# GREAT CHINA HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 0141)

Annual Report **2008**

# Contents

# Corporate Information

## Directors

*Executive Directors*
Mr Rustom Ming Yu HO *(Chairman)*
Mr John Ming Tak HO *(Managing Director)*
Mr Patrick Kwok Wai POON
Mr Maung Tun MYINT (appointed on 1 April 2009)

*Non-Executive Director*
Ms Daphne HO

*Independent Non-Executive Directors*
Mr Lawrence Kam Kee YU
Mr David Hon To YU
Mr Hsu Chou WU

## Company Secretary & Qualified Accountant

Mr Andy Kam Kee WONG

## Auditor

Deloitte Touche Tohmatsu
*Certified Public Accountants*, Hong Kong

## Share Registrars

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

## Registered Office

Unit D, 26/F, United Centre
No. 95 Queensway
Hong Kong

## Audit Committee

Mr David Hon To YU *(Chairman)*
Mr Lawrence Kam Kee YU
Mr Hsu Chou WU

## Nomination Committee

Mr John Ming Tak HO *(Chairman)*
Mr Rustom Ming Yu HO
Mr Patrick Kwok Wai POON
Mr Lawrence Kam Kee YU
Mr David Hon To YU
Mr Hsu Chou WU

## Remuneration Committee

Mr Lawrence Kam Kee YU *(Chairman)*
Mr John Ming Tak HO
Mr David Hon To YU

## Stock Code

141

## Website

www.greatchinaholdingsltd.com.hk

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the shareholders of the Company will be held at Boardroom, The Dynasty Club, 7/F, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on 20 May 2009 at 10:30 am. A circular containing details of the matters proposed to be dealt with in the aforesaid Annual General Meeting together with other relevant information is sent with this Annual Report to all registered shareholders of the Company.

By order of the Board
**Andy Kam Kee WONG**
*Company Secretary*

Hong Kong, 25 March 2009

# Statement from the Managing Director

## Statement from the Managing Director

I am pleased to submit my report on the performance of Great China Holdings Limited (the "Company") and its subsidiaries (collectively, "the Group") for the year ended 31 December 2008.

## Business Review

The Group's turnover for the year ended 31 December 2008 was approximately HK$1,605 million (2007: HK$1,395 million), representing an increase of around 15% from that of 2007. Profit for the year was approximately HK$50.6 million (2007: HK$29.8 million), representing an increase of around 70% from that of 2007.

Due to the downturn of the property market during the year 2008, the Group recorded a decrease of HK$3.4 million (2007: an increase of HK$91.2 million) in fair value of investment properties, and the Group's share of results of associates included the attributable share of fair value gain of HK$4.8 million (2007: HK$28.8 million) on investment properties in Mainland China.

Excluding the results of the revaluation gain or loss on change in fair value of investment properties and the Group's share of associates' attributable fair value gain on investment properties as described above, the Group's profit for the year recorded a turnaround in profitability mainly due to the improved results of the general trading division during the year and a gain on the disposal of assets classified as held for sale.

At the beginning of the year 2008, the Group capitalized on the opportunity of rising prices of office premises and sold its office unit at 6th Floor, 9 Des Voeux Road West, Hong Kong at a consideration of approximately HK$36.5 million, realizing a gain of around HK$22 million (2007: Nil) on disposal of assets classified as held for sale.

## General Trading

Sales in this segment improved significantly to HK$1,550 million in 2008 (2007: HK$1,350 million) recording a segmental profit of HK$11 million as compared to a loss of HK$72.9 million in 2007.

### Fishmeal Products

Supported by firm market demand for fishmeal products in the PRC market in 2008, the Group's fishmeal sales increased by 28% to HK$1,488 million. This division has turned around and achieved a profit of around HK$10 million (2007: loss of around HK$72 million).

In the second quarter of 2007, the outbreak of pig's disease in PRC had resulted in a significant loss for PRC pig farmers who had then substantially reduced the consumption of fishmeal products in PRC, causing a significant drop in demand for fishmeal products and suppressing in turn fishmeal selling prices.

However, once fishmeal selling prices had found a support level in the last quarter of 2007, price levels moved upwards gradually until the occurrence of the financial tsunami in August 2008. The Group has benefited from this upward price movement. Following the trend of falling prices of commodities, fishmeal selling prices began adjusting downward by about 18% during the period between August and October 2008 and then stabilized. Management quickly responded to the market correction and cleared most of the inventory.

During the year, the Group continued to increase its sales to end-customers in the PRC market and received a significant portion of the sales denominated in Renminbi ("RMB") currency, which sales were mostly deposited in banks in PRC to earn interest income during the year. The appreciation of RMB in 2008 contributed to an exchange gain of around HK$7 million on RMB sales transactions and a gain in fair value of derivative financial instruments of HK$6.3 million for hedging purpose.

### Tapioca Products

Under unfavourable market conditions, the tapioca division was cautious in ordering inventory, resulting in a drastic drop in the current year's sales of tapioca products by 68% to HK$60 million as compared to that of 2007.

As the tapioca division had successfully controlled operating expenses, the tapioca business achieved a turnaround in segmental profit of around HK$0.8 million (2007: segmental loss of HK$0.6 million).

## Property Investment in Hong Kong

During the year 2007, the Group seized the opportunity of rising prices of retail shops in Hong Kong and sold two units of retail shops in Kwun Tong and in Tsim Sha Tsui, resulting in gains on disposal of investment properties of HK$7.6 million. These two shops, on the other hand, ceased to generate rental income for the full year in 2008. Despite the fact that the Group successfully renewed the tenancy agreements of some of its existing investment properties with increased rents in 2008, rental income derived from Hong Kong properties decreased by around 8% as compared to that of last year.

The current financial tsunami has impacted on Hong Kong property prices. As our investment properties are located at prime locations, the value of the Group's Hong Kong investment properties still recorded a revaluation gain before tax of around HK$0.2 million (2007: HK$21 million).

## Property Investment in Mainland China

During the year, the Group sold 5 units of Merry Tower apartments located at Jingan District in Shanghai with sales proceeds of around HK$22.7 million (2007: sold 4 units with sale proceeds of around HK$17.3 million), resulting in a gain on disposal of properties held for sale of around HK$5.6 million (2007: HK$2.9 million).

In 2008, rental income generated from investment properties located in Mainland China increased by around 80% as compared with last year. This is mainly attributed to one single investment property located at Chang Ning District, Shanghai which was leased out to a new tenant for the whole of 2008 with a monthly rental income of RMB460,000.

However, the downturn of the property market in Shanghai caused a general decrease in market prices of PRC properties in the second half of 2008, resulting in a loss of around HK$3.5 million (2007: a gain of around of HK$70.2 million) from revaluation of the Group's investment properties in Mainland China.

As at 31 December 2008, the share of profit of associates of around HK$4.5 million (2007: HK$26.7 million) included the attributable share of fair value gain on investment properties owned by an associate in Mainland China of around HK$4.8 million (2007: HK$28.8 million).

# Prospects

## General Trading

The consumption of fishmeal in Mainland China by the swine and poultry industries in 2008 increased by around 63% and 200% as compared to that in 2007. As fishmeal is one of the best protein sources among the animal proteins and currently there is no other substitute of identical value, Chinese end-users continue to use large quantities of fishmeal in various important industries.

Demand for fishmeal products in Mainland China is expected to be steady in 2009. The Group considers that this sector will be able to maintain a stable margin. Meanwhile, the trading division continues to strengthen inventory and credit controls and is committed to further developing sales channels in Mainland China.

The outbreak of the melamine incident in the Mainland in 2008 also brought government's attention to food safety standards. As our fishmeal products have always maintained a high standard of food safety and attained a reputation of high quality, we are confident that we will enhance customers' preference for our products.

Our tapioca business is expected to be more active in the coming year. Due to the recent introduction by the Chinese government policies to support corn prices so as to protect farmers' interests, the price of corn is expected to remain high in the PRC market in 2009. Tapioca is a close substitute for corn and the recent low prices of tapioca products have attracted feed mills in Southern China to use these products in their feed production to replace partially the use of corn. As a result, demand for tapioca products in 2009 will be extended from existing customers of alcohol factories to new customers of the feed industry.

## Property Investment

In the foreseeable future, we believe that the consolidation of property prices in both Hong Kong and Mainland China will continue until the adverse effects of the sub-prime loan crisis in the United States have come under control. The Group will take a cautious approach to property investments. The management team will closely monitor our property portfolio to achieve a high occupancy rate and satisfactory rental yield.

## Appreciation

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

**John Ming Tak HO**
*Managing Director*

Hong Kong, 25 March 2009

# Management Discussion and Analysis

## FINANCIAL REVIEW AND ANALYSIS

As at 31 December 2008, the Group's gearing ratio was around 17% (2007: 21%), based on the Group's long term bank borrowings of HK$122 million (2007: HK$134 million) and shareholders' equity of HK$697 million (2007: HK$625 million). As at 31 December 2008, total bank balances and cash on hand were HK$164 million (2007: HK$79 million).

As at 31 December 2008, total bank borrowings of the Group amounted to HK$353 million (2007: HK$293 million) and the maturity profile of the Group's bank borrowings falling due within one year was 65% (2007: 54%) and more than one year was 35% (2007: 46%). The total bank borrowings included secured bank loan of HK$281 million (2007: HK$163 million) and trust receipt loan of HK$72 million (2007: HK$90 million), but there were no discounted bills with recourse (2007: HK$40 million). The Group's borrowings were denominated in HK dollars, US dollars and RMB.

As at 31 December 2008, the Group has available but not yet utilized banking facilities amounting to approximately HK$529 million (2007: HK$465 million). The aforesaid facilities were secured by the following pledged assets approximately: certain leasehold land and land use rights with aggregate book value of HK$38 million (2007: HK$0.2 million); asset classified as held for sale of HK$nil million (2007: HK$14.9 million); property, plant and equipment of HK$6.1 million (2007: HK$1.2 million); properties held for sale of HK$12.5 million (2007: HK$27 million); investment properties of HK$611 million (2007: HK$651 million).

## FOREIGN EXCHANGE EXPOSURE

Transactions of the Group are predominantly denominated in HK dollars, US dollars and RMB. During the year, the Group has entered into several foreign currency forward contracts with banks to reduce its exposure to the risks of currency fluctuations. Review of the Group's exposure to foreign exchange risks is conducted periodically and derivative financial instruments may be used to hedge against such risks when necessary.

## EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2008, the total number of employees of the Group was 76 (2007: 95) with staff costs amounting to HK$9,682,000 (2007: HK$9,261,000). Remuneration policies are reviewed annually by the management. Remuneration packages are structured to take into account comparable levels in the market.

# Directors and Senior Management

## Biographical Details of Directors and Senior Management

Mr Rustom Ming Yu HO, aged 57, is the Chairman and an executive director of the Company. He is also a member of the Nomination Committee of the Company. Mr Rustom HO joined the Group in January 1992. He has held senior management positions in the textiles industry for over 31 years. In addition, Mr Rustom HO is the chairman of Kwong Fong Industries Corporation and a director of Fulcrest Limited, the controlling shareholders of the Company, and is the elder brother of Mr John Ming Tak HO (executive director) and the father of Ms Daphne HO (non-executive director).

Mr John Ming Tak HO, aged 55, is the Managing Director and an executive director of the Company. He is also the chairman of the Nomination Committee, a member of the Remuneration Committee and a director of various subsidiaries of the Company. Mr John HO joined the Group in November 1991. He has over 31 years of experience in commodities trading and dealing in securities. In addition, Mr John HO is a director of Kwong Fong Industries Corporation and Fulcrest Limited, the controlling shareholders of the Company, and is the younger brother of Mr Rustom Ming Yu HO (executive director) and the uncle of Ms Daphne HO (non-executive director).

Mr Patrick Kwok Wai POON, aged 58, has been an executive director of the Company since 20 April 2006. He is also a member of the Nomination Committee of the Company. Mr POON joined the Group in 1997 and has since then been working at a senior level of the Group's management team. He is also a director of certain subsidiaries of the Company. In addition, he is a director of Fulcrest Limited, the controlling shareholder of the Company. Mr POON has extensive experience in the commodity market and in the banking business. He has been overseeing the Group's Shanghai office and monitoring the Group's property business in the People's Republic of China for over 11 years. Mr POON currently holds a practising licence in property management in the People's Republic of China.

Mr Maung Tun MYINT (also known as Nelson CHENG), aged 43, was appointed as an executive director of the Company on 1 April 2009. He is also a chief executive officer of the Company's major subsidiaries, such as G.C. Luckmate Trading Limited and G.C. Luckmate Trading (Asia) Limited which are engaged in fishmeal and tapioca trading business. Mr MYINT joined the Group in 2000 and has over 15 years of experience in commodities trading. He holds a Bachelor of Engineering degree in Electronics from San José State University in the United States of America and a Master degree in Computer Science from Asian Institute of Technology in Thailand.

