. Tsui not less than six months' notice in writing and in the event that the Company shall terminate Mr. Tsui's employment, Mr. Tsui is entitled to receive a compensation that equals to the total amount of Mr. Tsui's remuneration including salary and year-end payment of one month's salary (exclusive of fringe benefits) for the remaining term of his employment.

The remuneration of the executive directors are determined by the remuneration committee and the remuneration of the non-executive directors are determined by the board on the recommendation of the remuneration committee, by reference to their duties and responsibilities, performance, experiences, time commitment and the market conditions.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the interests of the directors of the Company in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

(i) Shares

| Name | Note | Capacity | Number of shares | | | | Percentage of | |
|-----------------------|------|---|--------------------|------------------|---------------------|-----------------|---------------|----------------------|
| | | | Personal interests | Family interests | Corporate interests | Other interests | Total | issued share capital |
| Tsui Tsin Tong | 1 | Beneficial owner & founder of discretionary trust | 12,821,769 | — | — | 346,231,521 | 359,053,290 | 22.81% |
| Tsui Ho Chuen, Philip | 1 | Beneficial owner & beneficiary of trust | 19,681,414 | — | — | 346,231,521 | 365,912,935 | 23.25% |
| Tsui Yam Tong, Terry | 1 | Beneficial owner, beneficiary of trust & interest of controlled corporation | 1,162,231 | — | 346,231,521* | 346,231,521* | 347,393,752 | 22.07% |

* duplication

REPORT OF THE DIRECTORS (continued)

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(ii) Underlying shares

| Name | Note | Capacity | Nature of equity derivative (unlisted/physically settled) | Number of underlying shares |
|-----------------------|------|---|--|-----------------------------|
| Tsui Tsin Tong | 2 | Founder of discretionary trust | option | 98,000,000 |
| Tsui Ho Chuen, Philip | 2 | Beneficiary of trust | option | 98,000,000 |
| Tsui Yam Tong, Terry | 2 | Beneficiary of trust & interest of controlled corporation | option | 98,000,000 |

Notes:

- (1) The 346,231,521 shares were held by RGL as trustee of a discretionary trust of which Mr. Tsui Tsin Tong is the founder and Messrs. Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry are the discretionary beneficiaries. Mr. Tsui Yam Tong, Terry is also the sole director and shareholder of RGL.
- (2) The 98,000,000 shares were owned by Broadsino. RGL granted an option to Broadsino to sell to RGL all or any part of such shares exercisable at any time during the term of the option. RGL was taken to be interested in these underlying shares under the SFO. By virtue of the interests of Messrs. Tsui Tsin Tong, Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry in RGL as disclosed in note (1) above, each of them was deemed under the SFO to be interested in such underlying shares.

Save as disclosed above, as at 31 December 2007, none of the directors or chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO. Nor any of the directors and the chief executives had any interest in, or had been granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) or had exercised any such right during the year under review.

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Scheme") was adopted on 28 June 2002. The key terms of the Scheme are summarised below:

- (i) the purposes of the Scheme are to recognise and motivate the participants of the Scheme that made contributions to the Group and to attract and retain high calibre employees of the Group;
- (ii) the participants of the Scheme include any employee, director, supplier, customer and securities holder of the Company, its subsidiaries or any entity in which the Group holds an equity interest and any person or entity that provides research, development or other technological support to such companies;
- (iii) the total number of shares available for issue under the Scheme is 152,818,819 which represents about 9.71% of the issued share capital of the Company as at the date of this report;
- (iv) the total number of shares issued and to be issued upon exercise of the options granted to each participant (including the exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue unless it is approved by the shareholders in general meeting;
- (v) an option may be exercised in accordance with the terms of the Scheme at any time during the period to be notified by the directors to the grantee, but in any event not beyond the 10-year period after the date of grant;
- (vi) the subscription price of a share in respect of any option granted shall not be lower than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share; and
- (vii) the Scheme remains in force until 27 June 2012.

No share option has so far been granted under the Scheme since its adoption.

REPORT OF THE DIRECTORS (continued)

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2007, the register maintained by the Company under Section 336 of the SFO showed that the following persons (other than the directors of the Company) had interests and short positions in the shares and underlying shares of the Company:

| Name | Note | Capacity | Number of shares | Number of underlying shares (unlisted/ physically settled equity derivative) | Percentage of issued share capital |
|--|------|--|---------------------|--|--|
| 10% or more of issued share capital | | | | | |
| RGL | 1 | Trustee | 346,231,521 | — | 22.00% |
| | 1 | Trustee | — | 98,000,000 | 6.22% |
| Ho Mei Po, Mabel | 2 | Interest of spouse | 365,912,935 | — | 23.25% |
| | 2 | Interest of spouse | — | 98,000,000 | 6.22% |
| Wang Wing Mu, Amy | 3 | Interest of spouse | 359,053,290 | — | 22.81% |
| | 3 | Interest of spouse | — | 98,000,000 | 6.22% |
| Ng Shou Ping, Lucilla | 4 | Interest of spouse | 347,393,752 | — | 22.07% |
| | 4 | Interest of spouse | — | 98,000,000 | 6.22% |
| Chinaculture.com Limited | 5 | Beneficial owner | 195,500,000 | — | 12.42% |
| Chuang's China | 5 | Interest of controlled corporation | 195,500,000 | — | 12.42% |
| Profit Stability | 5 | Interest of controlled corporations | 195,500,000 | — | 12.42% |
| Chuang's Consortium | 5 | Interest of controlled corporations | 195,500,000 | — | 12.42% |

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

(continued)

| Name | Note | Capacity | Number of shares | Number of underlying shares (unlisted/ physically settled equity derivative) | Percentage of issued share capital |
|---|------|-------------------------------------|---------------------|--|--|
| Evergain Holdings Limited | 5 | Interest of controlled corporations | 195,500,000 | — | 12.42% |
| Chuang (Chong) Shaw Swee, Alan | 5 | Interest of controlled corporations | 195,500,000 | — | 12.42% |
| Chong Ho Pik Yu | 5 | Interest of spouse | 195,500,000 | — | 12.42% |
| West Avenue Group Company Limited | 6 | Beneficial owner | 173,006,693 | — | 10.99% |
| Tsai Wu Chang | 6 | Interest of controlled corporation | 173,006,693 | — | 10.99% |
| Below 10% of issued share capital | | | | | |
| Broadsino | 7 | Beneficial owner | 98,000,000 | — | 6.22% |
| Golden Case Limited | 8 | Security interest in shares | 80,000,000 | — | 5.08% |
| Cheung Kong Investment Company Limited | 8 | Interest of controlled corporation | 80,000,000 | — | 5.08% |
| Cheung Kong (Holdings) Limited | 8 | Interest of controlled corporations | 80,000,000 | — | 5.08% |
| Li Ka-Shing Unity Trustee Company Limited | 8 | Trustee | 80,000,000 | — | 5.08% |

REPORT OF THE DIRECTORS (continued)

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

(continued)

| Name | Note | Capacity | Number of shares | Number of underlying shares (unlisted/physically settled equity derivative) | Percentage of issued share capital |
|---|------|---|------------------|---|------------------------------------|
| Li Ka-Shing Unity Trustee Corporation Limited | 8 | Trustee & beneficiary of trust | 80,000,000 | — | 5.08% |
| Li Ka-Shing Unity Trustcorp Limited | 8 | Trustee & beneficiary of trust | 80,000,000 | — | 5.08% |
| Li Ka-Shing | 8 | Interest of controlled corporations & founder of discretionary trusts | 80,000,000 | — | 5.08% |

Notes:

- (1) The 346,231,521 shares were held by RGL as trustee of a discretionary trust. The interest in 98,000,000 underlying shares was in respect of an option granted by RGL to Broadsino to sell to RGL all or part of such shares owned by Broadsino exercisable at any time during the term of the option. These interests are duplicated in the interests of Messrs. Tsui Tsin Tong, Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry as disclosed under the heading "Directors' interests and short positions in shares, underlying shares and debentures" above.
- (2) Ms. Ho Mei Po, Mabel is the wife of Mr. Tsui Ho Chuen, Philip and was taken to be interested in 365,912,935 shares and 98,000,000 underlying shares under an equity derivative in which her spouse was interested under the SFO.
- (3) Ms. Wang Wing Mu, Amy is the wife of Mr. Tsui Tsin Tong and was taken to be interested in 359,053,290 shares and 98,000,000 underlying shares under an equity derivative in which her spouse was interested under the SFO.
- (4) Ms. Ng Shou Ping, Lucilla is the wife of Mr. Tsui Yam Tong, Terry and was taken to be interested in 347,393,752 shares and 98,000,000 underlying shares under an equity derivative in which her spouse was interested under the SFO.
- (5) The references to the 195,500,000 shares relate to the same block of 195,500,000 shares beneficially interested by Chinaculture.com Limited ("Chinaculture").

Chinaculture was a wholly-owned subsidiary of Chuang's China, which in turn was a 61.36% owned subsidiary of Profit Stability. Chuang's Consortium held 100% equity interest in Profit Stability. Evergain Holdings Limited ("Evergain") was interested in 34.86% of the issued share capital of Chuang's Consortium. Mr. Chuang (Chong) Shaw Swee, Alan ("Mr. Chuang") was interested in 100% of the issued share capital of Evergain. Ms. Chong Ho Pik Yu ("Mrs. Chuang") is the wife of Mr. Chuang.

Chuang's China, Profit Stability, Chuang's Consortium, Evergain, Mr. Chuang and Mrs. Chuang were all deemed under the SFO to be interested in these 195,500,000 shares which were owned by Chinaculture.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

(continued)

Notes: (continued)

- (6) The 173,006,693 shares were beneficially owned by West Avenue Group Company Limited ("West Avenue"). Mr. Tsai Wu Chang was deemed to be interested in these shares under the SFO by virtue of his interest in the entire equity of West Avenue.
- (7) These shares were beneficially owned by Broadsino. Pursuant to an option granted by RGL, Broadsino has a right to sell all or part of these shares to RGL exercisable at any time during the term of the option. This interest is detailed and duplicated with the interests of RGL as shown in note (1) above.
- (8) The references to the 80,000,000 shares relate to the same block of 80,000,000 shares interested by Golden Case Limited ("Golden Case") by virtue of a security interest in these shares charged by RGL.

Golden Case was a wholly-owned subsidiary of Cheung Kong Investment Company Limited ("CKI"), which in turn was a wholly-owned subsidiary of Cheung Kong (Holdings) Limited ("CKH").

Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of CKH.

Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2") both held units in The Li Ka-Shing Unity Trust.

Mr. Li Ka-Shing is the settlor of each of DT1 and DT2 and may be regarded as a founder of each of them for the purpose of the SFO. The entire issued share capital of TUT1, TDT1 and TDT2 are owned by Li Ka-Shing Unity Holdings Limited, of which each of Messrs. Li Ka-Shing, Li Tzar Kuoi, Victor and Li Tzar Kai, Richard is interested in one-third of the issued share capital.

CKI, CKH, TUT1, TDT1, TDT2 and Mr. Li Ka-Shing were all deemed to be interested in these 80,000,000 shares which were taken to be interested in by Golden Case under the SFO.

Save as disclosed above, the Company has not been notified by any person (other than the directors of the Company) who had interests or short positions in the shares or underlying shares of the Company as at 31 December 2007 which were required to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2007 and up to the date of this report.

REPORT OF THE DIRECTORS (continued)

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board of
CNT GROUP LIMITED

Lam Ting Ball, Paul

Chairman

14 April 2008



To the shareholders of

CNT Group Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements of CNT Group Limited set out on pages 35 to 142, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

INDEPENDENT AUDITORS' REPORT (continued)

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

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

OPINION

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

Ernst & Young

Certified Public Accountants

18th Floor, Two International Finance Centre

8 Finance Street

Central

Hong Kong

14 April 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---|-------|------------------|------------------|
| CONTINUING OPERATIONS | | | |
| REVENUE | 5 | 734,806 | 611,052 |
| Cost of sales | | (516,392) | (425,492) |
| Gross profit | | 218,414 | 185,560 |
| Other income and gains | 5 | 28,890 | 38,512 |
| Selling and distribution costs | | (110,651) | (84,634) |
| Administrative expenses | | (111,180) | (107,072) |
| Other expenses, net | | (1,284) | (16,319) |
| Finance costs | 7 | (5,095) | (7,573) |
| Share of profits of associates | | 885 | 1,936 |
| PROFIT BEFORE TAX | 6 | 19,979 | 10,410 |
| Tax | 10 | (10,976) | (3,505) |
| PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS | | 9,003 | 6,905 |
| DISCONTINUED OPERATIONS | | | |
| Gain on disposal of discontinued operations | 12(a) | — | 11,581 |
| PROFIT FOR THE YEAR | | 9,003 | 18,486 |
| ATTRIBUTABLE TO: | | | |
| Equity holders of the parent | 11 | 12,302 | 18,739 |
| Minority interests | | (3,299) | (253) |
| | | 9,003 | 18,486 |
| DIVIDEND | | | |
| Proposed conditional final | 13 | — | 15,395 |

CONSOLIDATED INCOME STATEMENT (continued)

Year ended 31 December 2007

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---|-------|---------------------|---------------------|
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 14 | | |
| Basic | | | |
| - For profit for the year | | <u>HK0.79 cents</u> | <u>HK1.22 cents</u> |
| - For profit from continuing operations | | <u>HK0.79 cents</u> | <u>HK0.47 cents</u> |
| Diluted | | | |
| - For profit for the year | | <u>N/A</u> | <u>N/A</u> |
| - For profit from continuing operations | | <u>N/A</u> | <u>N/A</u> |

CONSOLIDATED BALANCE SHEET

31 December 2007

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|--|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | 262,225 | 226,404 |
| Investment properties | 16 | 101,700 | 113,900 |
| Properties under development | 17 | 74,000 | 26,800 |
| Prepaid land premiums | 18 | 16,766 | 1,567 |
| Goodwill | 19 | — | — |
| Interests in associates | 21 | 1,767 | 17,447 |
| Available-for-sale investments | 22 | 167,077 | 167,087 |
| Deposits for purchases of properties | 23 | 6,757 | 46,000 |
| Long term receivable | 26 | 1,212 | — |
| Deferred tax asset | 34 | 6 | 6 |
| Net pension scheme assets | 24 | 1,740 | 1,217 |
| Total non-current assets | | 633,250 | 600,428 |
| CURRENT ASSETS | | | |
| Inventories | 25 | 65,901 | 52,287 |
| Trade receivables | 26 | 106,508 | 104,707 |
| Prepayments, deposits and other receivables | 27 | 13,681 | 18,000 |
| Equity investment at fair value through profit or loss | 28 | 119 | — |
| Pledged deposits | 29 | 14,238 | — |
| Cash and cash equivalents | 29 | 157,064 | 128,459 |
| Total current assets | | 357,511 | 303,453 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 30 | 104,098 | 77,564 |
| Other payables and accruals | 31 | 78,097 | 65,126 |
| Interest-bearing bank and other borrowings | 32 | 38,195 | 40,773 |
| Tax payable | | 6,710 | 933 |
| Total current liabilities | | 227,100 | 184,396 |
| NET CURRENT ASSETS | | 130,411 | 119,057 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 763,661 | 719,485 |

CONSOLIDATED BALANCE SHEET (continued)

31 December 2007

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---|-------|-----------------------|-----------------------|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>763,661</u> | <u>719,485</u> |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | 32 | 64,776 | 32,667 |
| Deferred tax liabilities | 34 | 10,619 | 10,347 |
| Deferred income | 35 | <u>4,750</u> | <u>—</u> |
| Total non-current liabilities | | <u>80,145</u> | <u>43,014</u> |
| Net assets | | <u><u>683,516</u></u> | <u><u>676,471</u></u> |
| EQUITY | | | |
| Equity attributable to equity holders of the parent | | | |
| Issued capital | 36 | 157,367 | 153,947 |
| Reserves | 37(a) | 522,517 | 500,430 |
| Proposed conditional final dividend | 13 | <u>—</u> | <u>15,395</u> |
| | | 679,884 | 669,772 |
| Minority interests | | <u>3,632</u> | <u>6,699</u> |
| Total equity | | <u><u>683,516</u></u> | <u><u>676,471</u></u> |

Tsui Tsin Tong
Director

Lam Ting Ball, Paul
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

| Attributable to equity holders of the parent | | | | | | | | | | | | | | | |
|--|---|----------------------------------|-----------------------------------|--|-----------------------------|---|--|-----------------------------|--|---|-------------------------------------|---|---|--------------------------------|--------------------------|
| | | Issued share capital HK\$'000 | Share premium account HK\$'000 | Capital redemption reserve HK\$'000 | Capital reserve HK\$'000 | Leasehold land and building revaluation reserve HK\$'000 | Investment property revaluation reserve ^a HK\$'000 | General reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Reserve fund ⁱⁱⁱ HK\$'000 | Retained profits/losses HK\$'000 | Reserve relating to assets/liabilities of disposal groups classified as held for sale HK\$'000 | Proposed conditional dividend HK\$'000 | Minority interests HK\$'000 | Total equity HK\$'000 |
| | Notes | | | | | | | | | | | | | | |
| | | | | | (note 37(a)) | | | (note 37(a)) | | | | | | | |
| | At 1 January 2006 | 153,297 | 701,316 | 6,171 | 248,168 | 42,226 | 13,557 | 10,144 | (2,194) | 28,866 | (517,407) | (14,030) | — | 6,051 | 646,165 |
| | Exchange realignment | — | — | — | — | — | — | — | (365) | — | — | 480 | — | 140 | 255 |
| 34 | Deferred tax charged to equity | — | — | — | — | (845) | — | — | — | — | — | — | — | — | (845) |
| | Total income and expense for the year recognised directly in equity | — | — | — | — | (845) | — | — | (365) | — | — | 480 | — | 140 | (590) |
| | Profit for the year | — | — | — | — | — | — | — | — | — | 18,739 | — | — | (233) | 18,486 |
| | Total income and expense for the year | — | — | — | — | (845) | — | — | (365) | — | 18,739 | 480 | — | (113) | 17,896 |
| 36 | Issue of shares | 650 | 375 | — | — | — | — | — | — | — | — | — | — | — | 1,025 |
| | Transfer of reserve associated with assets/liabilities of disposal groups classified as held for sale | — | — | — | — | — | — | — | (3,694) | — | — | 3,694 | — | — | — |
| | Disposal of subsidiaries | — | — | — | — | — | — | — | 768 | — | — | — | — | 991 | 1,759 |
| 12(b) | Disposal of assets/liabilities of disposal groups classified as held for sale | — | — | — | — | — | — | — | — | — | — | 9,856 | — | — | 9,856 |
| 13 | Proposed conditional 2006 final dividend ^a | — | — | — | (15,395) | — | — | — | — | — | — | — | 15,395 | — | — |
| | Dividend paid to minority shareholders | — | — | — | — | — | — | — | — | — | — | — | — | (230) | (230) |
| | At 31 December 2006 | 153,947 | 701,691 | 6,171 | 232,773 | 41,381 | 13,557 | 10,144 | (5,485) | 28,866 | (528,668) | — | 15,395 | 6,699 | 676,471 |

Year ended 31 December 2007

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2007

* The investment property revaluation reserve represents the attributable revaluation surplus in respect of the leasehold land and buildings, which were reclassified as investment properties in prior years. This revaluation reserve arose while the properties were classified as land and buildings, and therefore is not available to offset subsequent revaluation deficits arising on the investment properties. The revaluation reserve is set off against accumulated losses only upon the disposal or retirement of the relevant assets and such transfer is not made through the income statement.

** Pursuant to the relevant laws and regulations for foreign investment enterprises, a portion of the profit of certain subsidiaries of the Group in the People's Republic of China (the "PRC") is required to be transferred to the PRC reserve funds which are restricted as to use. The subsidiaries are not required to effect any further transfer when the amount of the PRC reserve fund reaches 50% of their registered capital. The PRC reserve fund can be used to make good future losses or to increase the capital of the subsidiaries.

These reserve accounts comprise the consolidated reserves of HK\$22,517,000 (2006: HK\$500,430,000) in the consolidated balance sheet.

^ The reduction of share premium account and capital redemption reserve account, and distribution out of the contributed surplus account of the Company were implemented pursuant to the special/ordinary resolutions of the shareholders of the Company passed on 29 May 2007.

^^ On 29 May 2007, the shareholders of the Company approved final dividend of HK1 cent per share for the year ended 31 December 2006 by the allotment of new shares of HK\$0.10 each credited as fully paid up with a cash option to the eligible shareholders (the "Scrip Dividend Scheme"). Under the Scrip Dividend Scheme, 34,199,216 ordinary shares were issued during the year which resulted in the increase in issued share capital and share premium account of HK\$3,420,000 and HK\$6,635,000, respectively.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---|-------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | | |
| From continuing operations | | 19,979 | 10,410 |
| From discontinued operations | | — | 11,581 |
| Adjustments for: | | | |
| Finance costs | 7 | 5,095 | 7,573 |
| Share of profits of associates | | (885) | (1,936) |
| Bank interest income | 5 | (1,775) | (1,681) |
| Interest income from a long term receivable | 5 | (72) | — |
| Depreciation | 15 | 14,448 | 13,099 |
| Dividend received from an available-for-sale investment | 5 | (781) | — |
| Recognition of prepaid land premiums | 18 | 230 | 44 |
| Recognition of deferred income | 5 | (91) | — |
| Loss on disposal of items of property, plant and equipment, net | 6 | 367 | 712 |
| Write-off of items of property, plant and equipment | 6 | 470 | — |
| Loss on disposal of an investment property | 6 | — | 102 |
| Fair value losses/(gains) on investment properties, net | 5,6 | (9,600) | 1,780 |
| Fair value gain on an equity investment at fair value through profit or loss - held for trading | 5 | (68) | — |
| Gain on disposal of assets/liabilities of disposal groups classified as held for sale, net | 5 | — | (299) |
| Gain on subsequent remeasurement of assets of disposal groups classified as held for sale, net | 5 | — | (473) |
| Write-back of impairment of a property under development | 5 | (1,177) | (1,450) |
| Loss/(gain) on disposal of subsidiaries, net | 5, 6 | (3,146) | 59 |
| Gain on disposal of discontinued operations | 12(a) | — | (11,581) |
| Gain on disposal of an available-for-sale investment | 5 | — | (15,237) |
| Impairment of an equity investment at fair value through profit or loss - held for trading | 6 | — | 33 |
| Impairment of an amount due from an associate | 6 | — | 10,233 |
| Impairment of an available-for-sale investment | 6 | 10 | — |
| Write-down/(write-back) of inventories to net realisable value | 6 | (3,856) | 1,530 |
| Impairment of trade receivables | 6 | 175 | 1,163 |
| Write-back of other payables and accruals | 5 | — | (149) |
| Write-back of impairment of deposits and other receivables | 5 | (500) | (1,996) |
| Write-off of other receivables | | — | 206 |
| Write-back of a trade payable | 5 | (882) | — |
| | | 17,941 | 23,723 |

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2007

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|--|-------|------------------|------------------|
| | | 17,941 | 23,723 |
| Decrease/(increase) in inventories | | (9,473) | 4,056 |
| Increase in trade receivables | | (2,456) | (4,909) |
| Decrease in prepayments, deposits and other receivables | | 3,883 | 14,317 |
| Increase in trade and bills payables | | 27,289 | 1,901 |
| Increase/(decrease) in other payables and accruals | | 13,179 | (9,594) |
| Increase in deferred income | | 5,121 | — |
| Exchange realignment | | (161) | (436) |
| Increase in assets of disposal groups classified as held for sale | | — | (118,352) |
| Increase in liabilities of disposal groups classified as held for sale | | — | 119,564 |
| Cash generated from operations | | 55,323 | 30,270 |
| Interest paid | | (4,944) | (7,544) |
| Interest element of finance lease rental payments | | (84) | (44) |
| Dividend paid to minority shareholders | | — | (230) |
| Overseas taxes paid | | (4,747) | (4,296) |
| Hong Kong profits tax paid | | (180) | (173) |
| Net cash inflow from operating activities | | 45,368 | 17,983 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | (47,524) | (13,872) |
| Proceeds from disposal of items of property, plant and equipment | | 463 | 1,187 |
| Additions to properties under development | | (23) | (350) |
| Advances to associates | | — | (1,755) |
| Repayment from an associate | | 15,996 | — |
| Purchase of an equity investment at fair value through profit or loss | | (51) | — |
| Proceeds from disposal of subsidiaries | 38 | 24,946 | 8,990 |
| Repayment of a mortgage loan receivable | | — | 810 |
| Proceeds from disposal of assets/liabilities of disposal groups classified as held for sale | 12(b) | — | 78,592 |
| Proceeds from disposal of an available-for-sale investment | | — | 15,237 |
| Increase in net pension scheme assets | | (523) | (327) |
| Interest received | | 1,847 | 1,681 |
| Dividend received from an associate | | 990 | 751 |
| Dividend received from an available-for-sale investment | | 781 | — |
| Deposits paid for purchases of properties | | (6,457) | — |
| Additions to prepaid land premiums | | (14,307) | — |
| Proceeds from disposal of an investment property | | — | 1,538 |
| Increase in time deposits with original maturity of more than three months | | (7,078) | (4,403) |
| Net cash inflow/(outflow) from investing activities | | (30,940) | 88,079 |

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2007

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---|-------|------------------|------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | 36 | — | 1,025 |
| New bank loans | | 87,652 | 24,640 |
| Repayment of bank loans | | (56,231) | (104,038) |
| Repayment of other loans | | (5,121) | — |
| Dividend paid | | (5,340) | — |
| Capital element of finance lease rental payments | | (794) | (495) |
| Net cash inflow/(outflow) from financing activities | | 20,166 | (78,868) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of year | | 124,056 | 96,612 |
| Effect of foreign exchange rate changes, net | | 870 | 250 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 159,520 | 124,056 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 29 | 98,884 | 92,018 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 29 | 53,923 | 32,038 |
| Pledged time deposits with original maturity of less than three months when acquired | 29 | 6,713 | — |
| Cash and cash equivalents for the purpose of the consolidated cash flow statement | | 159,520 | 124,056 |
| Time deposits with original maturity of more than three months | 29 | 11,782 | 4,403 |
| Cash and cash equivalents for the purpose of the consolidated balance sheet | | 171,302 | 128,459 |

BALANCE SHEET

31 December 2007

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | 237 | 265 |
| Interests in subsidiaries | 20 | 558,868 | 582,090 |
| Total non-current assets | | 559,105 | 582,355 |
| CURRENT ASSETS | | | |
| Prepayments, deposits and other receivables | 27 | 596 | 757 |
| Cash and cash equivalents | 29 | 8,922 | 6,679 |
| Total current assets | | 9,518 | 7,436 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 31 | 4,047 | 2,400 |
| Interest-bearing other borrowings | 32 | 17 | 16 |
| Total current liabilities | | 4,064 | 2,416 |
| NET CURRENT ASSETS | | 5,454 | 5,020 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 564,559 | 587,375 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing other borrowings | 32 | 34 | 51 |
| Net assets | | 564,525 | 587,324 |
| EQUITY | | | |
| Issued capital | 36 | 157,367 | 153,947 |
| Reserves | 37(b) | 407,158 | 417,982 |
| Proposed conditional final dividend | 13 | — | 15,395 |
| Total equity | | 564,525 | 587,324 |

Tsui Tsin Tong
Director

Lam Ting Ball, Paul
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2007

1. CORPORATE INFORMATION

CNT Group Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 31st Floor and Units E & F on 28th Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of paint products
- trading of steel products
- property investment
- property development
- strategic investments

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings, certain available-for-sale investments, equity investment at fair value through profit or loss and net pension scheme assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.1 BASIS OF PREPARATION (continued)**Basis of consolidation (continued)**

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

| | |
|------------------|---|
| HKFRS 7 | <i>Financial Instruments: Disclosures</i> |
| HKAS 1 Amendment | <i>Capital Disclosures</i> |
| HK(IFRIC)-Int 7 | <i>Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies</i> |
| HK(IFRIC)-Int 8 | <i>Scope of HKFRS 2</i> |
| HK(IFRIC)-Int 9 | <i>Reassessment of Embedded Derivatives</i> |
| HK(IFRIC)-Int 10 | <i>Interim Financial Reporting and Impairment</i> |

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 46 to the financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

(c) **HK(IFRIC)-Int 7 *Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies***

This interpretation provides guidance on how to apply the requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. The interpretation has had no effect on these financial statements.

(d) **HK(IFRIC)-Int 8 *Scope of HKFRS 2***

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has no issued equity instruments to the Group's employees, the interpretation has had no effect on these financial statements.

(e) **HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives***

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statement.