Ms Daphne HO, aged 37, was appointed as a non-executive director of the Company on 1 April 2008. She holds a Bachelor of Science degree in Marketing and Advertising from Boston College and a Masters of Business Administration in Managing Technology and Innovation from Santa Clara University. With extensive experience in strategic marketing and business strategy formulation, she is currently assisting a number of start-ups and small businesses as a private consultant. In the past, Ms HO has served as key business development roles at several publicly listed companies and was an International Marketing Manager of Kwong Fong Industries Corporation, a controlling shareholder of the Company. In addition, Ms HO is a daughter of Mr Rustom Ming Yu HO (executive director) and a niece of Mr John Ming Tak HO (executive director).

Mr Lawrence Kam Kee YU, *BBS, MBE, JP*, aged 63, has been an independent non-executive director of the Company since November 1994. He is also the chairman of the Remuneration Committee, and a member of both the Audit Committee and the Nomination Committee of the Company. Mr Lawrence YU is currently the chairman of See Corporation Limited, the non-executive chairman of Trasy Gold Ex Limited, an independent non-executive director of Global Flex Holdings Limited (appointed in September 2008) and a senior advisor of China Renji Medical Group Limited. All the above four companies are listed on The Stock Exchange of Hong Kong Limited. Mr Lawrence YU underwent training at Bayer AG and Cassella AG in Germany and has accumulated many years of senior management experience. Mr Lawrence YU is the honorary life president of the Hong Kong Dyestuffs Merchants Association Limited. He also serves on many charitable and social organizations, and is currently the co-chairman of the Campaign Committee of The Community Chest of Hong Kong, director of the Hong Kong Football Association Limited, honorary life president and governor of the Hong Kong Automobile Association and the chairman of the Road Safety Campaign Committee of the Road Safety Council.

Mr David Hon To YU, aged 61, was appointed as an independent non-executive director of the Company on 7 January 1999. He is also the chairman of the Audit Committee, and a member of both the Nomination Committee and the Remuneration Committee of the Company. Mr David YU is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. He was formerly a partner of an international accounting firm with extensive experience in corporate finance. Mr David YU is a founder and director of MCL Capital Limited, which specializes in direct investment and financial advisory activities. Mr. David YU resigned as an independent non-executive director of Cinda International Holdings Limited (name changed from "Hantec Investment Holdings Limited" on 31 December 2008) in December 2008. Currently, he is also an independent non-executive director of the following listed companies: Haier Electronics Group Co., Ltd., Hong Kong Energy (Holdings) Limited (name changed from "J.I.C. Technology Company Limited" on 28 May 2008), Media Chinese International Limited (name changed from "Ming Pao Enterprise Corporation Limited" on 13 March 2008), One Media Group Limited, Playmates Holdings Limited, Synergis Holdings Limited (appointed in September 2008), TeleEye Holdings Limited and VXL Capital Limited.

Mr Hsu Chou WU, aged 54, has been an independent non-executive director of the Company since September 2004. He is also a member of both the Audit Committee and the Nomination Committee of the Company. Mr WU is a member of the Taipei Bar Association. He is currently the chairman of the Eurasia Law Office in Taipei. He is also a committee member of the Taipei County Construction and Building Commission, a committee member of the Taipei County Consumption Dispute Accommodation Commission, a committee member of the Law and Regulation Commission of the Ministry of Interior in Taiwan, and a legal consultant of the National Police Agency of the Ministry of Interior in Taiwan. Mr WU is the author of the book "Far Away From Medical Dispute".

Mr Andy Kam Kee WONG, aged 44, is the Chief Operating Officer and Chief Financial Officer of the Group, the qualified accountant and company secretary of the Company, and director of various subsidiaries of the Company. He joined the Group in 2007 and is responsible for the management of the Group's trading and property operations and overseeing the Group's finance and accounting functions. Mr WONG is an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr WONG holds an Executive Master Degree of Business Administration from Chinese University of Hong Kong and a Master of Science Degree in Financial Management from the University of London. He was an audit executive of an international accounting firm and held senior finance positions in two listed public companies in Hong Kong.

# Corporate Governance Report

The Board of Directors and Management are committed to uphold a high standard of corporate governance with an aim to safeguard the interest of shareholders and the Company as a whole.

The Company complied with all requirements set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the review year.

## DIRECTORS

### The Board

The Board is accountable to the shareholders for leading the Group in a responsible and effective manner. Every director is charged with acting in the best interest of the Group and contributing to the Group with their expertise and knowledge. The Board decides on overall Group strategies and monitors the Group's performance on behalf of the shareholders. During the year ended 31 December 2008, the Board held four regular meetings at approximately quarterly intervals according to the Code. The attendance of each director is set out as follows:

| Name of director | Number of attendance |
|---|---|
| Mr Rustom Ming Yu HO | 2/4 |
| Mr John Ming Tak HO | 4/4 |
| Mr Patrick Kwok Wai POON | 4/4 |
| Mr Lawrence Kam Kee YU | 4/4 |
| Mr David Hon To YU | 4/4 |
| Mr Hsu Chou WU | 2/4 |
| Ms Daphne HO | 3/3 |

To provide an opportunity to directors to include matters for discussion in the agenda, at least 14 days' notice of a Board meeting is usually given to all directors. Every director is entitled to have access to the advice and services of the company secretary with a view to ensuring that the Board procedures, and all applicable rules and regulations, are followed. All minutes are kept by the company secretary and are open for inspection by any director with reasonably advance notice. Minutes of Board meetings and meetings of Board committees record in sufficient detail the matters considered by the Board/Board Committees and decisions reached. Draft and final versions of minutes of Board meetings are sent to all directors for their comments and records respectively within a reasonable time after the Board meeting is held.

Directors have been advised that the Company Secretary can arrange independent professional advice at the expense of the Company should such advice be considered necessary by any director. If a substantial shareholder or a director has a conflict of interest in a matter to be considered material by the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter.

## Chairman and Managing Director

The positions of the Chairman and the Managing Director of the Company are currently held by separated individuals, with Mr Rustom Ming Yu HO being the Chairman and Mr John Ming Tak HO being the Managing Director. The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures. He also steers the Board and the Company towards corporate goals. The Managing Director is responsible for effective implementation of the overall strategies and initiatives adopted by the Board. With the support of the Managing Director and the Company Secretary, the Chairman seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information on a timely basis.

## Board composition

As at 31 December 2008, the Board consists of three executive directors, three independent non-executive directors and one non-executive director:

*Executive directors:*
Mr Rustom Ming Yu HO *(Chairman)*
Mr John Ming Tak HO *(Managing Director)*
Mr Patrick Kwok Wai POON

*Independent non-executive directors:*
Mr Lawrence Kam Kee YU
Mr David Hon To YU
Mr Hsu Chou WU

*Non-executive director:*
Ms Daphne HO

Subsequent to the date of this report, on 1 April 2009, Mr. Maung Tun MYINT will be appointed as an executive director of the Company

More than one-third of the Board are independent non-executive directors and each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent. The relationship among members of the Board is disclosed in "Directors and Senior Management" of this annual report.

### Appointment, re-election and removal

In accordance with the Code and the Company's Articles of Association, all directors (including independent non-executive directors) are subject to retirement by rotation once every three years. Composition of the Board will be reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The directors' profile is set out on pages 8 to 9. The structure, size and composition of the Board are reviewed from time to time to ensure the Board has a balanced composition of skills, knowledge and experience appropriate for the requirements of the businesses of the Group.

### Responsibilities of directors

The directors are continually updated with the regulatory requirements, business activities and development of the Company to facilitate the discharge of their responsibilities. Through regular Board meetings, all directors are kept abreast of the conduct, business activities and development of the Company. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Confirmation has been sought from all directors that they have complied with required standards set out in the Model Code throughout the year ended 31 December 2008. The Board has also adopted the Model Code as guidelines for relevant employees in respect of their dealings in the securities of the Company. No incident of non-compliance was noted by the Company in 2008.



### Supply of and access to information

In respect of regular Board meetings, an agenda and accompanying board papers of the meeting are sent in full to all directors at least 3 days before the intended date of a meeting. The management has the obligation to supply the Board and the various Committees with adequate information in a timely manner to enable the members to make informed decisions. Each director has separate and independent access to the Company's senior management to acquire more information than is volunteered by management and to make further enquiries if necessary.

## NOMINATION COMMITTEE

A nomination committee was established by the Company in 2005. The committee is chaired by Mr John Ming Tak HO and Mr Rustom Ming Yu HO, Mr Patrick Kwok Wai POON, Mr Lawrence Kam Kee YU, Mr David Hon To YU and Mr Hsu Chou WU are members. The major responsibilities of the nomination committee include reviewing and approving all new appointments of directors and senior management of the Group, and monitoring the overall adequacy of the Board's composition.

Nomination Committee held one meeting with committee members, Mr John Ming Tak HO, Mr Patrick Kwok Wai POON, Mr Lawrence Kam Kee YU, Mr David Hon To YU and Mr Hsu Chou WU present in the meeting to appoint Ms Daphne HO as a new non-executive director during the year.

## REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company in 2005. The Committee is chaired by Mr Lawrence Kam Kee YU and Mr John Ming Tak HO and Mr David Hon To YU are members. The majority members of committee are independent non-executive directors. The primary function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management. The directors' emoluments are determined, among other things, by reference to his duties and responsibilities with the Company, his experience for the industry, prevailing market conditions and the Company's performance. During the year ended 31 December 2008, the Remuneration Committee held one meeting, with all committee member present in the meeting.

## ACCOUNTABILITY AND AUDIT

### Financial reporting

The management provides such explanation and information to the Board to facilitate an informed assessment of the financial and other information put before the Board for approval. The directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. Meanwhile, the directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. In preparing the financial statements for the year ended 31 December 2008, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the applicable laws were complied with. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern. The Board has prepared the financial statements on a going concern basis. The reporting responsibilities of external auditors of the Company are disclosed in "Independent Auditor's Report".

### Internal controls

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The system includes a defined management structure with limits of authority, safeguards its assets against unauthorized use or disposition, ensures the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensures compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage the risks of failure in the Group's operational systems and in the achievement of the Group's objectives. In the opinion of the directors, the size of group does not warrant setting up an internal audit department. However, the Board with the assistance of external experts, Li, Tang, Chen & Co, has conducted a review on the effectiveness of management supervision, compliance of the Code on Corporate Governance Practices, and major areas of the internal control systems and procedures to assure the Board that the system of internal control is functioning as intended.

### Audit Committee

The Audit Committee comprises the three independent non-executive directors. The Committee is chaired by Mr David Hon To YU who possesses recognized professional qualifications in accounting and extensive experience in audit and accounting. The Audit Committee is to oversee the Group's financial reporting system and internal control procedures, and to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. During the year ended 31 December 2008 the Audit Committee held four meetings with attendance record as follows:

| Name of member | Number of attendance |
|---|---|
| Mr David Hon To YU *(Chairman)* | 4/4 |
| Mr Lawrence Kam Kee YU | 4/4 |
| Mr Hsu Chou WU | 2/4 |

At the meetings, the Audit Committee has reviewed the audited financial statements for the year ended 31 December 2008 and the interim accounts for six months ended 30 June 2008, respectively with senior management and the Company's external auditors. The Audit Committee has also reviewed the Group's accounting principles and practices, listing rules and statutory compliance, and financial reporting matters.



### Remuneration to the external auditors of the Company

The remuneration paid by the Company to its auditors, Deloitte Touche Tohmatsu, during the year amounted to HK$1,100,000, the whole of which was incurred exclusively for the audit services provided by Deloitte Touche Tohmatsu.

## DELEGATION BY THE BOARD

### Management functions

Executive directors are in charge of different business and functional divisions in accordance with their respective areas of expertise. The Board, led by the Chairman, is responsible for setting overall corporate strategies; evaluation of the performance of the Group and the management; and approval of matters that are of a material or substantial nature. Supported by senior management members, the Managing Director is responsible for effective implementation of the Board's decisions and the day-to-day operations of the Group.

### Board committees

Audit Committee and Remuneration Committee have been established to oversee specific aspects of the Company's affairs. Each of these committees has specific written terms of reference which deal clearly with their authorities and duties.

## COMMUNICATION WITH SHAREHOLDERS

### Effective communication

The Company discloses relevant information to shareholders through the Company's annual report and financial statements, the interim report, as well as the Annual General Meeting ("AGM"). The sections under "Statement from the Managing Director" and "Management Discussion and Analysis" of the annual reports facilitate the shareholders' understanding of the Company's activities. The AGM allows the directors to meet and communicate with shareholders. The Company's financial statements and each of the required disclosure of information are dispatched within the prescribed period imposed by laws and regulations. To further promote effective communication, the corporate website is maintained to disseminate Company announcements and other relevant financial and non-financial information electronically on a timely basis.