(f) **HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment***

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|----------------------|--|
| HKFRS 2 (Amendments) | <i>Share-based Payments – Vesting Conditions and Cancellations</i> ¹ |
| HKFRS 3 (Revised) | <i>Business Combinations</i> ⁵ |
| HKFRS 8 | <i>Operating Segments</i> ¹ |
| HKAS 1 (Revised) | <i>Presentation of Financial Statements</i> ¹ |
| HKAS 23 (Revised) | <i>Borrowing Costs</i> ¹ |
| HKAS 27 (Revised) | <i>Consolidated and Separate Financial Statements</i> ⁵ |
| HK(IFRIC)-Int 11 | <i>HKFRS 2 – Group and Treasury Share Transactions</i> ² |
| HK(IFRIC)-Int 12 | <i>Service Concession Arrangements</i> ⁴ |
| HK(IFRIC)-Int 13 | <i>Customer Loyalty Programmes</i> ³ |
| HK(IFRIC)-Int 14 | <i>HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> ⁴ |

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

² Effective for annual periods beginning on or after 1 March 2007

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

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

⁵ Effective for annual periods beginning on or after 1 July 2009

HKFRS 2 (Amendments) restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised to separate owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes introduced by HKFRS 3 and HKAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award credits, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 (Revised) and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Associates**

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in consolidated reserves, is included as part of the Group's interests in associates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill previously eliminated against consolidated reserves

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 *Business Combinations* ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of non-financial assets other than goodwill**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax asset, net pension scheme assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a member of the key management personnel of the Group or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (c);
- (e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of the employees of the Company/Group, or of any entity that is a related party of the Company/Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and machinery is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, as further explained in the accounting policy for “Non-current assets and disposal groups held for sale”. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Property, plant and equipment and depreciation (continued)**

The principal annual rates used for this purpose are as follows:

| | |
|-----------------------------------|---|
| Freehold land | Not depreciated |
| Freehold buildings and leasehold | |
| land and buildings | 2% - 4% or over the lease terms, whichever rate is higher |
| Leasehold improvements | 10% - 33% or over the lease terms, whichever rate is higher |
| Plant and machinery | 9% - 25% |
| Furniture, fixtures and equipment | 10% - 33% |
| Motor vehicles | 18% - 25% |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

The transitional provisions set out in paragraph 80A of HKAS 16 *Property, Plant and Equipment* have been adopted for fixed assets stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for periods ended before 30 September 1995 have not been further revalued after that date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold improvements on buildings and offices under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and other related expenses incurred during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Properties under development

Properties under development are stated at cost less impairment losses. Cost includes all development expenditure, capitalised interest and other direct costs attributable to such properties.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Leases**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the relevant cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Investments and other financial assets (continued)***Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, an impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and is recognised in the income statement. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, previously reported in equity, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial liabilities at amortised cost (including interest-bearing loans and borrowings)**

Financial liabilities including trade and bills payables, other payables, and interest-bearing bank and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within “finance costs” in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the government grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (d) dividend income, when the shareholders' right to receive payment has been established; and
- (e) commission income and service fee income, in the period in which services are rendered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Share-based payment transactions**

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled transaction, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Other employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension schemes and other retirement benefits

The Group operates a funded final salary defined benefit pension scheme (the “Scheme”) registered under the Occupational Retirement Schemes Ordinance for those employees who are eligible to participate in the Scheme. The expected costs of providing pensions under the Scheme are charged to the income statement over the periods during which the employees provide the related service to the Group.

An actuarial estimate is made annually by a professionally qualified actuary, using the projected unit credit actuarial valuation method, of the present value of the Group’s future defined benefit obligation under the Scheme earned by the employees as at the balance sheet date (the “Scheme Obligation”). The assets contributed by the Group to the Scheme (the “Scheme Assets”) are held separately from the assets of the Group in an independently administered fund, and are valued at their fair value at the balance sheet date.

The effect of the actuarial gains and losses experienced in the estimation of the Scheme Obligation and the valuation of the Scheme Assets is initially recorded in the balance sheet and is subsequently recognised in the income statement only when the net cumulative actuarial gain or loss in the balance sheet exceeds 10% of the higher of the Scheme Obligation and the fair value of the Scheme Assets at the beginning of the period. Such “excess” net cumulative actuarial gain or loss is recognised in the income statement over the expected average remaining working lives of the employees participating in the Scheme.

When the Group improves the benefits provided by the Scheme, the effect of the resulting increase in the Scheme Obligation relating to past service by the employees is initially recorded in the balance sheet and is subsequently recognised in the income statement evenly over the period until the benefits vest with the employees.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Other employee benefits (continued)***Pension schemes and other retirement benefits (continued)*

The net total of the fair value of the Scheme Assets, plus any actuarial losses (less any actuarial gains) not recognised, plus any past service cost not yet recognised and minus the present value of the Scheme Obligation at the balance sheet date is recognised in the balance sheet within non-current assets or non-current liabilities, as appropriate. If the net amount results in net assets, the amount of the net assets is limited to the net total of any net cumulative actuarial losses remaining in the balance sheet, and the present value of any future refunds from the Scheme or reductions in future contributions to the Scheme. Movements in the net assets or liabilities recognised in the balance sheet during the period, other than those deferred in the balance sheet, are recorded in the income statement for the period.

The amounts of the contributions payable by the Group to the Scheme are determined by the actuary using the projected unit credit actuarial valuation method.

The Group also operates defined contribution schemes under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the employment prior to his/her interest in the Group's employer contributions vesting fully, the relevant amount of forfeited benefits may be refunded to the Group or used to reduce the ongoing contributions payable by the Group. In respect of the Mandatory Provident Fund retirement benefits schemes, the Group's employer contributions vest fully with the employees when contributed into the schemes.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 8% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of distributable reserves within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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, are discussed below.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (c) the new replacement cost of the buildings and other site works, from which deductions are made to allow for the age, condition, economic or functional obsolescence and environmental factors, etc..

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2007 was HK\$101,700,000 (2006: HK\$113,900,000).

Impairment of available-for-sale investments

In the absence of current prices in an active market for similar investments, the Group considers the discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of existing contracts, planned capacity and unit sale revenue, and by using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of the available-for-sale investments at 31 December 2007 was HK\$167,077,000 (2006: HK\$167,087,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**Estimation uncertainty (continued)***Impairment of properties under development*

The Group assesses whether there are any indicators of impairment for its properties under development at each reporting date. The Group considers the discounted cash flow projections based on reliable estimates of future cash flows, assuming that the land will be developed into buildings with planned capacity within a reasonable construction period of time. The estimated sale proceeds and associated development cost will be discounted into present value as at the date of valuation.

Provision and write-down of inventories to net realisable value

The Group's management reviews the condition of inventories of the Group and makes provision for obsolete and slow-moving inventory items. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes provision for obsolete items. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. The Group's management reassesses the estimation on each balance sheet date.

Provision for income taxes

Provision for income tax is made based on the taxable income for the period as determined by the Group. The determination of taxable income involves the exercise of judgement on interpretation of the relevant tax rules and regulations. The amount of income tax and hence profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

- (a) the paint products segment engages in the manufacture and sale of paint products;
- (b) the property investment segment comprises:
 - (i) the investment in residential and commercial premises for their rental income potential;
 - (ii) the development and sale of properties; and
- (c) the "others" segment comprises, principally, the trading of steel products and securities trading and investment.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted at mutually agreed terms.

Particulars in respect of the discontinued operations relating to the marble and granite and fuel business segments are set out in note 12.

4. SEGMENT INFORMATION (continued)**(a) Business segments**

The following tables present revenue, profit/(loss), certain asset and liability, income and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

| Year ended | Paint | Property | | | |
|--------------------------------|----------------|---------------|---------------|----------------|-----------------|
| 31 December 2007 | products | investment | Others | Eliminations | Consolidated |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Continuing operations | | | | | |
| Segment revenue: | | | | | |
| Sales to external customers | 680,240 | 5,586 | 48,980 | — | 734,806 |
| Intersegment sales | — | 5,209 | — | (5,209) | — |
| Other income and gains | 3,699 | 16,692 | 6,652 | — | 27,043 |
| Total | <u>683,939</u> | <u>27,487</u> | <u>55,632</u> | <u>(5,209)</u> | <u>761,849</u> |
| Segment results | <u>34,334</u> | <u>14,801</u> | <u>645</u> | <u>9,549</u> | 59,329 |
| Interest income | | | | | 1,847 |
| Unallocated expenses | | | | | (36,987) |
| Finance costs | | | | | (5,095) |
| Share of profits of associates | | | | | <u>885</u> |
| Profit before tax | | | | | 19,979 |
| Tax | | | | | <u>(10,976)</u> |
| Profit for the year | | | | | <u>9,003</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

| Year ended 31 December 2007 | Paint products HK\$'000 | Property investment HK\$'000 | Others HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|--|-------------------------------|------------------------------------|--------------------|--------------------------|--------------------------|
| Assets and liabilities: | | | | | |
| Segment assets | 300,379 | 343,017 | 6,818 | (868) | 649,346 |
| Interests in associates | — | 1,767 | — | — | 1,767 |
| Unallocated assets: | | | | | |
| Available-for-sale investments | | | | | 167,077 |
| Others | | | | | 172,571 |
| Total assets | | | | | 990,761 |
| Segment liabilities | 183,504 | 5,468 | 3,504 | (868) | 191,608 |
| Unallocated liabilities | | | | | 115,637 |
| Total liabilities | | | | | 307,245 |
| Other segment information: | | | | | |
| Depreciation | 11,139 | 3,178 | 131 | — | 14,448 |
| Capital expenditure | 33,170 | 38,438 | 77 | — | 71,685 |
| Gain on disposal of subsidiaries | — | (3,146) | — | — | (3,146) |
| Fair value gains on investment properties | — | (9,600) | — | — | (9,600) |
| Write-back of impairment of a property under development | — | (1,177) | — | — | (1,177) |
| Write-back of a trade payable | (882) | — | — | — | (882) |
| Write-back of inventories to net realisable value | (3,856) | — | — | — | (3,856) |
| Write-back of impairment of an other receivable | — | — | (500) | — | (500) |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

| Year ended 31 December 2006 | Paint products HK\$'000 | Property investment HK\$'000 | Others HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|--|-------------------------------|------------------------------------|--------------------|--------------------------|--------------------------|
| Continuing operations | | | | | |
| Segment revenue: | | | | | |
| Sales to external customers | 569,427 | 6,098 | 35,527 | — | 611,052 |
| Intersegment sales | — | 5,209 | — | (5,209) | — |
| Other income and gains | 8,162 | 3,458 | 25,211 | — | 36,831 |
| Total | 577,589 | 14,765 | 60,738 | (5,209) | 647,883 |
| Segment results | 37,281 | (11,173) | 16,381 | 11,425 | 53,914 |
| Interest income | | | | | 1,681 |
| Unallocated expenses | | | | | (39,548) |
| Finance costs | | | | | (7,573) |
| Share of profits of associates | | | | | 1,936 |
| Profit before tax | | | | | 10,410 |
| Tax | | | | | (3,505) |
| | | | | | 6,905 |
| Discontinued operations | | | | | |
| Gain on disposal of discontinued operations | | | | | 11,581 |
| Profit for the year | | | | | 18,486 |
| Assets and liabilities: | | | | | |
| Segment assets | 263,022 | 321,836 | 5,293 | (868) | 589,283 |
| Interests in associates | — | 17,447 | — | — | 17,447 |
| Unallocated assets: | | | | | |
| Available-for-sale investments | | | | | 167,087 |
| Others | | | | | 130,064 |
| Total assets | | | | | 903,881 |
| Segment liabilities | 133,713 | 4,815 | 2,599 | (868) | 140,259 |
| Unallocated liabilities | | | | | 87,151 |
| Total liabilities | | | | | 227,410 |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

| Year ended | Paint | Property | | | |
|--|----------|------------|----------|--------------|--------------|
| 31 December 2006 | products | investment | Others | Eliminations | Consolidated |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Other segment information: | | | | | |
| Depreciation | 9,993 | 2,951 | 155 | — | 13,099 |
| Capital expenditure | 15,147 | 350 | 129 | — | 15,626 |
| Loss on disposal of subsidiaries, net | — | — | 59 | — | 59 |
| Gain on disposal of an available-for-sale investment | — | — | (15,237) | — | (15,237) |
| Gain on disposal of assets/ liabilities of disposal groups classified as held for sale, net | — | (299) | — | — | (299) |
| Gain on subsequent remeasurement of assets of disposal groups classified as held for sale, net | — | (473) | — | — | (473) |
| Write-back of impairment of a property under development | — | (1,450) | — | — | (1,450) |
| Impairment of an amount due from an associate | — | 10,233 | — | — | 10,233 |
| Write-down of inventories to net realisable value | 1,530 | — | — | — | 1,530 |
| Fair value loss on investment properties, net | — | 1,780 | — | — | 1,780 |
| Impairment of trade receivables | 1,163 | — | — | — | 1,163 |
| Write-back of impairment of deposits and other receivables | — | — | (1,996) | — | (1,996) |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

| | Hong Kong | | Mainland China | | Others | | Eliminations | | Consolidated | |
|--|---------------|----------------|----------------|----------------|-----------|-----------|--------------|----------|----------------|----------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue from continuing operations: | | | | | | | | | | |
| Sales to external customers | 91,175 | 103,839 | 643,617 | 507,196 | 14 | 17 | — | — | 734,806 | 611,052 |
| | <u>91,175</u> | <u>103,839</u> | <u>643,617</u> | <u>507,196</u> | <u>14</u> | <u>17</u> | <u>—</u> | <u>—</u> | <u>734,806</u> | <u>611,052</u> |
| Other segment information: | | | | | | | | | | |
| Segment assets | 389,554 | 338,390 | 583,308 | 547,588 | 17,899 | 17,903 | — | — | 990,761 | 903,881 |
| Capital expenditure | 41,353 | 1,258 | 30,332 | 14,368 | — | — | — | — | 71,685 | 15,626 |
| | <u>41,353</u> | <u>1,258</u> | <u>30,332</u> | <u>14,368</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>71,685</u> | <u>15,626</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and gross rental income received and receivable from investment properties during the year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---|-------|------------------|------------------|
| Revenue | | | |
| Sale of paint products | | 680,240 | 569,427 |
| Sale of other goods | | 48,980 | 35,527 |
| Gross rental income from investment properties | | 5,586 | 6,098 |
| | | <u>734,806</u> | <u>611,052</u> |
| Other income | | | |
| Bank interest income | | 1,775 | 1,681 |
| Interest income from a long term receivable | | 72 | — |
| Dividend income from an available-for-sale investment | | 781 | — |
| Commission income | | 3,971 | 7,136 |
| Government grants received/receivable from | | | |
| Mainland China authorities | | — | 3,940 |
| Recognition of deferred income | 35 | 91 | — |
| Others | | 4,242 | 4,535 |
| | | <u>10,932</u> | <u>17,292</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

5. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of revenue, other income and gains is as follows: (continued)

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|--|-------|------------------|------------------|
| Gains | | | |
| Fair value gains on investment properties | 16 | 9,600 | — |
| Fair value gain on an equity investment at fair value through profit or loss - held for trading | | 68 | — |
| Gain on disposal of subsidiaries | 38 | 3,146 | — |
| Gain on disposal of an available-for-sale investment | | — | 15,237 |
| Gain on disposal of assets/liabilities of disposal groups classified as held for sale, net | | — | 299 |
| Gain on subsequent remeasurement of assets of disposal groups classified as held for sale, net | | — | 473 |
| Write-back of impairment of a property under development | 17 | 1,177 | 1,450 |
| Write-back of impairment of deposits and other receivables | | 500 | 1,996 |
| Write-back of a trade payable | | 882 | — |
| Write-back of other payables and accruals | | — | 149 |
| Foreign exchange differences, net | | 1,796 | 1,616 |
| Others | | 789 | — |
| | | <u>17,958</u> | <u>21,220</u> |
| Total other income and gains | | <u>28,890</u> | <u>38,512</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---|-------|------------------|------------------|
| Cost of inventories sold | | 516,392 | 425,492 |
| Depreciation | | 14,448 | 13,099 |
| Minimum lease payments under operating leases in respect of land and buildings | | 11,777 | 10,645 |
| Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties | | 538 | 496 |
| Auditors' remuneration: | | | |
| Audit related services | | 1,980 | 1,750 |
| Other services | | 188 | 219 |
| Employee benefits expense (including directors' remuneration (note 8)): | | | |
| Wages and salaries | | 103,963 | 97,227 |
| Pension scheme contributions (defined contribution schemes) | | 1,760 | 1,640 |
| Net pension scheme gain (defined benefit scheme) | 24(b) | (342) | (48) |
| | | <hr/> 105,381 | <hr/> 98,819 |
| Write-down/(write-back) of inventories to net realisable value | | (3,856) | 1,530 |
| Impairment of trade receivables | 26 | 175 | 1,163 |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

6. PROFIT BEFORE TAX (continued)

The Group's profit before tax is arrived at after charging/(crediting): (continued)

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---|-------|-------------------|-------------------|
| Included in "Other expenses, net" on the face of the consolidated income statement: | | | |
| Loss on disposal of items of property, plant and equipment, net | | 367 | 712 |
| Write-off of items of property, plant and equipment | | 470 | — |
| Loss on disposal of an investment property | | — | 102 |
| Loss on disposal of subsidiaries, net | 38 | — | 59 |
| Fair value losses on investment properties, net | 16 | — | 1,780 |
| Impairment of an equity investment at fair value through profit or loss – held for trading | | — | 33 |
| Impairment of an available-for-sale investment | | 10 | — |
| Impairment of an amount due from an associate | | — | 10,233 |
| | | <u> </u> | <u> </u> |

7. FINANCE COSTS

| | 2007 HK\$'000 | 2006 HK\$'000 |
|--|-------------------|-------------------|
| Interest on bank loans and other loans wholly repayable within five years | 3,275 | 5,439 |
| Interest on other loans | 1,736 | 2,090 |
| Interest on finance leases | 84 | 44 |
| | <u> </u> | <u> </u> |
| | <u>5,095</u> | <u>7,573</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|-----------------|-----------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Fees: | | |
| Executive directors | 2,100 | 2,400 |
| Non-executive directors | 900 | 600 |
| | <u>3,000</u> | <u>3,000</u> |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 17,265 | 16,500 |
| Pension scheme contributions | 762 | 667 |
| | <u>18,027</u> | <u>17,167</u> |
| | <u>21,027</u> | <u>20,167</u> |

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2007 | 2006 |
|-----------------------|-----------------|-----------------|
| | HK\$'000 | HK\$'000 |
| Sir David Akers-Jones | 200 | 300 |
| Chan Wa Shek | 100 | — |
| Steven Chow | 100 | — |
| Danny T Wong | 200 | 200 |
| | <u>600</u> | <u>500</u> |

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

8. DIRECTORS' REMUNERATION (continued)**(b) Executive directors and non-executive directors**

| | Fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Pension scheme contributions HK\$'000 | Total remuneration HK\$'000 |
|---------------------------------|------------------|---|--|-----------------------------------|
| 2007 | | | | |
| Executive directors: | | | | |
| Tsui Tsin Tong | 800 | 10,470 | 509 | 11,779 |
| Lam Ting Ball, Paul | 300 | 1,880 | 12 | 2,192 |
| Tsui Ho Chuen, Philip | 350 | 2,193 | 97 | 2,640 |
| Tsui Yam Tong, Terry | 350 | 1,897 | 106 | 2,353 |
| Wong Chi Keung, Alvin | 300 | 825 | 38 | 1,163 |
| | <u>2,100</u> | <u>17,265</u> | <u>762</u> | <u>20,127</u> |
| Non-executive directors: | | | | |
| Hung Ting Ho, Richard | 100 | — | — | 100 |
| Zhang Yulin | 100 | — | — | 100 |
| Ko Sheung Chi | 100 | — | — | 100 |
| | <u>300</u> | <u>—</u> | <u>—</u> | <u>300</u> |
| | <u>2,400</u> | <u>17,265</u> | <u>762</u> | <u>20,427</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

| | Fees | Salaries, allowances and benefits in kind | Pension scheme contributions | Total remuneration |
|--------------------------------|--------------|---|------------------------------------|-----------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| 2006 | | | | |
| Executive directors: | | | | |
| Tsui Tsin Tong | 1,050 | 9,818 | 444 | 11,312 |
| Lam Ting Ball, Paul | 200 | 2,063 | 12 | 2,275 |
| Tsui Ho Chuen, Philip | 500 | 2,273 | 90 | 2,863 |
| Tsui Yam Tong, Terry | 500 | 1,943 | 105 | 2,548 |
| Wong Chi Keung, Alvin | 150 | 403 | 16 | 569 |
| | <u>2,400</u> | <u>16,500</u> | <u>667</u> | <u>19,567</u> |
| Non-executive director: | | | | |
| Hung Ting Ho, Richard | 100 | — | — | 100 |
| | <u>2,500</u> | <u>16,500</u> | <u>667</u> | <u>19,667</u> |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2006: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2006: one) non-director, highest paid employee for the year are as follows:

| | Group | |
|---|--------------|--------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Salaries, allowances and benefits in kind | 1,220 | 1,212 |
| Pension scheme contributions | 64 | 66 |
| | <u>1,284</u> | <u>1,278</u> |

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Group | |
|------------------------------|---------------|--------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Current - Hong Kong | | |
| Charge for the year | — | 187 |
| Overprovision in prior years | (2) | (3) |
| Current - Elsewhere | | |
| Charge for the year | 10,706 | 3,539 |
| Deferred (note 34) | 272 | (218) |
| | <u>10,976</u> | <u>3,505</u> |

The share of tax attributable to associates amounting to HK\$198,000 (2006: HK\$400,000) is included in "Share of profits of associates" on the face of the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

10. TAX (continued)

A reconciliation of the tax charge applicable to profit before tax using the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

| | Group | | | |
|---|---------------|-------------|---------------|-------------|
| | 2007 | | 2006 | |
| | HK\$'000 | % | HK\$'000 | % |
| Profit before tax (including gain on disposal of discontinued operations) | <u>19,979</u> | | <u>21,991</u> | |
| Tax at the statutory tax rate | 3,496 | 17.5 | 3,848 | 17.5 |
| Lower tax rates for specific provinces in the PRC | (1,249) | (6.3) | (4,660) | (21.2) |
| Adjustments in respect of current tax of previous periods | (2) | — | (3) | — |
| Profits attributable to associates | (155) | (0.8) | (339) | (1.5) |
| Depreciation adjustment | (377) | (1.9) | (58) | (0.3) |
| Income not subject to tax | (3,954) | (19.8) | (5,763) | (26.2) |
| Expenses not deductible for tax | 3,564 | 17.8 | 5,043 | 22.9 |
| Tax losses utilised from previous periods | (610) | (3.0) | (5,378) | (24.5) |
| Tax losses not recognised | <u>10,263</u> | <u>51.4</u> | <u>10,815</u> | <u>49.2</u> |
| Tax charge at the Group's effective rate | 10,976 | <u>54.9</u> | 3,505 | <u>15.9</u> |
| Tax charge attributable to discontinued operations | <u>—</u> | | <u>—</u> | |
| Tax charge attributable to continuing operations reported in the consolidated income statement | <u>10,976</u> | | <u>3,505</u> | |

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a loss of HK\$17,459,000 (2006: HK\$66,137,000) which has been dealt with in the financial statements of the Company (note 37(b)).

12. DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE**(a) Discontinued operations**

Details of the Group's discontinued operations were set out in the Company's annual report for the year ended 31 December 2006. The results from the discontinued operations for the year ended 31 December 2006 were as follows.

| | 2006 |
|--|---------------|
| | HK\$'000 |
| Gain on disposal of discontinued operations: | |
| Marble and granite | 8,370 |
| Fuel | 3,211 |
| | <u>11,581</u> |
| | 2006 |
| | HK cents |
| Earnings per share: | |
| Basic, from the discontinued operations | 0.75 |
| Diluted, from the discontinued operations | <u>N/A</u> |

The calculation of basic earnings per share amounts from the discontinued operations was based on:

| | 2006 |
|--|----------------------|
| Profit attributable to ordinary equity holders | |
| of the parent from discontinued operations | HK\$11,581,000 |
| Weighted average number of ordinary shares | |
| in issue during the year | <u>1,535,590,000</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

12. DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE (continued)

(b) Assets/liabilities of disposal groups classified as held for sale

In the prior year, the Group completed the disposal of certain assets or disposal groups classified as held for sale. Further details of the disposal transactions were set out in the Company's annual report for the year ended 31 December 2006.

The major classes of assets and liabilities of the disposal groups as at their respective date of disposal were as follows:

| | At dates of disposal in 2006 HK\$'000 |
|---|--|
| <i>Assets</i> | |
| Property, plant and equipment | 3,137 |
| Investment properties | 30,892 |
| Property under development | 278,240 |
| Prepaid land premium | 806 |
| Interests in associates | 24,722 |
| Prepayments, deposits and other receivables | 123,792 |
| Cash and cash equivalents | 12,947 |
| | <u>474,536</u> |
| <i>Liabilities</i> | |
| Other payables and accruals | (284,824) |
| Interest-bearing bank and other borrowings | (99,000) |
| Tax payable | (475) |
| | <u>(384,299)</u> |
| <i>Associated exchange reserve</i> | <u>9,856</u> |
| Net carrying value directly associated with the disposal groups | 100,093 |
| Gain on disposal of disposal groups classified as held for sale | 299 |
| | <u>100,392</u> |
| Satisfied by: | |
| Cash, net of expenses | 78,592 |
| Investment properties (note 16) | 21,800 |
| | <u>100,392</u> |

13. DIVIDEND

| | 2007 | 2006 |
|--|-------------------|-------------------|
| | HK\$'000 | HK\$'000 |
| Proposed conditional final - Nil (2006: HK1 cent) per ordinary share | — | 15,395 |
| | <u> </u> | <u> </u> |

For the year ended 31 December 2006, the directors of the Company proposed a conditional final dividend, which was payable in scrip, with an option to elect cash, out of the contributed surplus account of the Company. On 29 May 2007, the proposed conditional final dividend was approved, inter alia, by the Company's shareholders. Further details are set out in the consolidated statement of changes in equity.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$12,302,000 (2006: HK\$18,739,000) and the weighted average number of ordinary shares of 1,556,244,000 (2006: 1,535,590,000) in issue during the year.

The calculation of basic earnings per share amounts from continuing operations is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$12,302,000 (2006: HK\$7,158,000) and the weighted average number of ordinary shares of 1,556,244,000 (2006: 1,535,590,000) in issue during the year.

No diluted earnings per share amount is presented for the year ended 31 December 2007, as there is no diluting event existed during the year.

A diluted earnings per share amount for the year ended 31 December 2006 had not been disclosed as the exercise prices of the Company's outstanding share options were higher than the average market price of the Company's ordinary shares during that year and accordingly, the share options had no dilutive effect.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT

Group

| | Freehold land and buildings HK\$'000 | Leasehold land and buildings HK\$'000 | Construction in progress HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---|---|--|---|---------------------------------------|------------------------------------|---|-------------------------------|-------------------|
| 31 December 2007 | | | | | | | | |
| At 1 January 2007: | | | | | | | | |
| Cost or valuation | 18,502 | 235,178 | 1,765 | 11,644 | 118,036 | 22,083 | 21,237 | 428,445 |
| Accumulated depreciation and impairment | (967) | (70,545) | — | (6,500) | (93,969) | (14,357) | (15,703) | (202,041) |
| Net carrying amount | <u>17,535</u> | <u>164,633</u> | <u>1,765</u> | <u>5,144</u> | <u>24,067</u> | <u>7,726</u> | <u>5,534</u> | <u>226,404</u> |
| At 1 January 2007, net of accumulated depreciation and impairment | 17,535 | 164,633 | 1,765 | 5,144 | 24,067 | 7,726 | 5,534 | 226,404 |
| Additions | — | 38,028 | 2,268 | 1,063 | 1,248 | 1,731 | 5,245 | 49,583 |
| Disposals | — | — | — | — | (619) | (29) | (182) | (830) |
| Written off | — | — | — | (63) | (105) | (300) | (2) | (470) |
| Depreciation provided during the year | (112) | (6,987) | — | (1,446) | (2,074) | (1,729) | (2,100) | (14,448) |
| Transfers | — | — | (1,417) | 1,417 | — | — | — | — |
| Exchange realignment | — | 1,213 | 4 | 83 | 537 | 96 | 53 | 1,986 |
| At 31 December 2007, net of accumulated depreciation and impairment | <u>17,423</u> | <u>196,887</u> | <u>2,620</u> | <u>6,198</u> | <u>23,054</u> | <u>7,495</u> | <u>8,548</u> | <u>262,225</u> |
| At 31 December 2007: | | | | | | | | |
| Cost or valuation | 18,502 | 274,848 | 2,620 | 13,377 | 118,456 | 21,878 | 22,331 | 472,012 |
| Accumulated depreciation and impairment | (1,079) | (77,961) | — | (7,179) | (95,402) | (14,383) | (13,783) | (209,787) |
| Net carrying amount | <u>17,423</u> | <u>196,887</u> | <u>2,620</u> | <u>6,198</u> | <u>23,054</u> | <u>7,495</u> | <u>8,548</u> | <u>262,225</u> |
| Analysis of cost or valuation: | | | | | | | | |
| At cost | 18,502 | 64,820 | 2,620 | 13,377 | 118,456 | 21,878 | 22,331 | 261,984 |
| At 31 December 1994 valuation | — | 202,000 | — | — | — | — | — | 202,000 |
| At 30 June 2005 valuation (transferred from investment properties) | — | 8,028 | — | — | — | — | — | 8,028 |
| | <u>18,502</u> | <u>274,848</u> | <u>2,620</u> | <u>13,377</u> | <u>118,456</u> | <u>21,878</u> | <u>22,331</u> | <u>472,012</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