### Voting by poll

The right to demand a poll was set out in the circular containing the notice of year 2008 AGM.

# Directors' Report

The directors have pleasure in presenting to shareholders their annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2008.

## Principal Activities

The Company is an investment holding company and its subsidiaries are principally engaged in the trading of animal feed (including fishmeal and tapioca chips), property investment and trading of properties. The principal activities of its subsidiaries are set out in note 18 to the financial statements.

## Results and Appropriations

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 24.

An interim dividend of HK$0.01 per share amounting to HK$2,616,849 was paid to shareholders during the year. The directors recommended the payment of a final dividend of HK$0.01 per share, amounting to HK$2,616,849 for the year to the shareholders of the Company whose names appear on the Register of Members on Wednesday, 20 May 2009.

## Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 27.

Movements in the reserves of the Company during the year are set out in note 31 to the consolidated financial statements.

## Investment Properties

Details of movements in the investment properties of the Group during the year are set out in note 14 to the consolidated financial statements.

## Property, Plant and Equipment

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

## Principal Properties

Details of the principal properties of the Group at 31 December 2008 are set out on pages 95 and 96.

## Subsidiaries and Associates

Details of the Company's subsidiaries and associates at 31 December 2008 are set out in notes 18 and 19 to the consolidated financial statements, respectively.

## Share Capital

Details of movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

## Distributable Reserves of the Company

At 31 December 2008, the Company's reserves available for distribution, calculated under Section 79B of the Companies Ordinance, consisted of retained profits of approximately HK$75 million (2007: HK$64 million).

## Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008.

## Directors

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

*Executive directors*
Mr Rustom Ming Yu HO
Mr John Ming Tak HO
Mr Patrick Kwok Wai POON

*Non-executive director*
Ms Daphne HO (appointed on 1 April 2008)

*Independent non-executive directors*
Mr Lawrence Kam Kee YU
Mr David Hon To YU
Mr Hsu Chou WU

Subsequent to the date of this report, on 1 April 2009, Mr Maung Tun MYINT was appointed as an executive director of the Company.

In accordance with Article 104(A) of the Company's Articles of Association, Mr Rustom Ming Yu HO, Mr John Ming Tak HO and Mr Hsu Chou WU will retire as directors of the Company by rotation at the Company's forthcoming annual general meeting. In addition, pursuant to Article 95 of the Company's Articles of Association, Mr Maung Tun MYINT, the newly appointed director of the Company, will also retire at the said general meeting. All of the above four retiring directors, being eligible, will offer themselves for re-election at the meeting.

The Company has received annual confirmation of independence from each of the independent non-executive directors in respect of their independence pursuant to the requirement of Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all independent non-executive directors to be independent.

## Directors' Service Contracts

Mr. Maung Tun MYINT has entered a service contract with the Company for three years commencing on 1 April 2009. He is entitled to receive a salary of HK$897,000 per annum and a discretionary bonus decided by the Board based on his performance and the financial results of the Group.

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

## Directors' Interests in Contracts of Significance

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

## Arrangements to Purchase Shares or Debentures

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

## Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporations

At 31 December 2008, the interests of the directors in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers (the "Model Code"), were as follows:

### Long position in the shares of the Company

| | Number of shares interested | | | Percentage of the issued share capital of the Company |
|---|---|---|---|---|
| **Name of director** | **Family interests** | **Corporate interests** | **Total interests** | |
| Mr Rustom Ming Yu HO | – | 138,347,288 *(Note)* | 138,347,288 | 52.87% |
| Mr John Ming Tak HO | 600,000 | 138,347,288 *(Note)* | 138,947,288 | 53.10% |

*Note:*

By virtue of the SFO, both Mr Rustom Ming Yu HO and Mr John Ming Tak HO were deemed to have interests in the 138,347,288 shares of the Company held by Fulcrest Limited, a company in which Mr Rustom Ming Yu HO and Mr John Ming Tak HO had controlling interests. Interests in the same shares are also shown under the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" below.

Save as disclosed above, as at 31 December 2008, none of the directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

None of the directors and chief executives (including their spouse and children under 18 years of age) of the Company had any interest in, or had been granted, or exercised, any rights to subscribe for the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO).

## Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, as at 31 December 2008, the following companies had interests in more than 5% of the Company's issued share capital:

### Long position in the shares of the Company

| | Number of shares interested | | | |
|---|---|---|---|---|
| **Name of substantial shareholder** | **Direct interests** | **Deemed interests** | **Total interests** | **Percentage of the issued share capital of the Company** |
| Fulcrest Limited | 138,347,288 | – | 138,347,288 | 52.87% |
| Asian Pacific Investment Corporation | – | 138,347,288 *(Note)* | 138,347,288 | 52.87% |
| Kwong Fong Holdings Limited | 710,000 | 138,347,288 *(Note)* | 139,057,288 | 53.14% |
| Kwong Fong Industries Corporation | 8,680,000 | 139,057,288 *(Note)* | 147,737,288 | 56.46% |
| COFCO (Hong Kong) Limited | 45,058,000 | – | 45,058,000 | 17.22% |

*Note:* The share capital of Fulcrest Limited was owned as to 51% by Asian Pacific Investment Corporation and as to 49% by Kwong Fong Holdings Limited. Kwong Fong Holdings Limited was a wholly owned subsidiary of Kwong Fong Industries Corporation. Accordingly, Asian Pacific Investment Corporation and Kwong Fong Holdings Limited were deemed to be interested in the 138,347,288 shares of the Company held by Fulcrest Limited; and Kwong Fong Industries Corporation was deemed to be interested in the 139,057,288 shares of the Company in which Kwong Fong Holdings Limited had an interest.

Save as disclosed above, the directors of the Company are not aware of any person (other than the directors of the Company whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporations" above) who, as at 31 December 2008, had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register kept by the Company under Section 336 of the SFO.

## Management Contracts

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

## Major Customers and Suppliers

The Group's five largest trading operation customers accounted for approximately 37.78% (2007: 52.96%) of the Group's turnover for its trading operation for the year. Approximately 13.50% (2007: 32.34%) of the Group's turnover for its trading operation was attributable to the largest customer.

Approximately 71.97% (2007: 52.67%) of the Group's purchases for its trading operation were attributable to the five largest trading operation suppliers with the largest supplier accounted for approximately 24.05% (2007: 13.88%) of the purchases. Due to the nature of the Group's other operations, information on the Group's customers and suppliers for the Group's other operations are not provided as it is considered to be of limited value.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and suppliers.



## Corporate Governance

The Company has complied throughout the year ended 31 December 2008 with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules.

## Emolument Policy

The emolument policy of the employees of the Group is formulated by the Remuneration Committee and approved by the Board based on the employees' merit, qualifications and competence.

The emoluments of the directors of the Company are determined by the Board, having regard to the Company's operating results, individual performance and comparable market statistics, based on the recommendation of the Remuneration Committee of the Company.

## Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## Auditor

At the Company's annual general meeting held on 18 May 2007, PricewaterhouseCoopers retired and Deloitte Touche Tohmatsu was appointed as auditor of the Company. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

**John Ming Tak HO**
*Managing Director*
25 March 2009

# Independent Auditor's Report

Deloitte.

德勤

**TO THE SHAREHOLDERS OF GREAT CHINA HOLDINGS LIMITED**

*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Great China Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 94, which comprise the consolidated and the Company's balance sheets as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the consolidated financial statements

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

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 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 Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
25 March 2009

# Consolidated Income Statement

*For the year ended 31 December 2008*

| | Notes | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| Revenue | 4 | **1,604,840** | 1,395,161 |
| Cost of sales | | **(1,449,221)** | (1,348,685) |
| Gross profit | | **155,619** | 46,476 |
| Other income | 5 | **20,452** | 11,057 |
| Net (loss) gain on investment properties | | **(3,372)** | 98,850 |
| Change in fair value of derivative financial instruments | | **6,268** | – |
| Gain on disposal of assets classified as held for sale | | **21,604** | – |
| Impairment of goodwill | | **–** | (19,308) |
| Impairment loss on available-for-sale financial assets | | **(1,235)** | – |
| Distribution costs | | **(104,609)** | (83,333) |
| Administrative expenses | | **(29,164)** | (30,163) |
| Finance costs | 6 | **(18,343)** | (15,960) |
| Share of results of associates | | **4,569** | 26,770 |
| Profit before taxation | 7 | **51,789** | 34,389 |
| Income tax expense | 9 | **(1,227)** | (4,549) |
| Profit for the year | | **50,562** | 29,840 |
| Dividends | 11 | **5,234** | 5,234 |
| Earnings per share – Basic | 12 | **HK 19.32 cents** | HK 11.40 cents |

# Balance Sheets

*At 31 December 2008*

| | Notes | THE GROUP 2008 HK$'000 | THE GROUP 2007 HK$'000 | THE COMPANY 2008 HK$'000 | THE COMPANY 2007 HK$'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Goodwill | 13 | **3,000** | 3,000 | **–** | – |
| Investment properties | 14 | **675,092** | 661,521 | **–** | – |
| Property, plant and equipment | 15 | **15,898** | 6,382 | **85** | 4 |
| Prepaid lease payments for land | 16 | **37,945** | 503 | **–** | – |
| Deposit paid on acquisition of leasehold land and buildings | 17 | **–** | 4,466 | **–** | – |
| Interests in subsidiaries | 18 | **–** | – | **62,822** | 49,883 |
| Interests in associates | 19 | **106,660** | 93,098 | **868** | – |
| Amounts due from subsidiaries | 20 | **–** | – | **289,509** | 285,921 |
| Loan to an associate | 19 | **17,358** | 21,464 | **17,358** | 21,464 |
| Available-for-sale financial assets | 21 | **1,635** | 4,101 | **–** | – |
| | | **857,588** | 794,535 | **370,642** | 357,272 |
| **Current assets** | | | | | |
| Properties held for sale | 22 | **16,317** | 29,764 | **–** | – |
| Inventories | 23 | **120,371** | 90,224 | **–** | – |
| Prepaid lease payments for land | 16 | **323** | 5 | **–** | – |
| Trade and other receivables | 24 | **92,530** | 183,632 | **622** | 520 |
| Amounts due from subsidiaries | 20 | **–** | – | **175,313** | 152,008 |
| Amount due from an associate | 19 | **44,596** | 44,003 | **44,596** | 44,003 |
| Derivative financial assets | 25 | **7,735** | – | **–** | – |
| Bank balances and cash | 26 | **164,065** | 70,778 | **4,702** | 20,123 |
| Pledged bank deposit | 26 | **–** | 8,602 | **–** | – |
| | | **445,937** | 427,008 | **225,233** | 216,654 |
| Asset classified as held for sale | 27 | **–** | 14,881 | **–** | – |
| | | **445,937** | 441,889 | **225,233** | 216,654 |

## Balance Sheets

*At 31 December 2008*

| | | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | *Notes* | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Current liabilities** | | | | | |
| Trade and bills payables | *28* | **115,838** | 159,318 | **112,946** | 106,597 |
| Other payables and accrued expenses | | **46,452** | 69,568 | **2,951** | 9,140 |
| Rental deposits received | | **83** | 6 | **–** | – |
| Amounts due to subsidiaries | *20* | **–** | – | **198,624** | 168,742 |
| Borrowings | *29* | **230,815** | 158,871 | **78,675** | 88,829 |
| Taxation payable | | **1,901** | 1,215 | **–** | – |
| | | **395,089** | 388,978 | **393,196** | 373,308 |
| **Net current assets (liabilities)** | | **50,848** | 52,911 | **(167,963)** | (156,654) |
| **Total assets less current liabilities** | | **908,436** | 847,446 | **202,679** | 200,618 |
| **Non-current liabilities** | | | | | |
| Borrowings | *29* | **121,755** | 134,435 | **55,503** | 65,181 |
| Deferred tax liabilities | *32* | **81,721** | 81,322 | **–** | – |
| Rental deposits received | | **7,190** | 6,504 | **–** | – |
| | | **210,666** | 222,261 | **55,503** | 65,181 |
| | | **697,770** | 625,185 | **147,176** | 135,437 |
| **Capital and reserves** | | | | | |
| Share capital | *30* | **52,337** | 52,337 | **52,337** | 52,337 |
| Reserves | | **645,433** | 572,848 | **94,839** | 83,100 |
| **Total equity** | | **697,770** | 625,185 | **147,176** | 135,437 |

The consolidated financial statements on pages 24 to 94 were approved and authorised for issue by the board of directors on 25 March 2009 and are signed on its behalf by:

*Director* *Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2008*

| | Share capital HK$'000 | Share premium HK$'000 | Exchange reserve HK$'000 | Properties revaluation reserve HK$'000 | Investment revaluation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2007 | 52,337 | 19,516 | 13,310 | – | (596) | 479,056 | 563,623 |
| Exchange difference arising on translation | – | – | 19,516 | – | – | – | 19,516 |
| Share of associates' exchange reserve | – | – | 15,613 | – | – | – | 15,613 |
| Gain on fair value changes of available-for-sale financial assets | – | – | – | – | 1,827 | – | 1,827 |
| Net income recognised directly in equity | – | – | 35,129 | – | 1,827 | – | 36,956 |
| Profit for the year | – | – | – | – | – | 29,840 | 29,840 |
| Total recognised income for the year | – | – | 35,129 | – | 1,827 | 29,840 | 66,796 |
| Dividends paid | – | – | – | – | – | (5,234) | (5,234) |
| At 31 December 2007 | 52,337 | 19,516 | 48,439 | – | 1,231 | 503,662 | 625,185 |
| Exchange difference arising on translation | – | – | 19,868 | – | – | – | 19,868 |
| Share of associates' exchange reserve | – | – | 8,125 | – | – | – | 8,125 |
| Surplus on revaluation of properties *(note 15)* | – | – | – | 495 | – | – | 495 |
| Decrease in fair value of available-for-sale financial assets | – | – | – | – | (2,466) | – | (2,466) |
| Net income (expense) recognised directly in equity | – | – | 27,993 | 495 | (2,466) | – | 26,022 |
| Profit for the year | – | – | – | – | – | 50,562 | 50,562 |
| Impairment loss of available-for-sale financial assets | – | – | – | – | 1,235 | – | 1,235 |
| Total recognised income (expense) for the year | – | – | 27,993 | 495 | (1,231) | 50,562 | 77,819 |
| Dividends paid | – | – | – | – | – | (5,234) | (5,234) |
| At 31 December 2008 | 52,337 | 19,516 | 76,432 | 495 | – | 548,990 | 697,770 |

# Consolidated Cash Flow Statement

*For the year ended 31 December 2008*

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before taxation | **51,789** | 34,389 |
| Adjustments for: | | |
| Finance costs | **18,343** | 15,960 |
| Share of results of associates | **(4,569)** | (26,770) |
| (Reversal of) allowance for doubtful debts | **(188)** | 2,436 |
| Allowance for inventories | **4,698** | 364 |
| Amortisation of prepaid lease payments for land | **244** | 16 |
| Impairment of goodwill | **–** | 19,308 |
| Impairment of properties held for sale | **16** | – |
| Impairment of available-for-sale financial assets | **1,235** | – |
| Depreciation of property, plant and equipment | **1,568** | 1,379 |
| Interest income | **(11,151)** | (5,547) |
| Decrease (increase) in fair value/gain on disposal of investment properties | **3,372** | (98,850) |
| Loss on disposal of property, plant and equipment | **2,719** | 57 |
| Gain on disposal of assets classified as held for sale | **(21,604)** | – |
| Change in fair value of derivative financial instruments | **(6,268)** | – |
| Operating cash flows before movements in working capital | **40,204** | (57,258) |
| (Increase) decrease in inventories | **(34,845)** | 31,172 |
| Decrease in properties held for sale | **15,295** | 10,587 |
| Decrease (increase) in trade and other receivables | **91,798** | (52,219) |
| Decrease in financial assets at fair value through profit or loss | **–** | 75 |
| (Decrease) increase in trade and bills payables | **(44,947)** | 34,895 |
| Decrease in other payables and accrued expenses | **(23,116)** | (68,169) |
| Increase in rental deposits received | **763** | 1,140 |
| Cash from (used in) operations | **45,152** | (99,777) |
| Hong Kong Profits Tax paid | **–** | (56) |
| Overseas tax paid | **(1,675)** | (1,127) |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | **43,477** | (100,960) |

# Consolidated Cash Flow Statement

*For the year ended 31 December 2008*

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| INVESTING ACTIVITIES | | |
| Additions of prepaid lease payments for land | **(38,216)** | – |
| Purchase of property, plant and equipment | **(9,134)** | (719) |
| Proceeds from disposal of assets classified as held for sale | **36,485** | – |
| Interest received | **11,151** | 5,547 |
| Decrease (increase) in pledged bank deposit | **8,602** | (8,602) |
| Repayments from (advances to) an associate | **3,310** | (10,690) |
| Deposit paid on acquisition of leasehold land and buildings | **–** | (4,466) |
| Proceeds from disposal of investment properties | **–** | 58,900 |
| Proceeds from disposal of property, plant and equipment | **–** | 207 |
| Decrease in held-to-maturity financial assets | **–** | 3,900 |
| NET CASH FROM INVESTING ACTIVITIES | **12,198** | 44,077 |
| FINANCING ACTIVITIES | | |
| New bank loans raised | **181,020** | 21,620 |
| Repayment of bank loans | **(63,880)** | (50,876) |
| (Decrease) increase in financing from discounting of bills receivable with full recourse | **(39,993)** | 34,938 |
| Interest paid | **(18,343)** | (15,960) |
| (Decrease) increase in trust receipt loans | **(17,883)** | 89,618 |
| Dividends paid | **(5,234)** | (5,234) |
| NET CASH FROM FINANCING ACTIVITIES | **35,687** | 74,106 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | **91,362** | 17,223 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | **70,778** | 53,029 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **1,925** | 526 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | **164,065** | 70,778 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | **164,065** | 70,778 |

# Notes To The Consolidated Financial Statements

*For the year ended 31 December 2008*

## 1. GENERAL

The Company is a limited liability company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate holding company is Fulcrest Limited and its ultimate holding company is Kwong Fong Industries Corporation with its shares listed on Taiwan Stock Exchange Corporation. The address of the registered office and principal place of business of the Company is Unit D, 26th Floor, United Centre, 95 Queensway, Hong Kong.

The functional currency of the Company and its major subsidiaries is United State dollars. The consolidated financial statements are presented in Hong Kong dollars which is different from the functional currency of the Company, as the directors of the Company consider that Hong Kong dollars is the most appropriate presentation currency in view of its place of listing.

The Company is an investment holding company and its subsidiaries are principally engaged in the trading of animal feed (including fishmeal and tapioca chips), property investment and trading of properties.

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

In the current year, the Group has applied the following amendments to Hong Kong Accounting Standard ("HKAS") and new Hong Kong (IFRIC) Interpretations ("HK(IFRIC) – Int") (collectively the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

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

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

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[2] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[3] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[2] |
| HKAS 39 (Amendments) | Eligible Hedged Items[3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2] |

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

| | |
|---|---|
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[2] |
| HKFRS 3 (Revised) | Business Combinations[3] |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments[2] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC) – Int 9 & HKAS 39 (Amendments) | Embedded Derivatives[4] |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes[5] |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate[2] |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation[6] |
| HK(IFRIC) – Int 17 | Distribution of Non-cash Assets to Owners[3] |
| HK(IFRIC) – Int 18 | Transfer of Assets from Customers[7] |

1 *Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009*

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

3 *Effective for annual periods beginning on or after 1 July 2009*

4 *Effective for annual periods ending on or after 30 June 2009*

5 *Effective for annual periods beginning on or after 1 July 2008*

6 *Effective for annual periods beginning on or after 1 October 2008*

7 *Effective for transfers on or after 1 July 2009*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

### Interests in subsidiaries

Interests in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

### Business combinations

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

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

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

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

### Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet as an intangible asset.

### *Impairment of goodwill*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

### Interests in associates

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

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

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

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

### Revenue recognition

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

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

Revenue arising from the sale of properties in the ordinary course of business is recognised where all of the following criteria have been met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the terms of the relevant leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

Agency fee income is recognised when services are provided.

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

### Investment properties

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

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

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

### Property, plant and equipment

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

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

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

### Leasing

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

#### *The Group as lessor*

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

#### *The Group as lessee*

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

#### *Leasehold land and buildings*

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are classified as prepaid lease payments under operating leases, which are carried at cost and released to the consolidated income statement over the lease term on a straight line basis.

### Financial instruments

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

# 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## Financial instruments *(Continued)*

### *Financial assets*

The Group's financial assets are classified into one of the following categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

***Effective interest method***

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

***Financial assets at fair value through profit or loss***

The Group's financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

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

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

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

### Financial instruments *(Continued)*

### *Financial assets* *(Continued)*

***Loans and receivables***

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

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

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

***Impairment of financial assets***

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

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

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

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

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

### Financial instruments *(Continued)*

### *Financial assets* *(Continued)*

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

### *Financial liabilities and equity*

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

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

### Financial instruments *(Continued)*

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

***Effective interest method***

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

***Financial liabilities***

Financial liabilities (including trade and bills payables, other payables, rental deposits received, amounts due to subsidiaries and borrowings), are subsequently measured at amortised cost, using the effective interest method.

***Equity instruments***

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

### *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company 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.*

### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

### Financial instruments *(Continued)*

#### *Derecognition*

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

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

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Properties held for sale, which represent unsold completed properties, are stated at the lower of cost and net realisable value.

Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

### Impairment loss on assets other than goodwill (see accounting policy in respect of goodwill above)

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

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

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

### Foreign currencies

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

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

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

### Taxation

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

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

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

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

### Taxation *(Continued)*

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

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 asset to be recovered.

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

### Retirement benefit costs

The contributions payable to the retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.



## 4. SEGMENT INFORMATION

### Business segments

For management purposes, the Group was organised into two operating divisions – general trading and property investment in prior years. In the current year, the management of the Group identifies the business of trading of properties, which was included in property investment in prior years, as a separate reportable segment as this business is starting to have a higher contribution to the results of the Group. The Group is currently organised into three divisions – general trading, property investment and trading of properties. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

| | | |
|---|---|---|
| General trading | – | trading of animal feed (mainly fishmeal and tapioca chips) |
| Property investment | – | rental income from investment properties and provision of real estate agency services |
| Trading of properties | – | sale of properties held for sale |

## 4. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

Analysis of revenue by category is as follows:

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Sales | | |
| – Sales of goods | **1,549,699** | 1,349,922 |
| – Sales of properties | **22,793** | 17,354 |
| Rental income from investment properties | **31,773** | 25,417 |
| Agency fee income | **575** | 2,468 |
| | **1,604,840** | 1,395,161 |

Segment information about these businesses is presented below.

**2008**

| | General trading<br>HK$'000 | Property investment<br>HK$'000 | Trading of properties<br>HK$'000 | Consolidated<br>HK$'000 |
|---|---|---|---|---|
| REVENUE | | | | |
| External sales | **1,549,699** | **32,348** | **22,793** | **1,604,840** |
| RESULT | | | | |
| Segment result | **11,047** | **21,490** | **5,677** | **38,214** |
| Change in fair value of derivative financial instruments | – | – | – | **6,268** |
| Gain on disposal of assets classified as held for sale | – | – | – | **21,604** |
| Impairment loss on available-for-sale financial assets | – | – | – | **(1,235)** |
| Bank interest income | – | – | – | **11,151** |
| Unallocated corporate expenses | – | – | – | **(10,439)** |
| Finance costs | – | – | – | **(18,343)** |
| Share of results of associates | – | **4,569** | – | **4,569** |
| Profit before taxation | | | | **51,789** |
| Income tax expense | | | | **(1,227)** |
| Profit for the year | | | | **50,562** |

## 4. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

**2008 (Continued)**

**CONSOLIDATED BALANCE SHEET**

| | General trading HK$'000 | Property investment HK$'000 | Trading of properties HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| ASSETS | | | | |
| Segment assets | 371,455 | 692,920 | 16,317 | 1,080,692 |
| Interests in associates | – | 106,660 | – | 106,660 |
| Loan to an associate | – | 17,358 | – | 17,358 |
| Amount due from an associate | – | 44,596 | – | 44,596 |
| Unallocated corporate assets | | | | 54,219 |
| Consolidated total assets | | | | 1,303,525 |
| LIABILITIES | | | | |
| Segment liabilities | 30,503 | 21,630 | – | 52,133 |
| Unallocated corporate liabilities | | | | 553,622 |
| Consolidated total liabilities | | | | 605,755 |

**OTHER INFORMATION**

| | General trading HK$'000 | Property investment HK$'000 | Trading of properties HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| Capital additions | 1,936 | 2,805 | – | 47,075 | 51,816 |
| Depreciation of property, plant and equipment | 533 | 647 | – | 388 | 1,568 |
| Amortisation of prepaid lease payments for land | – | 5 | – | 239 | 244 |
| Allowance for inventories | 4,698 | – | – | – | 4,698 |
| Impairment of properties held for sale | – | – | 16 | – | 16 |
| Loss on disposal of property, plant and equipment | 2,719 | – | – | – | 2,719 |
| Exchange (gain) loss | (8,631) | 837 | – | 730 | (7,064) |