| | Freehold land and buildings HK\$'000 | Leasehold land and buildings HK\$'000 | Construction in progress HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---|---|--|---|---------------------------------------|------------------------------------|---|-------------------------------|-------------------|
| 31 December 2006 | | | | | | | | |
| At 1 January 2006: | | | | | | | | |
| Cost or valuation | 18,502 | 233,775 | 184 | 10,046 | 114,912 | 22,746 | 21,773 | 421,938 |
| Accumulated depreciation and impairment | (855) | (63,779) | — | (6,275) | (92,968) | (15,704) | (17,292) | (196,873) |
| Net carrying amount | 17,647 | 169,996 | 184 | 3,771 | 21,944 | 7,042 | 4,481 | 225,065 |
| At 1 January 2006, net of accumulated depreciation and impairment | 17,647 | 169,996 | 184 | 3,771 | 21,944 | 7,042 | 4,481 | 225,065 |
| Additions | — | 473 | 4,024 | 2,241 | 3,290 | 2,303 | 2,945 | 15,276 |
| Disposals | — | — | — | (186) | (1,217) | (126) | (370) | (1,899) |
| Depreciation provided during the year | (112) | (6,575) | — | (954) | (2,354) | (1,558) | (1,546) | (13,099) |
| Transfers | — | — | (2,449) | 203 | 2,229 | 17 | — | — |
| Exchange realignment | — | 739 | 6 | 69 | 175 | 48 | 24 | 1,061 |
| At 31 December 2006, net of accumulated depreciation and impairment | 17,535 | 164,633 | 1,765 | 5,144 | 24,067 | 7,726 | 5,534 | 226,404 |
| At 31 December 2006: | | | | | | | | |
| Cost or valuation | 18,502 | 235,178 | 1,765 | 11,644 | 118,036 | 22,083 | 21,237 | 428,445 |
| Accumulated depreciation and impairment | (967) | (70,545) | — | (6,500) | (93,969) | (14,357) | (15,703) | (202,041) |
| Net carrying amount | 17,535 | 164,633 | 1,765 | 5,144 | 24,067 | 7,726 | 5,534 | 226,404 |
| Analysis of cost or valuation: | | | | | | | | |
| At cost | 18,502 | 25,150 | 1,765 | 11,644 | 118,036 | 22,083 | 21,237 | 218,417 |
| At 31 December 1994 valuation | — | 202,000 | — | — | — | — | — | 202,000 |
| At 30 June 2005 valuation (transferred from investment properties) | — | 8,028 | — | — | — | — | — | 8,028 |
| | 18,502 | 235,178 | 1,765 | 11,644 | 118,036 | 22,083 | 21,237 | 428,445 |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

| | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---|---------------------------------------|---|-------------------------------|-------------------|
| 31 December 2007 | | | | |
| At 1 January 2007: | | | | |
| Cost | 1,861 | 3,073 | 1,869 | 6,803 |
| Accumulated depreciation | (1,861) | (2,808) | (1,869) | (6,538) |
| Net carrying amount | — | 265 | — | 265 |
| At 1 January 2007, net of accumulated depreciation | — | 265 | — | 265 |
| Additions | — | 77 | — | 77 |
| Written off | — | (24) | — | (24) |
| Depreciation provided during the year | — | (81) | — | (81) |
| At 31 December 2007, net of accumulated depreciation | — | 237 | — | 237 |
| At 31 December 2007: | | | | |
| Cost | 1,126 | 2,158 | 1,172 | 4,456 |
| Accumulated depreciation | (1,126) | (1,921) | (1,172) | (4,219) |
| Net carrying amount | — | 237 | — | 237 |

15. PROPERTY, PLANT AND EQUIPMENT (continued)**Company**

| | Leasehold improvements | Furniture, fixtures and equipment | Motor vehicles | Total |
|---|-----------------------------------|--|---------------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| 31 December 2006 | | | | |
| At 1 January 2006: | | | | |
| Cost | 1,861 | 3,005 | 1,869 | 6,735 |
| Accumulated depreciation | (1,861) | (2,743) | (1,869) | (6,473) |
| Net carrying amount | — | 262 | — | 262 |
| At 1 January 2006, net of accumulated depreciation | — | 262 | — | 262 |
| Additions | — | 113 | — | 113 |
| Disposals | — | (13) | — | (13) |
| Depreciation provided during the year | — | (97) | — | (97) |
| At 31 December 2006, net of accumulated depreciation | — | 265 | — | 265 |
| At 31 December 2006: | | | | |
| Cost | 1,861 | 3,073 | 1,869 | 6,803 |
| Accumulated depreciation | (1,861) | (2,808) | (1,869) | (6,538) |
| Net carrying amount | — | 265 | — | 265 |

Note: As an arrangement of attracting foreign investments in Xuzhou, the Group entered into certain agreements (the "Xuzhou Agreements") with the Xuzhou Economic Development Zone Committee ("徐州經濟開發區管委會") (the "Xuzhou Authority", under the municipal government of Xuzhou) on 10 April 2004. Pursuant to the Xuzhou Agreements, the Xuzhou Authority arranged the construction of the plant and office buildings for a solvent manufacturing subsidiary in Xuzhou (the "Xuzhou Subsidiary") and also provided the required funding to the Xuzhou Subsidiary for the construction in the form of a loan to the Xuzhou Subsidiary (the "Construction Loan"). The construction of the plant and office buildings was completed, and the plant and office buildings were handed over to the Group for the solvent operation in July 2005. On 25 June 2007, the Group entered into certain revised agreements, (collectively the "Revised Xuzhou Agreements") with the Xuzhou Authority to finalise the land premium payable at RMB4,793,000 for the piece of land on which the plant and office buildings were constructed (the "Xuzhou Land") and waive the same amount of the Construction Loan due to it (note 35). The respective land use right certificate and real estate certificate were obtained by the Group during the year. At the balance sheet date, the carrying value of the buildings of the Xuzhou Subsidiary amounted to HK\$12,407,000 (2006: Nil) were pledged to the Xuzhou Authority for the Construction Loan (note 32).

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of the Group's items of property, plant and equipment held under finance leases included in the total amount of office equipment and motor vehicles at 31 December 2007 amounted to HK\$2,254,000 (2006: HK\$669,000).

Certain of the Group's leasehold land and buildings situated in Hong Kong and Mainland China were revalued at 31 December 1994 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers. The leasehold land and buildings situated in Hong Kong were revalued at open market value, based on their existing use. The leasehold land and buildings situated in Mainland China were revalued based on a combination of the market and the depreciated replacement costs. Since 31 December 1994, no further revaluations of the Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions in paragraph 80A of HKAS 16 from the requirement to carry out future revaluations of its property, plant and equipment which were stated at valuation at that time. Certain leasehold land and buildings of the Group which had been revalued in 1994 were classified as finance leases under paragraph 16 of HKAS 17 as the lease payments could not be allocated reliably between the land and buildings elements. Accordingly, the entire lease has been classified as a finance lease of the Group's property, plant and equipment.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment, their total carrying amount at 31 December 2007 would have been HK\$160,190,000 (2006: HK\$128,741,000).

The Group's land and buildings included above are held under the following lease terms:

| | Hong Kong | Elsewhere | Total |
|--------------------|------------------|------------------|-----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Freehold | — | 18,502 | 18,502 |
| Long term leases | 64,028 | — | 64,028 |
| Medium term leases | 117,870 | 92,950 | 210,820 |
| | <u>181,898</u> | <u>111,452</u> | <u>293,350</u> |

At 31 December 2007, certain of the above land and buildings with an aggregate net book value of HK\$214,175,000 (2006: HK\$169,883,000) were pledged to secure general banking facilities and other loan granted to the Group (note 32).

16. INVESTMENT PROPERTIES

| | Notes | Group 2007 HK\$'000 | Group 2006 HK\$'000 |
|--------------------------------|-------|---------------------------|---------------------------|
| Carrying amount at 1 January | | 113,900 | 95,520 |
| Additions | 12(b) | — | 21,800 |
| Disposal | | — | (1,640) |
| Disposal of subsidiaries | 38 | (21,800) | — |
| Fair value gains/(losses), net | 5, 6 | 9,600 | (1,780) |
| Carrying amount at 31 December | | 101,700 | 113,900 |

The Group's investment properties are held under the following lease terms:

| | Group 2007 HK\$'000 | Group 2006 HK\$'000 |
|-------------------------------|---------------------------|---------------------------|
| Long term leases in Hong Kong | 54,400 | 46,900 |
| Medium term leases in: | | |
| Hong Kong | 27,500 | 26,200 |
| Elsewhere | 19,800 | 40,800 |
| | 47,300 | 67,000 |
| | 101,700 | 113,900 |

The Group's investment properties were revalued on 31 December 2007 by Vigers Appraisal & Consulting Limited or BMI Appraisals Limited, independent professionally qualified valuers. The properties situated in Hong Kong were either revalued at open market value, based on their existing use, or on the basis of capitalisation of net rental income. The property situated in elsewhere was revalued by the depreciated replacement cost approach.

Certain investment properties are leased to third parties under operating leases, further summary details of which are included in note 42(a).

At 31 December 2007, certain of the Group's investment properties with an aggregate carrying value of HK\$101,700,000 (2006: HK\$92,100,000) were pledged to secure general banking facilities granted to the Group (note 32).

Further particulars of the Group's investment properties are included on page 143.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

17. PROPERTIES UNDER DEVELOPMENT

| | 2007 | Group |
|--|---------------|------------------|
| | HK\$'000 | 2006 HK\$'000 |
| Carrying amount at 1 January | 26,800 | 25,000 |
| Transfer from a deposit for purchase of a property (notes 23 and 39) | 46,000 | — |
| Additions | 23 | 350 |
| Write-back of impairment during the year | 1,177 | 1,450 |
| Carrying amount at 31 December | <u>74,000</u> | <u>26,800</u> |

The carrying value of the Group's properties under development is analysed as follows:

| | 2007 | Group |
|--------------------------------|---------------|------------------|
| | HK\$'000 | 2006 HK\$'000 |
| Medium term lease in Hong Kong | 28,000 | 26,800 |
| Other term lease in Hong Kong* | 46,000 | — |
| | <u>74,000</u> | <u>26,800</u> |

* Land lot Nos. 879, 880A1, 880B1, 881 to 885, 889RP and 891 in Demarcation District No. 115 are held under medium term lease. Land lot Nos. 1318, 1326 and 1344 in Demarcation District No. 115 are held under Tai Po New Grant with their lease terms being unable to be ascertained from their respective new grants.

Further particulars of the Group's properties under development are included on page 144.

18. PREPAID LAND PREMIUMS

| | 2007 | Group |
|--------------------------------|---------------|------------------|
| | HK\$'000 | 2006 HK\$'000 |
| Carrying amount at 1 January | 1,567 | 1,546 |
| Additions | 15,322 | — |
| Recognised during the year | (230) | (44) |
| Exchange realignment | 107 | 65 |
| Carrying amount at 31 December | <u>16,766</u> | <u>1,567</u> |

At the balance sheet date, the Group's pieces of leasehold land are held under medium term leases and are situated in Mainland China.

19. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition or deemed acquisition of subsidiaries, is as follows:

| | |
|---|-------------|
| | HK\$'000 |
| At 1 January 2006: | |
| Cost | 10,581 |
| Accumulated amortisation and impairment | (10,581) |
| | <hr/> |
| Net carrying amount | — |
| | <hr/> <hr/> |
| | |
| | HK\$'000 |
| At 31 December 2006, 1 January 2007 and 31 December 2007: | |
| Cost | — |
| Accumulated amortisation and impairment | — |
| | <hr/> |
| Net carrying amount | — |
| | <hr/> <hr/> |

The amounts of goodwill of HK\$10,581,000 had been written off upon disposal of the related subsidiaries during the prior year.

As further detailed in note 2.4, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001 to remain eliminated against consolidated reserves.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries and associates prior to the adoption of SSAP 30 in 2001, were HK\$46,050,000 as at 31 December 2007 and HK\$221,598,000 as at 31 December 2006. The amount of goodwill is stated at its cost, less cumulative impairment (2007: Nil; 2006: HK\$175,548,000) which arose in years prior to 1 January 2005.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

20. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------------------|-----------------------|-----------------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares/investments, at cost | 224,095 | 224,095 |
| Loans to subsidiaries | 1,657,757 | 1,660,276 |
| Due to subsidiaries | (696) | (706) |
| | <u>1,881,156</u> | <u>1,883,665</u> |
| Impairment | <u>(1,322,288)</u> | <u>(1,301,575)</u> |
| | <u><u>558,868</u></u> | <u><u>582,090</u></u> |

An impairment was recognised for certain unlisted investments with a carrying amount of HK\$1,764,605,000 (before deducting the impairment loss) (2006: HK\$1,765,036,000) because the Company's directors considered these subsidiaries have insufficient assets to be realised to recover the Company's interest therein.

Except for the amounts due from subsidiaries of HK\$480,219,000 (2006: HK\$450,897,000), which bear interest at the Hong Kong dollar prime rate (2006: Hong Kong dollar prime rate plus 1%) per annum, the amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries. The carrying amounts of the amounts due from/to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|--|--|----------|---|
| | | | Direct | Indirect | |
| The China Paint Manufacturing Company (1932) Limited (formerly known as The China Paint Manufacturing Company (1946) Limited) | Hong Kong | Ordinary HK\$200,000 Non-voting deferred HK\$1,761,300 | — | 100 | Manufacture and sale of paint products and investment holding |
| The China Paint Manufacturing (Shenzhen) Co., Ltd. * | the PRC | HK\$70,000,000 | — | 100 | Manufacture and sale of paint products |

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|--|--|--|----------|-------------------------------------|
| | | | Direct | Indirect | |
| China Paint Property Limited | Hong Kong | HK\$100,000 | — | 100 | Property investment |
| China Utilities Limited | British Virgin Islands | US\$1 | — | 100 | Investment holding |
| CNT Dalian Company Limited | Hong Kong | HK\$2 | — | 100 | Investment holding |
| CNT Finance Company Limited | Hong Kong | HK\$2 | 100 | — | Fund management |
| CNT Industries (BVI) Limited | British Virgin Islands | US\$1,635,512 | 100 | — | Investment holding |
| CNT Investments (BVI) Limited | British Virgin Islands | US\$159,705 | 100 | — | Investment holding |
| CNT Iron And Steel Limited | British Virgin Islands | US\$1,566,804 | — | 100 | Investment holding |
| CNT Iron And Steel Trading Company Limited | Hong Kong | HK\$2 | — | 100 | Trading of steel products |
| CNT-Jialing Investments Limited | Hong Kong | HK\$10,000,000 | 100 | — | Property investment |
| CNT Management and Secretaries Limited | Hong Kong | HK\$2 | 100 | — | Management and secretarial services |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|--|--|--|----------|--|
| | | | Direct | Indirect | |
| Conley Investment Limited | Hong Kong | HK\$2 | — | 100 | Property investment |
| Dalian Qinggang Real estate Development Co., Ltd. ^{**} | the PRC | US\$2,100,000 | — | 60 | Property development |
| Dongola Holdings Limited | British Virgin Islands | US\$1 | 100 | — | Investment holding |
| Full Pool Limited | Hong Kong | HK\$2 | — | 100 | Investment holding |
| Giraffe Paint Mfg. Co., (Shanghai) Ltd. (formerly known as Jinghua Paint Manufacturing Co., (Shanghai) Ltd.) ^{**} | the PRC | US\$4,000,000 | — | 100 | Not yet commenced operations |
| Giraffe Paint Mfg. Co., (Xuzhou) Ltd. (formerly known as CNT Solvents Co., (Xuzhou) Ltd.) ^{* *} | the PRC | US\$2,000,000 | — | 100 | Manufacture and sale of solvents |
| Golden Premium Limited | Hong Kong | HK\$2 | — | 100 | Property development |
| Guangzhou City Wilfred Marble Company Limited ^{**} | the PRC | HK\$50,975,000 | — | 100 | Property investment |

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|--|--|--|----------|---|
| | | | Direct | Indirect | |
| Hua Xia International Development Co. Ltd. * | Taiwan | NTD25,000,000 | 100 | — | Property holding |
| Hubei Giraffe Paint Mfg. Co., Ltd. (formerly known as Hubei Jinghua Paint Manufacturing Company Limited) ** * | the PRC | RMB40,000,000 | — | 90.5 | Manufacture and sale of paint products |
| Joyous Cheer Limited | Hong Kong | HK\$1 | — | 100 | Property development |
| Majority Faith Corporation | British Virgin Islands | US\$1 | — | 100 | Investment holding |
| Ocean Wide Assets Limited | British Virgin Islands | US\$1 | — | 100 | Investment holding |
| Opulent Profits Limited | British Virgin Islands | US\$1 | — | 100 | Investment holding |
| Profit Source Limited | Hong Kong | HK\$2 | — | 100 | Securities investment and investment holding |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--------------------------------------|--|--|--|----------|-------------------------|
| | | | Direct | Indirect | |
| Rainbow Path Enterprises Limited | Hong Kong | HK\$1,000 | — | 100 | Investment holding |
| R, J & Thomas Secretaries Limited | Hong Kong | HK\$30,000 | — | 100 | Investment holding |
| Tatpo Corporation Limited | Liberia | US\$20,872 | 100 | — | Investment holding |

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

* Wholly-foreign-owned enterprise registered under the PRC law.

** Sino-foreign equity joint venture registered under the PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

21. INTERESTS IN ASSOCIATES

| | 2007 | Group |
|---------------------|-----------------|-----------------|
| | HK\$'000 | 2006 |
| | | HK\$'000 |
| Share of net assets | 5,276 | 5,038 |
| Loans to associates | — | 22,642 |
| | <u>5,276</u> | <u>27,680</u> |
| Impairment | (3,509) | (10,233) |
| | <u>1,767</u> | <u>17,447</u> |

At 31 December 2006, the loans to associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the loans to associates approximate to their fair values.

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

| Name | Particulars of issued ordinary/ registered share capital | Place of incorporation/ registration | Percentage of equity attributable to the Group# | | Principal activities |
|--|---|--|---|------|-------------------------|
| | | | 2007 | 2006 | |
| Arran Investment Company, Limited | Ordinary shares of HK\$100 each | Hong Kong | 50 | 50 | Property investment |
| Liaoyang Beiyang Real Estate Development Company Limited | US\$1,240,000 | the PRC | 50 | 50 | Property development |

None of the associates of the Group were audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network for the years ended 31 December 2006 and 2007.

Liaoyang Beiyang Real Estate Development Company Limited and Arran Investment Company, Limited are corporate associates indirectly held by the Company as at 31 December 2007. The financial year end of Liaoyang Beiyang Real Estate Development Company Limited is coterminous with that of the Group, while Arran Investment Company, Limited has a financial year end of 31 October. The consolidated financial statements are adjusted for material transactions between this associate and the Group companies between the financial year end date of this associate and that of the Group.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

21. INTERESTS IN ASSOCIATES (continued)

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The Group has discontinued the recognition of its share of losses of Liaoyang Beiyang Real Estate Development Company Limited because the share of losses of the associate exceeded the Group's interest in the associate and the Group had no binding obligation to make good any losses incurred by the associate. The Group's unrecognised share of loss of this associate for the current year and its cumulative losses were HK\$310,000 (2006: profit of HK\$710,000) and HK\$5,245,000 (2006: HK\$4,935,000), respectively.

All the above associates have been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

| | 2007 HK\$'000 | 2006 HK\$'000 |
|-------------|------------------|------------------|
| Assets | 13,364 | 33,009 |
| Liabilities | 3,820 | 8,546 |
| Revenues | 2,544 | 2,350 |
| Profit | 2,267 | 2,101 |

22. AVAILABLE-FOR-SALE INVESTMENTS

| | 2007 HK\$'000 | Group 2006 HK\$'000 |
|--------------------------------------|------------------|---------------------------|
| Unlisted equity investments, at cost | 231,946 | 231,946 |
| Impairment | (64,869) | (64,859) |
| | 167,077 | 167,087 |

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate. These unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. At the balance sheet date, the Group does not intend to dispose of them in the near future.

23. DEPOSITS FOR PURCHASES OF PROPERTIES

| | Group | |
|---|-----------------|-----------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| At 1 January | 46,000 | 46,000 |
| Transfer to properties under development (<i>notes 17 and 39</i>) | (46,000) | — |
| Additions | 6,757 | — |
| | <hr/> | <hr/> |
| At 31 December | 6,757 | 46,000 |
| | <hr/> <hr/> | <hr/> <hr/> |

As at 31 December 2007, the carrying amount represents deposits paid during the year for the purchases of a piece of land in Xinfeng, Guangdong Province, the PRC and certain residential units located in Shajin, Shenzhen, the PRC.

As at 31 December 2006, the carrying amount represented a deposit paid to an independent third party (the "Vendor") in May 1999 for the acquisition of certain lots of land in Hong Kong (the "Land Lots"), subject to the surrender to and regrant (the "Regrant") by the Hong Kong SAR Government (the "Government") of such lots of land. As the Regrant was not completed before 12 May 2002 and the deposit paid was not refunded from the Vendor, the Group, pursuant to the provisions of the sale and purchase agreement, exercised its absolute discretion right to acquire the Land Lots and settled the purchase consideration by the deposit previously paid. Accordingly, the deposit of a carrying value of HK\$46,000,000 is reclassified as properties under development as at 31 December 2007 (note 39). New town planning application for the change of the use of land from agricultural and house lots to comprehensive residential development has been made by the Group at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

24. NET PENSION SCHEME ASSETS

(a) The amounts recognised in the consolidated balance sheet were as follows:

| | Group | |
|---|-----------------|-----------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Fair value of scheme assets | 11,358 | 9,515 |
| Present value of the defined benefit obligation | (5,973) | (5,331) |
| | <hr/> | <hr/> |
| Surplus in the pension scheme | 5,385 | 4,184 |
| Net unrecognised actuarial gains | (3,645) | (2,967) |
| | <hr/> | <hr/> |
| Net pension scheme assets recognised | 1,740 | 1,217 |
| | <hr/> <hr/> | <hr/> <hr/> |

(b) The components of the Group's net pension scheme gain recognised in the consolidated income statement for the year, together with the actual return on the scheme assets for the year, were as follows:

| | Group | |
|---|-----------------|-----------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Current service cost | 250 | 343 |
| Interest cost on defined benefit obligation | 200 | 252 |
| Expected return on pension scheme assets | (672) | (604) |
| Net cumulative actuarial gain recognised in the income statement | (123) | (46) |
| Administration costs and group life premium deducted from contributions | 3 | 7 |
| | <hr/> | <hr/> |
| | (342) | (48) |
| | <hr/> <hr/> | <hr/> <hr/> |
| Actual return on scheme assets | 1,664 | 1,681 |
| | <hr/> <hr/> | <hr/> <hr/> |

The above amount of the Group's net pension scheme gain was set off against the employee benefits expense in "Administrative expenses" on the face of the consolidated income statement.

24. NET PENSION SCHEME ASSETS (continued)

(c) Movements in the present value of the Group's defined benefit obligation were as follows:

| | Group | |
|-----------------------|----------|----------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| At 1 January | 5,331 | 6,854 |
| Interest cost | 200 | 252 |
| Current service cost | 250 | 343 |
| Benefits paid | — | (1,861) |
| Actuarial loss/(gain) | 192 | (257) |
| | <hr/> | <hr/> |
| At 31 December | 5,973 | 5,331 |
| | <hr/> | <hr/> |

(d) Movements in the Group's fair value of scheme assets were as follows:

| | Group | |
|----------------------------------|----------|----------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| At 1 January | 9,515 | 9,423 |
| Expected return on scheme assets | 672 | 604 |
| Contributions | 179 | 272 |
| Benefits paid | — | (1,861) |
| Actuarial gain on scheme assets | 992 | 1,077 |
| | <hr/> | <hr/> |
| At 31 December | 11,358 | 9,515 |
| | <hr/> | <hr/> |

(e) The Group does not expect to pay any contributions to the Group's pension scheme during the year ending 31 December 2008.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

24. NET PENSION SCHEME ASSETS (continued)

(f) Scheme assets consist of the following:

| | Group | |
|----------|-------------|-------------|
| | 2007 | 2006 |
| Equities | 70% | 70% |
| Bonds | 22% | 21% |
| Cash | 8% | 9% |
| | <hr/> | <hr/> |
| Total | 100% | 100% |
| | <hr/> <hr/> | <hr/> <hr/> |

(g) The principal actuarial assumptions used in determining the Group's net pension scheme assets as at the balance sheet date are follows:

| | Group | |
|--|-------|-------|
| | 2007 | 2006 |
| Discount rate | 3.5% | 3.7% |
| Expected rate of return on the pension scheme assets | 7.0% | 7.0% |
| Future salary increases | 3.2% | 3.2% |
| | <hr/> | <hr/> |

The expected return on the pension scheme assets is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligations.

(h) Other historical information of the Group's pension scheme assets and liabilities was as follows:

| | Group | | |
|--|-------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Fair value of scheme assets | 11,358 | 9,515 | 9,423 |
| Present value of the defined benefit obligation | 5,973 | 5,331 | 6,854 |
| Surplus in pension scheme | 5,385 | 4,184 | 2,569 |
| Experienced gain/(loss) arising on scheme assets | 992 | 1,077 | (24) |
| Experienced gain arising on scheme liabilities | 106 | 320 | 402 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

24. NET PENSION SCHEME ASSETS (continued)

- (i) In addition to the above disclosures, the following information is further provided pursuant to the requirements of the Listing Rules. The actuarial valuation of the Group's pension scheme assets as at 31 December 2007 was performed by an actuarial manager of HSBC Life (International) Limited, a member of Actuarial Society of Hong Kong, using the valuation method detailed under the heading "Other employee benefits: Pension schemes and other retirement benefits" in note 2.4. The defined benefit scheme is funded by the employers to provide benefits based on the members' salaries and services.

As at 31 December 2007, the level of funding of the pension scheme was 190%, as calculated under the projected unit credit actuarial valuation method.

25. INVENTORIES

| | Group | |
|-------------------------------|-----------------|-----------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Raw materials and spare parts | 49,027 | 36,810 |
| Work in progress | 5,287 | 4,415 |
| Finished goods | 11,587 | 11,062 |
| | <u>65,901</u> | <u>52,287</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

26. TRADE RECEIVABLES

| | Group | |
|--|-----------------|-----------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Trade receivables | 109,286 | 106,351 |
| Impairment | (1,566) | (1,644) |
| | <u>107,720</u> | <u>104,707</u> |
| Portion classified as long term receivable | (1,212) | — |
| | <u>106,508</u> | <u>104,707</u> |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables, other than the amount classified as long term receivable, are non-interest bearing. The long term receivable represents a trade receivable due for payment in more than twelve months.

An aged analysis of the trade receivables (that are not considered to be impaired) as at the balance sheet date, based on the payment due date and net of impairment, is as follows:

| | Group | |
|-------------------------------|-----------------|-----------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Neither past due nor impaired | 46,497 | 42,211 |
| Within three months | 51,086 | 53,870 |
| Four to six months | 5,407 | 4,723 |
| Over six months | 3,518 | 3,903 |
| | <u>106,508</u> | <u>104,707</u> |

26. TRADE RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

| | Group | |
|--|-----------------|-----------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| At 1 January | 1,644 | 481 |
| Impairment losses recognised (<i>note 6</i>) | 175 | 1,163 |
| Impairment losses written-off | (253) | — |
| | <hr/> | <hr/> |
| At 31 December | 1,566 | 1,644 |
| | <hr/> <hr/> | <hr/> <hr/> |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$1,566,000 (2006: HK\$1,644,000) with a carrying amount of HK\$1,566,000 (2006: HK\$1,644,000). The individually impaired trade receivables relate to customers that have been in default in payment or in financial difficulties for prolonged periods and not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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

At 31 December 2007, certain of the trade receivables with an aggregate carrying value of HK\$78,366,000 (2006: HK\$70,253,000) were pledged to secure general banking facilities granted to the Group (*note 32*).

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|--------------------------------|---------------|---------------|------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Prepayments | 2,694 | 586 | — | — |
| Deposits and other receivables | 10,987 | 17,414 | 596 | 757 |
| | <u>13,681</u> | <u>18,000</u> | <u>596</u> | <u>757</u> |

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no history of default.

28. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | |
|--|------------|----------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Equity investment listed in Hong Kong, at fair value | <u>119</u> | <u>—</u> |

The above equity investment at 31 December 2006 and 2007 was classified as held for trading.

29. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Note | Group | | Company | |
|--|------|------------------|------------------|------------------|------------------|
| | | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| Cash and bank balances | | 98,884 | 92,018 | 1,414 | 6,679 |
| Time deposits | | | | | |
| - with original maturity date less than three months | | 60,636 | 32,038 | 7,508 | — |
| - with original maturity date more than three months | | 11,782 | 4,403 | — | — |
| | | 171,302 | 128,459 | 8,922 | 6,679 |
| Less: Pledged time deposits for bills payables | 30 | (14,238) | — | — | — |
| Cash and cash equivalents | | 157,064 | 128,459 | 8,922 | 6,679 |

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$128,561,000 (2006: HK\$90,100,000). The Renminbi is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for periods of between seven day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

30. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

| | Group | |
|---------------------|----------------|---------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Within three months | 87,154 | 71,582 |
| Four to six months | 15,143 | 5,207 |
| Over six months | 1,801 | 775 |
| | <u>104,098</u> | <u>77,564</u> |

The trade payables are non-interest-bearing and are normally settled on 90-day terms. As at 31 December 2007, bills payables with an aggregate carrying amount of HK\$19,306,000 (2006: Nil) were secured by time deposits of HK\$14,238,000 (2006: Nil) (note 29).