## 4. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

**2007**

| | General trading HK$'000 | Property investment HK$'000 | Trading of properties HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| REVENUE | | | | |
| External sales | 1,349,922 | 27,885 | 17,354 | 1,395,161 |
| RESULT | | | | |
| Segment result | (72,957) | 118,651 | 2,963 | 48,657 |
| Impairment of goodwill | (19,308) | – | – | (19,308) |
| Bank interest income | – | – | – | 5,547 |
| Unallocated corporate expenses | – | – | – | (11,317) |
| Finance costs | – | – | – | (15,960) |
| Share of results of associates | – | 26,770 | – | 26,770 |
| Profit before taxation | | | | 34,389 |
| Income tax expense | | | | (4,549) |
| Profit for the year | | | | 29,840 |

**CONSOLIDATED BALANCE SHEET**

| | General trading HK$'000 | Property investment HK$'000 | Trading of properties HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| ASSETS | | | | |
| Segment assets | 311,596 | 692,437 | 29,764 | 1,033,797 |
| Interests in associates | – | 93,098 | – | 93,098 |
| Loan to an associate | – | 21,464 | – | 21,464 |
| Amount due from an associate | – | 44,003 | – | 44,003 |
| Unallocated corporate assets | | | | 44,062 |
| Consolidated total assets | | | | 1,236,424 |
| LIABILITIES | | | | |
| Segment liabilities | 94,757 | 28,071 | – | 122,828 |
| Unallocated corporate liabilities | | | | 488,411 |
| Consolidated total liabilities | | | | 611,239 |

## 4. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

**2007 (Continued)**

**OTHER INFORMATION**

| | General trading HK$'000 | Property investment HK$'000 | Trading of properties HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| Capital additions | 111 | 608 | – | – | 719 |
| Amortisation of prepaid lease payments for land | – | 16 | – | – | 16 |
| Allowance for trade and other receivables | 2,420 | 16 | – | – | 2,436 |
| Allowance for inventories | 364 | – | – | – | 364 |
| Depreciation of property, plant and equipment | 405 | 974 | – | – | 1,379 |
| Impairment of goodwill | 19,308 | – | – | – | 19,308 |
| Loss on disposal of property, plant and equipment | – | 57 | – | – | 57 |
| Exchange (gain) loss | (640) | 2 | – | 2,301 | 1,663 |

### Geographical segments

The Group's operations are located in Hong Kong and Mainland China.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

| | Sales revenue by geographical market | |
|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 |
| Hong Kong | **15,007** | 16,318 |
| Other regions in the People's Republic of China (the "PRC") | **1,589,833** | 1,326,596 |
| Others | **–** | 52,247 |
| | **1,604,840** | 1,395,161 |

## 4. SEGMENT INFORMATION *(Continued)*

### Geographical segments *(Continued)*

The following is an analysis of the carrying amount of segment assets, additions to prepaid lease payments for land and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

**2008**

| | **Carrying amount of segment assets HK$'000** | **Additions to prepaid lease payments for land HK$'000** | **Additions to property, plant and equipment HK$'000** |
|---|---|---|---|
| Hong Kong | **370,706** | **38,216** | **8,859** |
| Other regions in the PRC | **709,874** | **–** | **4,741** |
| Others | **112** | **–** | **–** |
| Total segment assets | **1,080,692** | **38,216** | **13,600** |

**2007**

| | Carrying amount of segment assets HK$'000 | Additions to prepaid lease payments for land HK$'000 | Additions to property, plant and equipment HK$'000 |
|---|---|---|---|
| Hong Kong | 370,180 | – | 145 |
| Other regions in the PRC | 663,476 | – | 574 |
| Others | 141 | – | – |
| Total segment assets | 1,033,797 | – | 719 |

## 5. OTHER INCOME

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Bank interest income | **11,151** | 5,547 |
| Exchange gain, net | **7,064** | – |
| Gain on fair value change of financial assets at fair value through profit or loss | **293** | 402 |
| Sundry income | **1,944** | 5,108 |
| | **20,452** | 11,057 |

## 6. FINANCE COSTS

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Interest on bank loans and overdrafts | | |
| – wholly repayable within five years | **14,788** | 9,263 |
| – not wholly repayable within five years | **3,555** | 6,697 |
| | **18,343** | 15,960 |

## 7. PROFIT BEFORE TAXATION

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Allowance for doubtful debts | **–** | 2,436 |
| Allowance for inventories | **4,698** | 364 |
| Auditor's remuneration | **1,168** | 1,253 |
| Depreciation of property, plant and equipment | **1,568** | 1,379 |
| Amortisation of prepaid lease payments for land | **244** | 16 |
| Impairment of properties held for sale | **16** | – |
| Loss on disposal of property, plant and equipment | **2,719** | 57 |
| Share of taxation of an associate | **3,381** | 3,218 |
| Staff costs including directors' emoluments | **17,095** | 16,441 |
| Cost of inventories and properties held for sale recognised as an expense | **1,444,523** | 1,348,321 |
| Exchange loss, net | – | 1,663 |
| and after crediting: | | |
| Gross rental income from investment properties | **31,773** | 25,417 |
| Less: Outgoings | **(2,511)** | (3,575) |
| Net rental income from investment properties | **29,262** | 21,842 |
| Reversal of allowance for doubtful debts | **188** | – |

Minimum lease payments for operating leases in respect of staff quarters amounting to HK$1,334,000 (2007: HK$1,391,000) are included in staff costs.

## 8. DIRECTORS' AND EMPLOYEES' REMUNERATION

### (a) Directors' remuneration

| | Mr. Rustom Ming Yu HO HK$'000 | Mr. John Ming Tak HO HK$'000 | Mr. Patrick Kwok Wai POON HK$'000 | Mr. Lawrence Kam Kee YU HK$'000 | Mr. David Hon To YU HK$'000 | Mr. Hsu Chou WU HK$'000 | Ms. Daphne HO HK$'000 | Mr. Chiu Yi CHIU HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | | |
| Fees | **–** | **–** | **–** | **240** | **240** | **60** | **60** | **–** | **600** |
| Other emoluments | | | | | | | | | |
| Salaries and other benefits | **757** | **4,262** | **1,374** | **–** | **–** | **–** | **–** | **–** | **6,393** |
| Discretionary performance bonus | **–** | **171** | **202** | **–** | **–** | **–** | **–** | **–** | **373** |
| Retirement benefit scheme contributions | **–** | **12** | **35** | **–** | **–** | **–** | **–** | **–** | **47** |
| | **757** | **4,445** | **1,611** | **240** | **240** | **60** | **60** | **–** | **7,413** |
| **2007** | | | | | | | | | |
| Fees | – | – | – | 240 | 240 | 60 | – | – | 540 |
| Other emoluments | | | | | | | | | |
| Salaries and other benefits | 757 | 4,605 | 957 | – | – | – | – | – | 6,319 |
| Discretionary performance bonus | – | – | 272 | – | – | – | – | – | 272 |
| Retirement benefit scheme contributions | – | 12 | 37 | – | – | – | – | – | 49 |
| | 757 | 4,617 | 1,266 | 240 | 240 | 60 | – | – | 7,180 |

*Note:* Mr. Patrick Kwok Wai POON appointed as an executive director on 20 April 2007.

Mr. Chiu Yi CHIU resigned as an executive director on 30 May 2007.

Ms. Daphne HO appointed as an non-executive director on 1 April 2008.

## 8. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2007: three) are directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining two (2007: two) individuals are as follows:

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Salaries and other benefits | **2,677** | 2,297 |
| Discretionary performance bonus | **288** | 397 |
| Retirement benefit costs – defined contribution plan | **24** | 21 |
| | **2,989** | 2,715 |

The emoluments were within the following bands:

| | No. of employees | |
|---|---|---|
| | **2008** | 2007 |
| Nil to HK$1,000,000 | **1** | 1 |
| HK$1,000,001 to HK$2,000,000 | **–** | 1 |
| HK$2,000,001 to HK$3,000,000 | **1** | – |

## 9. INCOME TAX EXPENSE

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| The charge comprises: | | |
| Hong Kong Profits Tax | | |
| Current year | **630** | 37 |
| Overprovision in prior years | **(6)** | (563) |
| | **624** | (526) |
| Other jurisdictions – current year | **1,675** | 1,127 |
| | **2,299** | 601 |
| Deferred tax liabilities *(note 32)* | | |
| Current year | **1,962** | 4,538 |
| Effect of change in tax rate | **(3,034)** | (590) |
| Taxation attributable to the Company and its subsidiaries | **1,227** | 4,549 |

## 9. INCOME TAX EXPENSE *(Continued)*

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1 January 2008 onwards.

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

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Profit before taxation | **51,789** | 34,389 |
| Tax at Hong Kong Profits Tax rate of 16.5% (2007: 17.5%) | **8,545** | 6,018 |
| Tax effect of expenses not deductible for tax purpose | **2,554** | 6,114 |
| Tax effect of income not taxable for tax purpose | **(3,826)** | (1,829) |
| Tax effect of tax losses not recognised | **3,249** | 13,643 |
| Tax effect on different tax rate of operations in other jurisdictions | **455** | (10,305) |
| Tax effect of deductible temporary differences not recognised | **–** | (29) |
| Effect of change in tax rate | **(3,034)** | (590) |
| Tax effect of utilisation of tax losses previously not recognised | **(6,735)** | (171) |
| Reversal of deferred tax upon disposal of investment properties | **–** | (7,739) |
| Overprovision in prior years | **(6)** | (563) |
| Others | **25** | – |
| Income tax expense for the year | **1,227** | 4,549 |

## 10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a profit of HK$16,973,000 (2007: HK$875,000).

## 11. DIVIDENDS

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Interim dividend paid for 2008 of HK$0.01(2007: HK$0.01) per ordinary share | **2,617** | 2,617 |
| Final dividend paid for 2007 of HK$0.01 (2006: HK$0.01) per ordinary share | **2,617** | 2,617 |
| | **5,234** | 5,234 |

The final dividend of HK1 cent for the year ended 31 December 2008 (2007: HK1 cent) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data:

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Earnings for the purpose of basic earnings per share: | | |
| Profit for the year attributable to equity holders of the Company | **50,562** | 29,840 |

| | **Number of shares** | |
|---|---|---|
| | **2008** | 2007 |
| Number of ordinary shares for the purpose of basic earnings per share | **261,684,910** | 261,684,910 |

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

## 13. GOODWILL

| | THE GROUP |
|---|---|
| | HK$'000 |
| COST | |
| At 1 January 2007, 31 December 2007, and 31 December 2008 | 22,308 |
| IMPAIRMENT | |
| At 1 January 2007 | – |
| Impairment charge to consolidated income statement for the year | 19,308 |
| At 31 December 2007 and 31 December 2008 | 19,308 |
| CARRYING AMOUNTS | |
| At 31 December 2008 | 3,000 |
| At 31 December 2007 | 3,000 |

Goodwill in 2007 and 2008 was allocated to the cash generating unit (CGU), engaged in the animal feed trading business with operation located in Mainland China.

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a ten year period and discount rate of 7%. The cash flows beyond the five year period are extrapolated using a zero growth rate and assuming steady cash flow at the fifth year. The growth rate does not exceed the long-term average growth rate for the animal feed trading business in which the CGU operates. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The discount rate used is pre-tax and reflect specific risks relating to the relevant segment.

No impairment loss has been recognised in the consolidated income statement for the year. In prior year, the Group recognised an impairment loss on goodwill amounting to HK$19,308,000 in the consolidated income statement.

## 14. INVESTMENT PROPERTIES

| | THE GROUP |
|---|---|
| | HK$'000 |
| FAIR VALUE | |
| At 1 January 2007 | 601,163 |
| Exchange realignment | 20,408 |
| Increase in fair value | 98,850 |
| Disposals | (58,900) |
| At 31 December 2007 | 661,521 |
| Exchange realignment | 16,143 |
| Decrease in fair value | (3,372) |
| Transfer from property, plant and equipment | 216 |
| Transfer from prepaid lease payments | 584 |
| At 31 December 2008 | 675,092 |

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

The fair value of the Group's investment properties at 31 December 2008 have been arrived at on the basis of a valuation carried out on that date by A.G. Wilkinson & Associates, independent qualified professional valuers not connected with the Group. A.G. Wilkinson & Associates is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experiences in the valuation of properties in the Mainland China and Hong Kong. The valuation was arrived at by reference to market evidence of transaction prices for similar properties and capitalisation of net income by reference to market yield of similar properties.

Certain investment properties with an aggregate carrying value of HK$610,883,000 (2007: HK$650,575,000) were pledged to secure bank facilities granted to the Group.