31. OTHER PAYABLES AND ACCRUALS

| | | Group | | Company | |
|-----------------|------|---------------|---------------|--------------|--------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | Note | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Deferred income | 35 | 279 | — | — | — |
| Other payables | | 26,989 | 28,371 | 576 | 5 |
| Accruals | | 50,829 | 36,755 | 3,471 | 2,395 |
| | | <u>78,097</u> | <u>65,126</u> | <u>4,047</u> | <u>2,400</u> |

The other payables are non-interest-bearing and have an average term of three months.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

| Group | 2007 | | | 2006 | | |
|-------------------------------------|---|-------------|----------------|---|-------------|---------------|
| | Effective interest rate per annum (%) | Maturity | HK\$'000 | Effective interest rate per annum (%) | Maturity | HK\$'000 |
| Current | | | | | | |
| Finance lease payables (note 33) | 3.4 - 7.9 | 2008 | 840 | 3.4 - 7.9 | 2007 | 480 |
| Bank loans - secured | 3.8 - 7.3 | 2008 | 21,663 | 5.3 - 7 | 2007 | 29,175 |
| Bank loans - unsecured | 7.3 | 2008 | 3,205 | — | — | — |
| Import loans - secured | 5.5 - 7.3 | 2008 | 8,921 | 6.5 - 7.8 | 2007 | 8,945 |
| Other loan - secured | 5.4 | 2008 | 3,566 | — | — | — |
| Other loan - unsecured | — | — | — | 5.5 | 2007 | 2,173 |
| | | | <u>38,195</u> | | | <u>40,773</u> |
| Non-current | | | | | | |
| Finance lease payables (note 33) | 3.4 - 7.9 | 2009 - 2011 | 1,177 | 3.4 - 7.9 | 2008 - 2009 | 272 |
| Bank loans - secured | 3.8 - 7.3 | 2009 - 2021 | 54,862 | 5.5 - 7 | 2008 - 2012 | 19,110 |
| Other loan - secured | 5.4 | 2009 - 2010 | 8,737 | — | — | — |
| Other loan - unsecured | — | — | — | 5.5 | 2008 - 2015 | 13,285 |
| | | | <u>64,776</u> | | | <u>32,667</u> |
| | | | <u>102,971</u> | | | <u>73,440</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

| Company | 2007 | | | 2006 | | |
|-------------------------------------|---|-------------|-----------|---|-------------|-----------|
| | Effective interest rate per annum (%) | Maturity | HK\$'000 | Effective interest rate per annum (%) | Maturity | HK\$'000 |
| Current | | | | | | |
| Finance lease payables (note 33) | 5.7 - 7.9 | 2008 | 17 | 5.7 - 7.9 | 2007 | 16 |
| Non-current | | | | | | |
| Finance lease payables (note 33) | 5.7 - 7.9 | 2009 - 2011 | 34 | 5.7 - 7.9 | 2008 - 2009 | 51 |
| | | | <u>51</u> | | | <u>67</u> |

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

| | Group | | Company | |
|--|----------------|---------------|-----------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Analysed into: | | | | |
| Bank loans and import | | | | |
| loans repayable: | | | | |
| Within one year or on demand | 33,789 | 38,120 | — | — |
| In the second year | 4,535 | 4,882 | — | — |
| In the third to fifth | | | | |
| years, inclusive | 12,558 | 10,563 | — | — |
| Beyond five years | 37,769 | 3,665 | — | — |
| | <u>88,651</u> | <u>57,230</u> | <u>—</u> | <u>—</u> |
| Other borrowings repayable: | | | | |
| Within one year or on demand | 4,406 | 2,653 | 17 | 16 |
| In the second year | 4,931 | 1,898 | 19 | 17 |
| In the third to fifth years, inclusive | 4,983 | 5,016 | 15 | 34 |
| Beyond five years | — | 6,643 | — | — |
| | <u>14,320</u> | <u>16,210</u> | <u>51</u> | <u>67</u> |
| | <u>102,971</u> | <u>73,440</u> | <u>51</u> | <u>67</u> |

Notes:

- (a) The Group's bank loans and import loans are secured by:
- the pledges of the Group's land and buildings with an aggregate net book value at the balance sheet date of HK\$201,768,000 (2006: HK\$169,883,000) (note 15);
 - the pledges of the Group's investment properties with an aggregate carrying value at the balance sheet date of HK\$101,700,000 (2006: HK\$92,100,000) (note 16); and
 - the pledge of the Group's trade receivables with an aggregate carrying value at the balance sheet date of HK\$78,366,000 (2006: HK\$70,253,000) (note 26).
- (b) The Group's other loan represented the Construction Loan as detailed in note 15, which is secured by the buildings of Xuzhou Subsidiary with carrying value of HK\$12,407,000 (2006: Nil), bears interest at an effective rate of 5.4% per annum and is repayable by three instalments over a three-year period with the first instalment due by December 2008.
- (c) Included in the Group's interest-bearing bank and other borrowings are borrowings with carrying amounts of HK\$38,909,000 and HK\$2,612,000, which are denominated in Renminbi and New Taiwan dollars, respectively. All other borrowings of the Group are denominated in Hong Kong dollars.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's and the Company's non-current borrowings are as follows:

| | Carrying amounts | | Fair values | |
|------------------------|------------------|------------------|------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| Group | | | | |
| Finance lease payables | 1,177 | 272 | 1,143 | 265 |
| Bank loans - secured | 54,862 | 19,110 | 54,110 | 18,637 |
| Other loan - secured | 8,737 | — | 8,737 | — |
| Other loan - unsecured | — | 13,285 | — | 13,285 |
| | <u>64,776</u> | <u>32,667</u> | <u>63,990</u> | <u>32,187</u> |
| Company | | | | |
| Finance lease payables | <u>34</u> | <u>51</u> | <u>33</u> | <u>51</u> |

The fair values of the Group's and the Company's borrowings have been calculated by discounting the expected future cash flows at the prevailing interest rates.

33. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles and office equipment for its operations. These leases are classified as finance leases and have remaining lease terms ranging from one to four years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

At 31 December 2007, the total future minimum lease payments under finance leases and their present values were as follows:

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|------------------------|------------------|--|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| Group | | | | |
| Amounts payable: | | | | |
| Within one year | 927 | 505 | 840 | 480 |
| In the second year | 704 | 244 | 655 | 238 |
| In the third to fifth years, inclusive | 537 | 37 | 522 | 34 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total minimum finance lease payments | 2,168 | 786 | 2,017 | 752 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Future finance charges | (151) | (34) | | |
| | <hr/> | <hr/> | | |
| Total net finance lease payables | 2,017 | 752 | | |
| Portion classified as current liabilities (note 32) | (840) | (480) | | |
| | <hr/> | <hr/> | | |
| Non-current portion (note 32) | 1,177 | 272 | | |
| | <hr/> | <hr/> | | |
| Company | | | | |
| Amounts payable: | | | | |
| Within one year | 20 | 20 | 17 | 16 |
| In the second year | 21 | 20 | 19 | 17 |
| In the third to fifth years, inclusive | 16 | 37 | 15 | 34 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total minimum finance lease payments | 57 | 77 | 51 | 67 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Future finance charges | (6) | (10) | | |
| | <hr/> | <hr/> | | |
| Total net finance lease payables | 51 | 67 | | |
| Portion classified as current liabilities (note 32) | (17) | (16) | | |
| | <hr/> | <hr/> | | |
| Non-current portion (note 32) | 34 | 51 | | |
| | <hr/> | <hr/> | | |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

34. DEFERRED TAX

The movements in deferred tax liabilities and asset during the year are as follows:

Deferred tax liabilities

Group

| | Depreciation allowance in excess of related depreciation | | Revaluation of properties | | Total | |
|--|---|------------------|------------------------------|------------------|------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| At 1 January | 3,750 | 3,968 | 6,597 | 5,752 | 10,347 | 9,720 |
| Deferred tax charged/(credited) to the income statement during the year (<i>note 10</i>) | 272 | (218) | — | — | 272 | (218) |
| Deferred tax debited to equity during the year | — | — | — | 845 | — | 845 |
| Gross deferred tax liabilities at 31 December | <u>4,022</u> | <u>3,750</u> | <u>6,597</u> | <u>6,597</u> | <u>10,619</u> | <u>10,347</u> |

Deferred tax asset

Group

| | Losses available for offsetting against future taxable profit | |
|--|--|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 |
| Gross deferred tax asset at 1 January and at 31 December | <u>6</u> | <u>6</u> |

34. DEFERRED TAX (continued)

The Group has tax losses arising in Hong Kong of HK\$861,952,000 (2006: HK\$806,784,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax asset has not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

35. DEFERRED INCOME

| | Group | |
|--|-----------------|-----------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| At 1 January | — | — |
| Addition | 5,120 | — |
| Recognised during the year (<i>note 5</i>) | (91) | — |
| | <hr/> | <hr/> |
| | 5,029 | — |
| Portion classified as current liabilities (<i>note 31</i>) | (279) | — |
| | <hr/> | <hr/> |
| Non-current portion | 4,750 | — |
| | <hr/> <hr/> | <hr/> <hr/> |

The deferred income relates to a portion of the Construction Loan of RMB4,793,000 (equivalent to HK\$5,120,000) waived by the Xuzhou Authority upon the finalisation of premium payable for the acquisition of Xuzhou Land (note 15). It is recognised in the income statement over the weighted average useful life of the buildings and plant and machinery of the Xuzhou Subsidiary whose construction was financed by the Construction Loan.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

36. SHARE CAPITAL

Shares

| | 2007 HK\$'000 | 2006 HK\$'000 |
|---|------------------|------------------|
| Authorised: | | |
| 2,880,000,000 ordinary shares of HK\$0.10 each | <u>288,000</u> | <u>288,000</u> |
| Issued and fully paid: | | |
| 1,573,671,409 (2006: 1,539,472,193) ordinary shares of HK\$0.10 each | <u>157,367</u> | <u>153,947</u> |

On 29 May 2007, the shareholders of the Company approved the final dividend of HK1 cent per share for the year ended 31 December 2006 by the allotment of new shares of HK\$0.10 each credited as fully paid up with a cash option to the eligible shareholders (the "Scrip Dividend Scheme"). Pursuant to the Scrip Dividend Scheme, 34,199,216 ordinary shares were issued during the year which resulted in the increase in issued share capital and share premium account of HK\$3,420,000 and HK\$6,635,000 respectively. A summary of the transaction during the year in the Company's issued ordinary share capital is as follows:

| | Number of shares in issue | Issued share capital HK\$'000 | Share premium account HK\$'000 | Total HK\$'000 |
|---|------------------------------|--|---|-------------------|
| At 1 January 2006 | 1,532,970,193 | 153,297 | 701,316 | 854,613 |
| Share option exercised | <u>6,502,000</u> | <u>650</u> | <u>375</u> | <u>1,025</u> |
| At 31 December 2006 and 1 January 2007 | 1,539,472,193 | 153,947 | 701,691 | 855,638 |
| Issue of share capital | 34,199,216 | 3,420 | 6,635 | 10,055 |
| Transfer of reserve (<i>note 37(b)</i>) | <u>—</u> | <u>—</u> | <u>(701,691)</u> | <u>(701,691)</u> |
| At 31 December 2007 | <u>1,573,671,409</u> | <u>157,367</u> | <u>6,635</u> | <u>164,002</u> |

36. SHARE CAPITAL (continued)**Share options**

On 28 June 2002, a share option scheme (the “2002 Scheme”) was approved by the shareholders for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible persons, who made contributions to the Group. The 2002 Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotation sheet on the date of grant; (ii) the average of the closing prices of the Company’s shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company’s shares.

At 31 December 2007, no share option was granted under the 2002 Scheme.

37. RESERVES**(a) Group**

The amounts of the Group’s reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 39 to 41 of the financial statements.

Certain amounts of goodwill arising on the acquisition of subsidiaries and associates in prior years remain eliminated against consolidated reserves, as explained in note 19.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

37. RESERVES (continued)

(b) Company

| | Share premium account HK\$'000 | Capital redemption reserve HK\$'000 | Contributed surplus* HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|---|--|-------------------------------------|-----------------------------------|-------------------|
| At 1 January 2006 | 701,316 | 6,171 | 288,473 | (496,821) | 499,139 |
| Issue of shares | 375 | — | — | — | 375 |
| Proposed conditional 2006 final dividend [^] | — | — | (15,395) | — | (15,395) |
| Loss for the year (note 11) | — | — | — | (66,137) | (66,137) |
| At 31 December 2006 and 1 January 2007 | 701,691 | 6,171 | 273,078 | (562,958) | 417,982 |
| Transfer of reserves [^] | (701,691) | (6,171) | 707,862 | — | — |
| Set off against accumulated losses of the Company [^] | — | — | (562,958) | 562,958 | — |
| Issue of shares under the Scrip Dividend Scheme (note 36) | 6,635 | — | — | — | 6,635 |
| Loss for the year (note 11) | — | — | — | (17,459) | (17,459) |
| At 31 December 2007 | 6,635 | — | 417,982 | (17,459) | 407,158 |

[^] The reduction of share premium account and capital redemption reserve account, and distribution out of the contributed surplus account of the Company were implemented pursuant to the special/ordinary resolutions of the shareholders of the Company passed on 29 May 2007. As at 31 December 2007, the contributed surplus resulted from these transactions amounted to HK\$129,509,000.

* As at 1 January 2006, a portion of the contributed surplus arose as a result of the transfer from the share premium account pursuant to a court approval obtained in 1992 for the purpose of writing off goodwill arising on the acquisition of subsidiaries. The remaining portion of the contributed surplus arose in 1991 as a result of a Group reorganisation and originally represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the consolidated net asset value of the acquired subsidiaries.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

38. DISPOSAL OF SUBSIDIARIES

| | | 2007 | | 2006 | |
|--|------------|---|---|---|-------------------|
| | Notes | Subsidiaries of continuing operations HK\$'000 | Subsidiaries of continuing operations HK\$'000 | Subsidiaries of discontinued operations HK\$'000 | Total HK\$'000 |
| Net assets disposed of: | | | | | |
| Investment properties | | 21,800 | — | — | — |
| Interests in associates | | — | 8,755 | — | 8,755 |
| Prepayments and other receivables | | — | 37 | — | 37 |
| Trade payables | | — | (189) | (2,279) | (2,468) |
| Accruals and other payables | | — | (302) | (10,313) | (10,615) |
| Exchange reserves | | — | 733 | 35 | 768 |
| Minority interests | | — | — | 991 | 991 |
| | | <u>21,800</u> | <u>9,034</u> | <u>(11,566)</u> | <u>(2,532)</u> |
| Gain/(loss) on disposal of subsidiaries, net | 5, 6,12(a) | <u>3,146</u> | <u>(59)</u> | <u>11,581</u> | <u>11,522</u> |
| | | <u>24,946</u> | <u>8,975</u> | <u>15</u> | <u>8,990</u> |
| Satisfied by cash and resulted in cash inflow | | <u>24,946</u> | | | <u>8,990</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

39. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

As detailed in note 23, during the year, the Group exercised its absolute discretion right to acquire the Land Lots. The consideration for the acquisition was settled by the deposit previously paid for the purchase with a carrying amount of HK\$46,000,000.

40. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

| | Company | |
|-------------------------------|----------|----------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Guarantees given to banks | | |
| in connection with facilities | | |
| granted to subsidiaries | 152,340 | 152,504 |

As at 31 December 2007, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$74,762,000 (2006: HK\$40,160,000).

At the balance sheet date, the Group had no significant contingent liability.

41. PLEDGE OF ASSETS

Details of the Group's bank loans and other borrowings and bills payables, which are secured by the assets of the Group, are included in notes 26, 30 and 32.

42. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|---|-----------------|-----------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Within one year | 4,581 | 3,415 |
| In the second to fifth years, inclusive | 3,996 | 4,692 |
| After five years | 374 | — |
| | <u>8,951</u> | <u>8,107</u> |

(b) As lessee

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to seven years.

At 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Within one year | 5,999 | 6,515 | 34 | 34 |
| In the second to fifth years, inclusive | 7,039 | 5,782 | — | — |
| After five years | 419 | 580 | — | — |
| | <u>13,457</u> | <u>12,877</u> | <u>34</u> | <u>34</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

43. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 42(b) above, the Group had the following capital commitments at the balance sheet date:

| | Notes | 2007 HK\$'000 | Group 2006 HK\$'000 |
|---|----------|------------------|---------------------------|
| Contracted, but not provided for: | | | |
| Acquisition of an interest in a joint venture company | (a) | — | 21,450 |
| Purchases of land use rights | (c) | 1,866 | 6,515 |
| Capital contribution to subsidiaries | (b), (c) | 39,019 | 5,952 |
| Purchases of items of property, plant and equipment | | 2,768 | 548 |
| | | <u>43,653</u> | <u>34,465</u> |
| Authorised, but not contracted for: | | | |
| Capital contribution to a subsidiary | (d) | 19,267 | — |
| | | <u>62,920</u> | <u>34,465</u> |

Notes:

- (a) On 15 December 2000, the Group entered into an agreement (the "Agreement") with an independent third party (the "JV Partner"), for the subscription of a 25% equity interest in a joint venture company at a consideration of US\$3,000,000. Pursuant to the Agreement, the joint venture company would acquire from the JV Partner certain exclusive rights to manufacture, distribute and sell certain fuel and other products currently held or to be further developed or acquired by the JV Partner (the "Rights"). On 15 January 2001, in accordance with the Agreement, the Group paid a deposit of US\$250,000. The remaining balance of the consideration was US\$2,750,000 (approximately HK\$21,450,000). Due to the uncertainties of the JV Partner's ownership of the Rights and the lapse of long period of time, and after seeking an opinion from a legal advisor, the directors considered that the Group is not subject to any further obligations, liabilities or commitments (other than the deposit paid) pursuant to the Agreement.
- (b) On 25 June 2007, the Group entered into an agreement with the Xuzhou Authority to increase the registered share capital of Xuzhou Subsidiary by US\$2,000,000. The Group had not increased its capital contribution to the Xuzhou Subsidiary at the balance sheet date.
- (c) On 21 September 2006, the Group entered into agreements with the government of Xinfeng, Guangdong Province, the PRC to purchase a piece of land located in Xinfeng, at a consideration of RMB2,494,000. Pursuant to the agreements, the Group is required to set up a wholly-owned subsidiary with registered share capital of US\$3,000,000. The Group had paid RMB748,000 for the purchase of land and has not yet contributed to the new subsidiary at the balance sheet date.
- (d) On 18 September 2007, the Group approved the increase of the registered share capital of a wholly-owned subsidiary in the amount of US\$3,100,000. The Group had paid contribution of US\$631,000 at the balance sheet date.

At the balance sheet date, the Company had no significant capital commitments.

44. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances set out elsewhere in the financial statements, the Group had the following material transactions with a related party:

| | 2007 | Group |
|---|-------------------|-------------------|
| | HK\$'000 | 2006 |
| | | HK\$'000 |
| Purchases of raw materials and work in progress from an associate | — | 288 |
| | <u> </u> | <u> </u> |

The directors considered that the purchases of raw materials and work in progress were made according to the prices and conditions similar to those offered by other suppliers. The Group's entire interest in the associate was disposed of during the prior year.

- (b) Outstanding balances with related parties

Details of the Group's amounts due from its associates as at the balance sheet date are disclosed in note 21.

- (c) Compensation of key management personnel of the Group:

| | 2007 | 2006 |
|---|-------------------|-------------------|
| | HK\$'000 | HK\$'000 |
| Short term employee benefits | 19,365 | 18,900 |
| Post-employment benefits | 762 | 667 |
| | <u> </u> | <u> </u> |
| Total compensation paid to key management personnel | <u>20,127</u> | <u>19,567</u> |

Further details of directors' emoluments are included in note 8.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

45. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007

Group

Financial assets

| | Financial assets at fair value through profit or loss-held for trading HK\$'000 | Loans and receivables HK\$'000 | Available- for-sale financial assets HK\$'000 | Total HK\$'000 |
|---|---|--------------------------------------|---|-------------------|
| Available-for-sale investments | — | — | 167,077 | 167,077 |
| Long term receivable | — | 1,212 | — | 1,212 |
| Trade receivables | — | 106,508 | — | 106,508 |
| Financial assets included in prepayments, deposits and other receivables (<i>note 27</i>) | — | 10,987 | — | 10,987 |
| Equity investments at fair value through profit or loss | 119 | — | — | 119 |
| Pledged deposits | — | 14,238 | — | 14,238 |
| Cash and cash equivalents | — | 157,064 | — | 157,064 |
| | <u>119</u> | <u>290,009</u> | <u>167,077</u> | <u>457,205</u> |

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

2007

Group**Financial liabilities**

| | Financial liabilities at amortised cost HK\$'000 |
|--|--|
| Trade and bills payables | 104,098 |
| Financial liabilities included in other payables and accruals (<i>note 31</i>) | 26,989 |
| Interest-bearing bank and other borrowings | 102,971 |
| | <hr/> |
| | 234,058 |
| | <hr/> <hr/> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

2006

Group

Financial assets

| | Loans and receivables | Available- for-sale financial assets | Total |
|--|--------------------------|---|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Interests in associates (<i>note 21</i>) | 12,409 | — | 12,409 |
| Available-for-sale investments | — | 167,087 | 167,087 |
| Trade receivables | 104,707 | — | 104,707 |
| Financial assets included in prepayments, deposits and other receivables (<i>note 27</i>) | 17,414 | — | 17,414 |
| Cash and cash equivalents | 128,459 | — | 128,459 |
| | <u>262,989</u> | <u>167,087</u> | <u>430,076</u> |

Financial liabilities

| | Financial liabilities at amortised cost |
|--|--|
| | HK\$'000 |
| Trade and bills payables | 77,564 |
| Financial liabilities included in other payables and accruals (<i>note 31</i>) | 28,371 |
| Interest-bearing bank and other borrowings | 73,440 |
| | <u>179,375</u> |

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

Financial assets

| | 2007 | Company 2006 |
|---|----------------------------------|--------------------------|
| | Loans and receivables | Loans and receivables |
| | HK\$'000 | HK\$'000 |
| Due from subsidiaries, net of impairment | 546,807 | 570,039 |
| Financial assets included in prepayments, deposits and other receivables (note 27) | 596 | 757 |
| Cash and cash equivalents | 8,922 | 6,679 |
| | <u>556,325</u> | <u>577,475</u> |

Financial liabilities

| | 2007 | Company 2006 |
|--|--|--|
| | Financial liabilities at amortised cost | Financial liabilities at amortised cost |
| | HK\$'000 | HK\$'000 |
| Due to subsidiaries (note 20) | 696 | 706 |
| Financial liabilities included in other payables and accruals (note 31) | 576 | 5 |
| Interest-bearing bank and other borrowings | 51 | 67 |
| | <u>1,323</u> | <u>778</u> |

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other borrowings and cash and term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, available-for-sale investments, and trade and bills payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's policies for managing each of these risks are as follows:

Interest rate risk

The Group is exposed to interest rate risks due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks which are mostly short term in nature whereas interest-bearing financing liabilities are mainly bank borrowings with primarily floating interest rates. The Group is therefore exposed to interest rate risk. The Group's policy is to obtain the most favourable interest rates available.

The Company does not expose to any significant interest rate risk at the balance sheet date.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Interest rate risk (continued)****Group**

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax HK\$'000 | Increase/ (decrease) in equity HK\$'000 |
|-------------|---|---|--|
| 2007 | | | |
| HK\$ | 50 | (295) | (243) |
| RMB | 50 | 523 | 448 |
| HK\$ | (50) | 295 | 243 |
| RMB | <u>(50)</u> | <u>(523)</u> | <u>(448)</u> |
| 2006 | | | |
| HK\$ | 50 | (132) | (108) |
| RMB | 50 | 349 | 323 |
| HK\$ | (50) | 132 | 108 |
| RMB | <u>(50)</u> | <u>(349)</u> | <u>(323)</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group's main operating subsidiaries are located in Hong Kong and Mainland China and the Group's sales and purchases were mainly conducted in Hong Kong dollars and Renminbi. The Group also has significant investments in Mainland China and its balance sheet, with a portion of its bank loans denominated in Renminbi included, can be affected by movements in the exchange rate between Hong Kong dollars and Renminbi.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the Renminbi exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

| | Increase/ (decrease) in RMB rate % | Increase/ (decrease) in profit before tax HK\$'000 | Increase/ (decrease) in equity HK\$'000 |
|---------------------------------|---|---|--|
| 2007 | | | |
| If HK\$ weakens against RMB | 5 | (228) | (228) |
| If HK\$ strengthens against RMB | (5) | 228 | 228 |
| | <u> </u> | <u> </u> | <u> </u> |
| 2006 | | | |
| If HK\$ weakens against RMB | 5 | (167) | (167) |
| If HK\$ strengthens against RMB | (5) | 167 | 167 |
| | <u> </u> | <u> </u> | <u> </u> |

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Credit risk**

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and cash collateral may be required. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise pledged deposits, cash and cash equivalents, available-for-sale financial assets and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees to its subsidiaries, further details of which are disclosed in note 40.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and overdrafts. The Group's policy is to regularly monitor the current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and available banking facilities to meet its liquidity requirements in short and longer terms.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

2007

| | On demand or no fixed terms | Less than one year | One to five years | Over five years | Total |
|---|--------------------------------|-----------------------|----------------------|--------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Finance lease payables | — | 840 | 1,177 | — | 2,017 |
| Interest-bearing bank and other borrowings | — | 37,355 | 25,830 | 37,769 | 100,954 |
| Trade and bills payables | — | 104,098 | — | — | 104,098 |
| Other payables | 25,303 | 1,686 | — | — | 26,989 |
| | <u>25,303</u> | <u>143,979</u> | <u>27,007</u> | <u>37,769</u> | <u>234,058</u> |

2006

| | On demand or no fixed terms | Less than one year | One to five years | Over five years | Total |
|---|--------------------------------|-----------------------|----------------------|--------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Finance lease payables | — | 480 | 272 | — | 752 |
| Interest-bearing bank and other borrowings | — | 40,293 | 22,087 | 10,308 | 72,688 |
| Trade and bills payables | — | 77,564 | — | — | 77,564 |
| Other payables | 26,378 | 1,993 | — | — | 28,371 |
| | <u>26,378</u> | <u>120,330</u> | <u>22,359</u> | <u>10,308</u> | <u>179,375</u> |

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Liquidity risk (continued)**

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows: (continued)

Company**2007**

| | On demand or no fixed terms | Less than one year | One to five years | Over five years | Total |
|------------------------|--------------------------------|-----------------------|----------------------|--------------------|------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Finance lease payables | — | 17 | 34 | — | 51 |
| Other payables | — | 576 | — | — | 576 |
| | <u>—</u> | <u>576</u> | <u>—</u> | <u>—</u> | <u>576</u> |
| | — | 593 | 34 | — | 627 |
| | <u>—</u> | <u>593</u> | <u>34</u> | <u>—</u> | <u>627</u> |

2006

| | On demand or no fixed terms | Less than one year | One to five years | Over five years | Total |
|------------------------|--------------------------------|-----------------------|----------------------|--------------------|-----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Finance lease payables | — | 16 | 51 | — | 67 |
| Other payables | — | 5 | — | — | 5 |
| | <u>—</u> | <u>5</u> | <u>—</u> | <u>—</u> | <u>5</u> |
| | — | 21 | 51 | — | 72 |
| | <u>—</u> | <u>21</u> | <u>51</u> | <u>—</u> | <u>72</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2007

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is bank and other borrowings divided by the adjusted capital, being equity attributable to equity holders of the parent less unrealised leasehold land and building revaluation reserve and investment property revaluation reserve. The gearing ratios as at the balance sheet dates were as follows:

Group

| | 2007 HK\$'000 | 2006 HK\$'000 |
|---|------------------|------------------|
| Bank and other borrowings | 102,971 | 73,440 |
| Equity attributable to equity holders of the parent | 679,884 | 669,772 |
| Less: Leasehold land and building revaluation reserve | (41,381) | (41,381) |
| Investment property revaluation reserve | (13,557) | (13,557) |
| Adjusted capital | 624,946 | 614,834 |
| Gearing ratio | 16.5% | 11.9% |

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 April 2008.

SCHEDULE OF PRINCIPAL PROPERTIES

31 December 2007

INVESTMENT PROPERTIES

| Location | Percentage of interest in property attributable to the Group | Type of existing leasehold | Existing use |
|---|--|----------------------------------|--------------|
| Units A, B , C and D, 28th Floor CNT Tower No. 338 Hennessy Road Wanchai Hong Kong | 100 | Long term | Commercial |
| 18th Floor, CNT Tower No. 338 Hennessy Road Wanchai Hong Kong | 100 | Long term | Commercial |
| Car Parking Space No. 108 CNT Tower No. 338 Hennessy Road Wanchai, Hong Kong | 100 | Long term | Commercial |
| Ground Floor, 1st Floor, 2nd Floor and 3rd Floor China Paint Industrial Building Lot No. 991 in Demarcation District 215 Hong Ting Road Tui Min Hoi Sai Kung New Territories Hong Kong | 100 | Medium term | Industrial |
| Factory Complex, located at Ling Dong Road Xin Hua Gang Kou Industrial Development Zone Hua Du Guangdong Province the PRC | 100 | Medium term | Industrial |

SCHEDULE OF PRINCIPAL PROPERTIES (continued)

31 December 2007

PROPERTIES UNDER DEVELOPMENT

| Location | Percentage of interest in property attributable to the Group | Use | Approximate site/gross floor area | Expected Completion date | Stage of completion |
|---|--|--------------------------------|---|--------------------------------|--|
| Lot No. 738 in Demarcation District No.2 Mui Wo Lantau Island Hong Kong | 100 | Non-industrial | 2,300 sq.m. | 2009 | Land exchange completed |
| Lot No. 879, 880A1, 880B1, 881 to 885, 889RP, 891, 1318, 1326 and 1344 in Demarcation District No. 115 Au Tau Yuen Long Hong Kong | 100 | Agricultural and house lots | 3,700 sq.m. | 2013 | Planning application in progress |



CNT GROUP LIMITED

(北海集團有限公司)

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