## 14. INVESTMENT PROPERTIES *(Continued)*

The carrying value of investment properties shown above comprises:

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Properties situated on: | | |
| – land in Hong Kong under: | | |
| Long lease | **77,920** | 316,900 |
| Medium-term lease | **291,900** | 52,000 |
| – land outside Hong Kong under: | | |
| Long lease | **305,272** | 292,621 |
| | **675,092** | 661,521 |

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Furniture, fixtures and office equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **THE GROUP** | | | | | |
| COST | | | | | |
| At 1 January 2007 | 10,986 | 7,668 | 4,003 | 5,446 | 28,103 |
| Exchange realignment | 182 | 154 | 110 | 211 | 657 |
| Additions | – | 513 | – | 206 | 719 |
| Disposals | – | – | (342) | (876) | (1,218) |
| Written off | – | (4,426) | – | – | (4,426) |
| Transfer to asset classified as held for sale | (6,804) | – | – | – | (6,804) |
| At 31 December 2007 | 4,364 | 3,909 | 3,771 | 4,987 | 17,031 |
| Exchange realignment | 219 | 40 | 55 | 99 | 413 |
| Additions | 7,792 | 5,148 | 129 | 531 | 13,600 |
| Disposals | (2,966) | – | (459) | (313) | (3,738) |
| Surplus on valuation *(note)* | 123 | – | – | – | 123 |
| Transfer to investment properties *(note)* | (263) | – | – | – | (263) |
| At 31 December 2008 | 9,269 | 9,097 | 3,496 | 5,304 | 27,166 |
| DEPRECIATION | | | | | |
| At 1 January 2007 | 2,556 | 7,462 | 1,578 | 4,946 | 16,542 |
| Exchange realignment | – | 95 | 68 | 184 | 347 |
| Provided for the year | 266 | 140 | 784 | 189 | 1,379 |
| Eliminated on disposals | – | – | (342) | (832) | (1,174) |
| Written off | – | (4,206) | – | – | (4,206) |
| Transfer to asset classified as held for sale | (2,239) | – | – | – | (2,239) |
| At 31 December 2007 | 583 | 3,491 | 2,088 | 4,487 | 10,649 |
| Exchange realignment | – | 21 | 23 | 73 | 117 |
| Provided for the year | 209 | 391 | 733 | 235 | 1,568 |
| Eliminated on disposals | (276) | – | (470) | (273) | (1,019) |
| Transfer to investment properties *(note)* | (47) | – | – | – | (47) |
| At 31 December 2008 | 469 | 3,903 | 2,374 | 4,522 | 11,268 |
| CARRYING AMOUNTS | | | | | |
| At 31 December 2008 | 8,800 | 5,194 | 1,122 | 782 | 15,898 |
| At 31 December 2007 | 3,781 | 418 | 1,683 | 500 | 6,382 |
| **THE COMPANY** | | | | | |
| COST | | | | | |
| At 1 January 2007 | – | – | – | 1,195 | 1,195 |
| Exchange realignment | – | – | – | 15 | 15 |
| Additions | – | – | – | 4 | 4 |
| At 31 December 2007 | – | – | – | 1,214 | 1,214 |
| Exchange realignment | – | – | – | – | – |
| Additions | – | – | – | 93 | 93 |
| At 31 December 2008 | – | – | – | 1,307 | 1,307 |
| DEPRECIATION | | | | | |
| At 1 January 2007 | – | – | – | 1,194 | 1,194 |
| Exchange realignment | – | – | – | 15 | 15 |
| Provided for the year | – | – | – | 1 | 1 |
| At 31 December 2007 | – | – | – | 1,210 | 1,210 |
| Exchange realignment | – | – | – | – | – |
| Provided for the year | – | – | – | 12 | 12 |
| At 31 December 2008 | – | – | – | 1,222 | 1,222 |
| CARRYING AMOUNTS | | | | | |
| At 31 December 2008 | – | – | – | 85 | 85 |
| At 31 December 2007 | – | – | – | 4 | 4 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight line basis after taking into account of their estimated residual values at the following rates per annum:

| **Category of assets** | |
|---|---|
| Buildings | 2.5% |
| Leasehold improvements | 20% |
| Motor vehicles | 25% |
| Furniture, fixtures and office equipment | 20% |

Certain buildings with an aggregate carrying amount of HK$6,154,000 (2007: HK$1,218,000) were pledged to secure bank facilities granted to the Group.

*Note:* During the year, buildings and prepaid lease payments with carrying values of HK$263,000 and HK$584,000 respectively have been transferred to investment properties. Such leasehold land and buildings were valued on the date of transfer by A.G. Wilkinson & Associates, a member of the Hong Kong Institute of Surveyors, on an open market value basis. A.G. Wilkinson & Associates are independent qualified professional valuers not connected with the Group. Accordingly, a surplus on valuation of building and prepaid lease payments amounting to HK$123,000 and HK$372,000 respectively has been recognised in the properties revaluation reserve.

## 16. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

| | **THE GROUP** | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Leasehold land in the PRC held under | | |
| – long leases | **291** | 296 |
| Leasehold land in Hong Kong held under | | |
| – long leases | **37,977** | 212 |
| | **38,268** | 508 |
| Analysed for reporting purposes as: | | |
| – Non-current asset | **37,945** | 503 |
| – Current asset | **323** | 5 |
| | **38,268** | 508 |

## 16. PREPAID LEASE PAYMENTS FOR LAND *(Continued)*

Prepaid lease payments for land with carrying values of nil (2007: HK$10,316,000) have been transferred to assets classified as held for sale.

Prepaid lease payments for land with fair value of HK$584,000 (2007: nil) have been transferred to investment properties.

Prepaid lease payments for land with carrying values of HK$37,977,000 (2007: HK$212,000) were pledged to secure bank facilities granted to the Group.

## 17. DEPOSIT PAID ON ACQUISITION OF LEASEHOLD LAND AND BUILDINGS

On 26 November 2007, Silver Regent Development Limited ("Silver Regent"), a wholly owned subsidiary of the Company, entered into the agreement with Alps Systems Technology Limited ("Alps Systems"), an independent third party on the acquisition of the property located at Unit D, 26/F, United Centre, No. 95 Queensway, Hong Kong at a consideration of HK$42,536,000. The acquisition was completed in February 2008.

## 18. INTERESTS IN SUBSIDIARIES

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **51,216** | 51,216 |
| Deemed capital contribution in subsidiaries | **15,478** | 2,539 |
| Less: Impairment losses recognised | **(3,872)** | (3,872) |
| | **62,822** | 49,883 |

During the year, the directors reviewed the carrying values of the investments. The recoverable amounts of these investments are determined with reference to the directors' estimate of discounted future cash flows and net assets of these investments as at the balance sheet date. Accordingly, no further impairment loss has been recognised in the consolidated financial statements.

## 18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries at 31 December 2008 and 2007 are as follows:

| Name of subsidiary | Place/country of incorporation/ operations | Issued share capital | Percentage of nominal value of issued share capital held directly/ indirectly by the Company 2008 | 2007 | Principal activities |
|---|---|---|---|---|---|
| *Direct subsidiary* | | | | | |
| G.C. Luckmate Trading (China) Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100% | 100% | Animal feed trading |
| G.C. Nominees Limited | Hong Kong | 100 ordinary shares of HK$1 each | 100% | 100% | Inactive |
| Halesite Limited | Hong Kong | 4,000,000 ordinary shares of HK$1 each | 100% | 100% | Property investment |
| New Solution Consultants Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 100% | Investment holding |
| Sunison Development Limited | Hong Kong | 100 ordinary shares of HK$1 each | 100% | 100% | Investment holding |
| Tai Loy Trading Company Limited | Hong Kong | 43,344,000 ordinary shares of HK$1 each | 100% | 100% | Investment holding |
| Dajen Properties Limited | British Virgin Islands/ Hong Kong | 1 ordinary share of US$1 | 100% | 100% | Investment holding |
| Great China Development (Shanghai) Limited | British Virgin Islands/ Hong Kong | 10 ordinary shares of US$1 each | 100% | 100% | Investment holding |

## 18. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place/country of incorporation/ operations | Issued share capital | Percentage of nominal value of issued share capital held directly/ indirectly by the Company 2008 | 2007 | Principal activities |
|---|---|---|---|---|---|
| *Direct subsidiary (Continued)* | | | | | |
| 549653 B.C. Limited | Canada | 1 ordinary share of CAD1 | 100% | 100% | Property investment in Vancouver, Canada |
| Haode Property Management (Shanghai) Company Limited* | PRC | Registered capital of US$500,000 | 100% | 100% | Real estate agent in Shanghai, China |
| *Indirect subsidiary* | | | | | |
| Alliance Pacific Investment Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100% | 100% | Property investment in Beijing China |
| Capital Head Investment Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100% | 100% | Property investment in Shanghai, China |
| Concord Trinity Development Limited | Hong Kong | 2 ordinary shares of HK$1 each and 2 non-voting deferred shares of HK$1 each *(note)* | 100% | 100% | Property investment in Shanghai, China |
| G.C. Luckmate Trading Limited | Hong Kong | 4,000,000 ordinary shares of HK$1 | 100% | 100% | Animal feed trading |
| G.C. Luckmate Trading (Asia) Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100% | 100% | Animal feed trading |
| G.C. Luckmate Trading (International) Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100% | 100% | Animal feed trading |
| Glory South Investment Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100% | 100% | Property investment |

## 18. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place/country of incorporation/ operations | Issued share capital | Percentage of nominal value of issued share capital held directly/ indirectly by the Company 2008 | 2007 | Principal activities |
|---|---|---|---|---|---|
| *Indirect subsidiary (Continued)* | | | | | |
| Honour Alliance Development Limited | Hong Kong | 100 ordinary shares of HK$1 each | 100% | 100% | Property investment |
| Jelson Enterprises Limited | Hong Kong | 2 ordinary shares of HK$1 each and 2 non-voting deferred shares of HK$1 each *(note)* | 100% | 100% | Property investment in Shanghai, China |
| Silver Regent | Hong Kong | 100 ordinary shares of HK$1 each | 100% | 100% | Property investment |
| Star Talent Investment Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100% | 100% | Property investment in Beijing, China |
| Adamgate Limited | British Virgin Islands/ Hong Kong | 1 ordinary share of US$1 | 100% | 100% | Investment holding |
| Fairlight Limited | British Virgin Islands/ Hong Kong | 1 ordinary share of US$1 | 100% | 100% | Ship chartering |
| Great China Commodities Limited | British Virgin Islands/ Hong Kong | 10,000 ordinary shares of US$1 each | 100% | 100% | Investment holding |
| Jasmine Ocean Limited | British Virgin Islands/ Hong Kong | 1 ordinary share of US$1 | 100% | 100% | Ship chartering |

## 18. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place/country of incorporation/ operations | Issued share capital | Percentage of nominal value of issued share capital held directly/ indirectly by the Company 2008 | 2007 | Principal activities |
|---|---|---|---|---|---|
| *Indirect subsidiary (Continued)* | | | | | |
| Poppins Properties Limited | British Virgin Islands/ Hong Kong | 55,603 ordinary shares of US$1 each | 100% | 100% | Investment holding |
| Qingdao Parada International Heating Company Limited** | PRC | Registered capital of RMB3,000,000 | – | 63% | Boiler trading in Qingdao, China |
| 上海裕景貿易有限公司* | PRC | Registered capital of RMB3,000,000 | 100% | 100% | Animal feed trading |
| 博平置業(上海)有限公司* | PRC | Registered capital of US$8,460,000 | 100% | 100% | Property investment in Shanghai, China |
| 上海澤尼貿易有限公司* | PRC | Registered capital of US$150,000 | 100% | N/A | Animal feed trading |

* *A wholly foreign owned enterprise*

** *A foreign equity joint venture enterprise*

*Note:* The deferred shares, which are not held by the Group, carry practically no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the relevant companies nor to participate in any distribution on winding up.

None of the subsidiaries had any debt security outstanding at the end of the year or at any time during the year.

## 19. INTERESTS IN ASSOCIATES/LOAN TO AN ASSOCIATE/AMOUNT DUE FROM AN ASSOCIATE

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cost of investment in unlisted associates | **–** | – | **–** | – |
| Share of post-acquisition reserves | **105,792** | 93,098 | **–** | – |
| Deemed contribution | **868** | – | **868** | – |
| | **106,660** | 93,098 | **868** | – |

The loan to an associate is unsecured, interest-free and not repayable within the next twelve months after the balance sheet date. Accordingly, the amount is shown as a non-current asset.

The interest-free loan is measured at amortised cost determined using the effective interest method. The effective interest rate of the amount is 5% per annum.

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

Particulars of the associates at 31 December 2008 and 2007 are as follows:

| Name of associate | Form of business structure | Place of incorporation/ operation | Proportion of nominal value of issued share capital indirectly held by the Company 2008 | 2007 | Principal activity |
|---|---|---|---|---|---|
| Samstrong International Limited *(note 1)* | Incorporated | British Virgin Island/Hong Kong | 43% | 43% | Investment holding |
| Da Da Development (Shanghai) Corporation *(note 2)* | Incorporated | PRC | 43% | 43% | Property investment in Shanghai, China |
| Yield Commence Limited *(note 3)* | Incorporated | Hong Kong | 43% | 43% | Investment holding |

## 19. INTERESTS IN ASSOCIATES/LOAN TO AN ASSOCIATE/AMOUNT DUE FROM AN ASSOCIATE *(Continued)*

*Notes:*

1. Out of the total 43 shares held by the Group, 7 shares (2007: 7 shares) are charged to another shareholder of Samstrong International Limited in exchange for the consent from such shareholder to pledge the investment properties of the associate as security for banking facilities used by the Group.

2. Da Da Development (Shanghai) Corporation is a wholly owned subsidiary of Yield Commence Limited and it is also a wholly foreign owned investment enterprise.

3. Yield Commence Limited is a wholly owned subsidiary of Samstrong International Limited and it is also a wholly foreign owned investment enterprise.

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

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Total assets | **462,964** | 435,103 |
| Total liabilities | **(212,297)** | (218,596) |
| Net assets | **250,667** | 216,507 |
| Group's share of net assets of associates | **106,660** | 93,098 |
| Revenue | **10,752** | 6,212 |
| Profit for the year | **10,626** | 62,255 |
| Group's share of results of associates for the year | **4,569** | 26,770 |

## 20. AMOUNTS DUE FROM (TO) SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Amounts due from subsidiaries | **469,210** | 442,317 |
| Less: Impairment losses recognised | **(4,388)** | (4,388) |
| | **464,822** | 437,929 |
| Less: Amounts due within one year shown under current assets | **(175,313)** | (152,008) |
| Amounts due after one year | **289,509** | 285,921 |

During the year, the directors reviewed the carrying values of amounts due from subsidiaries. The recoverable amounts of these amounts due from subsidiaries are determined with reference to net assets of the subsidiaries as at the balance sheet date. No further impairment loss has been recognised by the Company during the year.

Included in the amounts due from subsidiaries of HK$289,509,000 (2007: HK$285,921,000) is unsecured, interest-free and are not expected to be repaid within the next twelve months from the balance sheet date. Accordingly, the amount is shown as non-current. The remaining balance is unsecured, interest-free and repayable on demand.

The interest-free balance is initially measured at fair value and subsequently measured at amortised cost determined using the effective interest method. The effective interest rate of the amount is 5.0% (2007: 6.3%) per annum.

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

## 21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Club debentures | **1,635** | 4,101 |

All available-for-sale financial assets, representing club debentures, are stated at fair value.

## 22. PROPERTIES HELD FOR SALE

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Properties held for sale | | |
| – Prepaid lease payments for land use right | **5,384** | 5,461 |
| – Buildings | **10,933** | 24,303 |
| | **16,317** | 29,764 |
| Properties held for sale in the PRC under long leases | **16,317** | 29,764 |

Certain properties held for sale with a carrying amount of HK$12,483,000 (2007: HK$27,453,000) have been pledged to secure bank facilities granted to the Group.

## 23. INVENTORIES

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Trading merchandises | **120,371** | 90,224 |

## 24. TRADE AND OTHER RECEIVABLES

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Trade and bills receivables | **64,533** | 160,076 |
| Less: allowance for doubtful debts | **(2,559)** | (4,325) |
| | **61,974** | 155,751 |
| Prepayments and deposits | **19,327** | 25,334 |
| Other receivables | **11,229** | 2,547 |
| Trade and other receivables | **92,530** | 183,632 |

## 24. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group allows a credit period ranging from 30 to 90 days to its customers in respect of trading of animal feed. No interest is charged on the trade receivables. The Group has provided fully for all receivables over 120 days because historical experience is such that receivables that are past due beyond 120 days are generally not recoverable. Trade receivables over 120 days are provided for based on estimated irrecoverable amounts from the sale of goods, assessed individually by reference to past default experience.

Included in trade and other receivables are trade and bills receivables with an aged analysis as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **53,810** | 151,789 |
| 31 – 60 days | **6,528** | 614 |
| 61 – 90 days | **193** | 4 |
| 91 – 120 days | **1,443** | 3,344 |
| | **61,974** | 155,751 |

Before accepting any new customer, the Group carries out research on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year.

Included in the Group's trade receivable balance are debtors with a carrying amount of nil (2007: nil) which are past due at the reporting date for which the Group has not provided.

### Movement in the allowance for doubtful debts

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Balance at the beginning of the year | **4,325** | 1,889 |
| Amounts written off during the year | **(1,578)** | – |
| (Decrease) increase in allowance recognised in profit or loss | **(188)** | 2,436 |
| Balance at the end of the year | **2,559** | 4,325 |

## 24. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of HK$2,559,000 (2007: HK$4,325,000) which are in severe financial difficulties.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Company has concentration of credit risks as 10% (2007: 11%) and 16% (2007: 12%) of the total receivables was due from the Company's largest customer and the five largest customers respectively. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

During the year, the Group discounted HK$401,925,000 (2007: HK$724,917,000) of bills receivables with full recourse with certain banks. Accordingly, the Group continued to recognise the full carrying amount of the receivables and had recognised the cash received from the banks as a secured borrowing.

At 31 December 2007, the carrying amount of bills receivables with recourse, which had been pledged to certain banks as security for the borrowing, was HK$39,993,000. The carrying amount of the associated liability was HK$39,993,000.



## 25. DERIVATIVE FINANCIAL INSTRUMENTS

In the current year, the Group entered into a number of foreign currency non-derivable forward contracts to manage its currency fluctuation exposures. The instruments purchased are primarily purchasing United States dollars and selling Renminbi and to be settled on net settlement basis on the maturity dates of the instruments.

At 31 December 2008, the total notional amount of the forward contracts amounted to USD15,600,000. The maturity of the contracts range from three months to six months subsequent to the balance sheet date. The contract rates range from RMB6.31:USD1 to RMB6.63:USD1.

At 31 December 2008, the fair value of the Group's foreign currency forward contracts is estimated to be financial assets of approximately HK$7,735,000 (2007: nil). These amounts are based on market prices quoted by banks at the balance sheet date.

## 26. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSIT

### THE GROUP

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carry prevailing market interest rates ranging from 0.50% to 2.25% (2007: 2.25% to 5.16%) per annum.

In 2007, the pledged deposit held by the Group carried prevailing market interest rate at 4.14% per annum.

## 26. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSIT *(Continued)*

### THE COMPANY

Bank balances and cash comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The bank balances carry prevailing market interest rates ranging from 0.80% to 1.80% (2007: 3.41% to 3.95%) per annum.

## 27. ASSET CLASSIFIED AS HELD FOR SALE

On 31 December 2007, Silver Regent entered into an agreement with Tech-link Silicones Company Limited ("Tech-link Silicones"), an independent third party, for the disposal of the Group's office building located at 6/F, King Kong Commercial Center, 9 Des Voeux Road West, Hong Kong (the "Property"), which were expected to be sold within the next twelve months from the balance sheet date.

The sale was completed in April 2008. The consideration for the disposal of the Property paid by Tech-link Silicones was approximately HK$36 million with a gain on disposal of approximately HK$22 million credited to the consolidated income statement.

At 31 December 2007, the property was pledged to secure bank facilities granted to the Group.

## 28. TRADE AND BILLS PAYABLES

At the balance sheet date, an aged analysis of trade and bills payables are as follows:

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **69,878** | 158,737 |
| 31 to 60 days | **45,392** | – |
| Over 60 days | **568** | 581 |
| | **115,838** | 159,318 |

The average credit period on purchase of goods is 30 days. No interest is charged on the trade creditors. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 29. BORROWINGS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Secured | | | | |
| Bank loans | **280,835** | 163,695 | **62,443** | 71,767 |
| Trust receipt loans | **71,735** | 89,618 | **71,735** | 82,243 |
| Discounted bills receivables with full recourse | **–** | 39,993 | **–** | – |
| | **352,570** | 293,306 | **134,178** | 154,010 |

The maturity of the above borrowings is as follows:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| On demand or within one year | **230,815** | 158,871 | **78,675** | 88,829 |
| More than one year, but not exceeding two years | **12,618** | 34,187 | **6,940** | 6,723 |
| More than two years, but not exceeding five years | **49,799** | 45,231 | **20,819** | 21,028 |
| More than five years | **59,338** | 55,017 | **27,744** | 37,430 |
| | **352,570** | 293,306 | **134,178** | 154,010 |
| Less: Amount due within one year shown under current liabilities | **(230,815)** | (158,871) | **(78,675)** | (88,829) |
| Amount due after one year | **121,755** | 134,435 | **55,503** | 65,181 |

Included in the Group's and the Company's borrowings are variable-rate borrowings of HK$352,570,000 (2007: HK$278,721,000) and HK$134,178,000 (2007: HK$154,010,000) respectively which carry interest at the Hong Kong Inter Bank Offered Rate or London Inter Bank Offered Rate plus certain basis points and subject to cash flow interest rate risk.

## 29. BORROWINGS *(Continued)*

The effective interest rates at the balance sheet date on the borrowings of the Group and the Company were as follows:

| | THE GROUP | | | THE COMPANY | |
|---|---|---|---|---|---|
| | HK$ | US$ | RMB | HK$ | US$ |
| **2008** | | | | | |
| Bank loans | 1.60% | 1.72% | 6.74% | 1.66% | 1.72% |
| Trust receipt loans | – | 1.49% | – | – | 1.49% |
| **2007** | | | | | |
| Bank loans | 4.61% | 6.18% | 6.23% | 4.75% | 6.23% |
| Trust receipt loans | – | 5.04% | – | – | – |
| Discounted bills receivables with full recourse | – | 4.42% | – | – | – |

Bank borrowings are secured by certain investment properties, buildings, prepaid lease payments for land and properties held for sale. Guarantees were also given by the Company in respect of certain subsidiaries' borrowings. Discounted bills receivables with full recourse are secured by bills receivables.

The Group and the Company's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong dollars | **45,058** | 57,393 | **34,323** | 44,763 |

## 29. BORROWINGS *(Continued)*

As at the balance sheet date, the Group and the Company has the following undrawn borrowing facilities:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Floating rate – expiring within one year | **529,319** | 464,839 | **529,319** | 218,968 |

The facilities expiring within one year are annual facilities subject to review at various dates during 2009.

## 30. SHARE CAPITAL

| | **Number of shares 2008 & 2007** | **Amount 2008 & 2007** HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.2 each | | |
| Authorised: | | |
| At 1 January and 31 December | 500,000,000 | 100,000 |
| Issued and fully paid: | | |
| At 1 January and 31 December | 261,684,910 | 52,337 |

## 31. RESERVES

### THE COMPANY

| | **Share premium** HK$'000 | **Retained profits** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1 January 2007 | 19,516 | 67,943 | 87,459 |
| Profit for the year | – | 875 | 875 |
| Dividends paid | – | (5,234) | (5,234) |
| At 31 December 2007 | 19,516 | 63,584 | 83,100 |
| Profit for the year | – | 16,973 | 16,973 |
| Dividends paid | – | (5,234) | (5,234) |
| At 31 December 2008 | 19,516 | 75,323 | 94,839 |

## 32. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the two years ended 31 December 2008 and 2007:

### THE GROUP

| | Accelerated tax depreciation | Revaluation of investment properties | Tax losses | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2007 | 4,759 | 74,360 | (3,339) | 75,780 |
| Exchange realignment | 288 | 1,306 | – | 1,594 |
| (Credit) charge to consolidated income statement for the year | (637) | 12,313 | 600 | 12,276 |
| Effect of change in tax rate | 13 | (603) | – | (590) |
| Reversal upon disposal of investment property | (129) | (7,609) | – | (7,738) |
| At 31 December 2007 | 4,294 | 79,767 | (2,739) | 81,322 |
| Exchange realignment | 193 | 1,278 | – | 1,471 |
| Charge to consolidated income statement for the year | 927 | 229 | 806 | 1,962 |
| Effect of change in tax rate | (40) | (3,151) | 157 | (3,034) |
| At 31 December 2008 | 5,374 | 78,123 | (1,776) | 81,721 |

### THE GROUP

At the balance sheet date, the Group has unused tax losses of HK$145,962,000 (2007: HK$172,333,000) available for offset against future profits. A deferred tax asset of approximately HK$1,776,000 (2007: HK$2,739,000) has been recognised in respect of approximately HK$10,765,000 (2007: HK$15,651,000) of such losses.

No deferred tax asset has been recognised in respect of the remaining HK$135,197,000 (2007: HK$156,682,000) of such losses due to the unpredictability of future profit streams. Losses amounting to HK$24,722,000 (2007: HK$7,455,000) will expire from 2009 to 2013 and losses amounting to HK$121,240,000 (2007: HK$164,878,000) have no expiry date.

At the balance sheet date, the Group has deductible temporary differences of HK$671,000 (2007; HK$671,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised.

## 32. DEFERRED TAXATION *(Continued)*

### THE COMPANY

At the balance sheet date, the Company has unused tax losses of HK$32,558,000 (2007: HK$32,558,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The losses have no expiry date.

## 33. CONTINGENT LIABILITIES AND COMMITMENTS

| | THE COMPANY | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Contingent liabilities: | | |
| Corporate guarantees given to banks in respect of banking facilities given to subsidiaries | **994,835** | 870,859 |

Included in the Company's other payables and accrued expenses of HK$1,003,000 (2007: HK$2,539,000) is liabilities recognised in relation to the abovementioned guarantees given to banks in respect of banking facilities utilised by its subsidiaries.

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Capital commitments: | | | | |
| Contracted for but not provided: | | | | |
| Acquisition of property, plant and equipment | **–** | 38,325 | **–** | – |

## 34. OPERATING LEASE ARRANGEMENTS

### The Group as lessee:

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

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Within one year | **399** | 648 |
| In the second to fifth year inclusive | **115** | – |
| | **514** | 648 |

Operating lease payments represent rental payable by the Group for certain land and buildings. Leases for these land and buildings are negotiated for terms of one to three years with fixed rentals.

### The Group as lessor:

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

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Within one year | **28,183** | 25,207 |
| In the second to fifth year inclusive | **63,659** | 56,450 |
| Over five years | **22,627** | 39,267 |
| | **114,469** | 120,924 |

Leases are negotiated for an average term ranging from 1 to 10 years with fixed rentals over the terms of the leases.

## 35. RETIREMENT BENEFIT SCHEME

The Group participates in the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the scheme are held separately from those of the Group, in funds under the control of trustee.

Employees who were members of a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance prior to the establishment of the MPF Scheme were required to switch to the MPF Scheme from 1 December 2000 onwards, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, both the Group and the employees contribute 5% of the employee's monthly remunerations or HK$1,000 per month whichever is the smaller to the scheme.

The total cost charged to the consolidated income statement of HK$242,524 (2007: HK$223,920) represents contributions payable to the MPF Scheme, by the Group during the year.

## 36. PLEDGE OF ASSETS

At 31 December 2008, the Group has pledged the following assets and assigned rental income from letting of properties in favour of banks to secure the banking facilities:

| | **THE GROUP** | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Investment properties | **610,883** | 650,575 |
| Prepaid lease payments for land | **37,977** | 212 |
| Properties held for sale | **12,483** | 27,453 |
| Buildings | **6,154** | 1,218 |
| Pledged bank deposit | – | 8,602 |
| Trade receivables | – | 39,993 |
| Asset classified as held for sale | – | 14,881 |

## 37. RELATED PARTY TRANSACTIONS

(1) Transactions with associates

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Nature of transaction | | |
| Interest income received by the Group | **–** | 154 |

(2) The Group's and the Company's balances with related parties are set out in the balance sheets and notes 19 and 20.

(3) Key management compensation was as follows:

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Salaries and other benefits | **8,822** | 8,223 |
| Retirement benefit costs – defined contribution plan | **59** | 58 |
| | **8,881** | 8,281 |

## 38. KEY SOURCE OF ESTIMATION UNCERTAINTY

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (i) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. The valuation is reviewed annually by qualified valuers by considering information from a variety of sources including:

- current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from the external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

## 38. KEY SOURCE OF ESTIMATION UNCERTAINTY *(Continued)*

### (ii) Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment 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). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amount of trade receivable is HK$61,974,000 (net of allowance for doubtful debts of HK$2,559,000).

### (iii) Fair value of other financial instruments

The fair value of other financial instruments that are not traded in an active market (for example, club debentures) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

### (iv) Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated variable selling expenses. The cost of inventories is written down to net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The amount write off to the income statement is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recovered, significant judgments are required. In making this judgment, the Company evaluates, among other factors, the duration and extent and the means by which the amount will be recovered. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in customer preference and competitor actions in response to market conditions.

## 39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 29, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 30 and consolidated statement of changes in equity respectively.

The directors of the Company review the capital structure periodically. As a part of this review, the directors of the Company prepare the annual budget taking into account of the provision of funding. Based on the proposed annual budget, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt, if necessary.

The Group's overall strategy remains unchanged from that of 2007.

## 40. FINANCIAL INSTRUMENTS

### (a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Categories of financial instruments

**THE GROUP**

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| *Financial assets* | | |
| Fair value through profit or loss (FVTPL) | | |
| Derivative financial assets | **7,735** | – |
| Loans and receivables (including cash and cash equivalents) | **304,201** | 300,598 |
| Available-for-sale financial assets | **1,635** | 4,101 |
| | **313,571** | 304,699 |
| *Financial liabilities* | | |
| Amortised cost | **478,752** | 459,134 |

**THE COMPANY**

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| *Financial assets* | | |
| Loans and receivables (including cash and cash equivalents) | **531,478** | 523,519 |
| *Financial liabilities* | | |
| Amortised cost | **445,992** | 429,349 |

### (c) Financial risk management objectives

The management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

In current year, the Group has entered into certain foreign currency non-deliverable forward contracts to reduce the currency fluctuation exposures of the Group.

There has been no change to the Group's and the Company's exposure to market risks or the manner in which it manages and measures.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (d) Foreign currency risk management

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 1% (2007: 1%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 97% (2007: 97%) of costs are denominated in the group entity's functional currency.

#### *(i) Non-derivative foreign currency monetary assets and monetary liabilities*

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

**THE GROUP**

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong dollars | **1,795** | 19,152 | **42,081** | 50,415 |
| United States dollars | **55** | – | **–** | – |
| Renminbi | **17,870** | 30,955 | **3,418** | 12,911 |

**THE COMPANY**

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong dollars | **219,159** | 219,595 | **202,441** | 192,900 |
| Renminbi | **13,816** | 17,035 | **9,061** | 16,697 |
| Canadian dollars | **1,726** | 2,173 | **62** | 78 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (d) Foreign currency risk management *(Continued)*

#### (i) *Non-derivative foreign currency monetary assets and monetary liabilities (Continued)*

**Foreign currency sensitivity**

The Group is mainly exposed to the currency of Hong Kong dollars, United States dollars and Renminbi. The Company is mainly exposed to the currency of Hong Kong dollars, Renminbi and Canadian dollars.

The following table details the Group's and the Company's sensitivity to a 10% increase and decrease in the functional currencies of the relevant group entities and the Company against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the functional currencies of the relevant group entities and the Company strengthens against the relevant foreign currencies.

THE GROUP

| | Profit or loss | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Hong Kong dollars | **4,029** | 3,126 |
| United States dollars | **(5)** | – |
| Renminbi | **(1,445)** | (1,804) |

THE COMPANY

| | Profit or loss | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Hong Kong dollars | **(1,672)** | (2,670) |
| Renminbi | **(475)** | (34) |
| Canadian dollars | **(166)** | (210) |

In management's opinion, the sensitivity analysis is unrepresentative of the foreign exchange risk inherent in the financial assets and financial liabilities as the year end exposure does not reflect the exposure during the year.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (d) Foreign currency risk management *(Continued)*

#### *(ii) Foreign currency forward contracts*

During the year, the Group has entered into several foreign currency non-deliverable forward contracts with banks to reduce its exposure to currency fluctuations risk of United States dollars and Renminbi. These derivatives are not accounted for under hedge accounting. The Group are required to estimate the fair value of the forward currency non-deliverable forward contracts at each balance sheet date, which therefore exposed the Group to foreign currency risk.

**Foreign currency sensitivity**

The sensitivity analyses below have been determined based on the exposure to the Group's forward buying rate risk at the reporting date.

If the forward exchange rate of RMB against USD had been 10% higher/lower while all other input variables of the valuation models were held constant, the Group's profit for the year would increase (decrease) as follows:

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Higher by 10% | | |
| Derivative financial instruments: | | |
| Foreign currency non-deliverable forward contracts | **10,117** | – |
| Lower by 10% | | |
| Derivative financial instruments: | | |
| Foreign currency non-deliverable forward contracts | **(12,366)** | – |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (e) Interest rate risk management

The Group and the Company are exposed to fair value interest rate risk in relation to fixed-rate loan to an associate.

The Group and the Company are exposed to cash flow interest rate risk in relation to variable-rate borrowings (see not 29 for details of these borrowings) and bank balances.

#### *Interest rate sensitivity*

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments including bank balances and borrowings, at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rate.

#### *THE GROUP*

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2008 would decrease/increase by HK$1,666,000 (2007: decrease/increase by HK$1,166,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate, borrowings and bank balances.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

#### *THE COMPANY*

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's:

- profit for the year ended 31 December 2008 would decrease/increase by HK$657,000 (2007: decrease/increase by HK$760,000). This is mainly attributable to the Company's exposure to interest rates on its variable rate, borrowings and bank balances.

The Company's sensitivity to interest rates has increased during the current year mainly due to the decrease in bank balances.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (f) Other price risks

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

The Group is required to estimate the fair value of the available-for-sale financial assets at each balance sheet date and therefore, the Group is exposed to price risks arising from its available-for-sale financial assets. The management manages this exposure by maintaining a portfolio of investments with different risks.

**Price sensitivity**

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

If the prices of debt instruments had been 10% higher while all other variables were held constant, investment revaluation reserve would increase by HK$164,000 (2007: increase by HK$410,000) mainly as a result of the changes in the fair value of available-for-sale financial assets.

If prices of debt instruments had been 10% lower while all other variables were held content, profit for the year would decrease by HK$164,000 (2007: decrease in investment revaluation reserve by HK$410,000) mainly as a result of impairment loss on available-for-sale financial assets recognised in the consolidated financial statements.

The Group's sensitivity to equity prices has not changed significantly from the prior year.

### (g) Credit risk management

As at 31 December 2008, the Group's and the Company's maximum exposures to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Company are arising from:

- the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet and the Company's balance sheet; and

- the amount of contingent liabilities in relation to financial guarantee issued by the Company as disclosed in note 33.

The Group and the Company have adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. The Group's and the Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by credit limit allowed to counterparty that are reviewed and approved by the risk management committee annually.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (g) Credit risk management *(Continued)*

The Group has concentration of credit risk on loan to an associates and amount due from an associate. The Company has concentration of credit risk on loan to an associate, amounts due from subsidiaries and amount due from an associate. The Group also has concentration of credit risk on several customers as 10% (2007: 11%) and 16% (2007: 12%) of the total receivables was due from the Group's largest customer and the five largest customers respectively.

The Group and the Company do not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 67% (2007: 66%) of the total trade and bills receivables as at 31 December 2008.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's and the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained:

**THE GROUP**

| | Maximum credit risk | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Loans and receivables (including cash and cash equivalents) | **304,201** | 300,598 |
| Available-for-sale financial assets | **1,635** | 4,101 |
| | **305,836** | 304,699 |

**THE COMPANY**

| | Maximum credit risk | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Loans and receivables (including cash and cash equivalents) | **531,478** | 523,519 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's and the Company's short, medium and long-term funding and liquidity management requirements. The Group and the Company manage liquidity risk by maintaining adequate reserves, banking facilities and undrawn borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group and the Company rely on bank borrowings as a significant source of liquidity. As at 31 December 2008, the Group and the Company have available unutilised overdraft and short-term bank loan facilities of approximately HK$529,319,000 (2007: HK$464,839,000) and HK$529,319,000 (2007: HK$218,968,000) respectively. Details of which are set out in note 29.

#### *Liquidity and interest risk tables*

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Group ad the Company can be required to pay. Such non-derivative financial liabilities outstanding at the balance sheet date are considered as if outstanding for the whole year. The table includes both interest and principal cash flows.

# 40. FINANCIAL INSTRUMENTS *(Continued)*

## (h) Liquidity risk management *(Continued)*

### *Liquidity and interest risk tables* *(Continued)*

**THE GROUP**

| | 0-60 days HK$'000 | 61-180 days HK$'000 | 181-365 days HK$'000 | 1-2 years HK$'000 | 2-3 years HK$'000 | Over 3 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2008 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and bills payables | **97,576** | **18,206** | **56** | **–** | **–** | **–** | **115,838** | **115,838** |
| Other payables | **3,071** | **–** | **–** | **–** | **–** | **–** | **3,071** | **3,071** |
| Trust receipt loans | **71,822** | **–** | **–** | **–** | **–** | **–** | **71,822** | **71,735** |
| Bank loans | | | | | | | | |
| – variable rate | **27,343** | **127,682** | **6,944** | **13,800** | **13,682** | **150,346** | **339,797** | **280,835** |
| Rental deposits received | **83** | **–** | **–** | **5,042** | **–** | **2,148** | **7,273** | **7,273** |
| | **199,895** | **145,888** | **7,000** | **18,842** | **13,682** | **152,494** | **537,801** | **478,752** |

| | 0-60 days HK$'000 | 61-180 days HK$'000 | 181-365 days HK$'000 | 1-2 years HK$'000 | 2-3 years HK$'000 | Over 3 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2007 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and bills payables | 156,165 | 3,153 | – | – | – | – | 159,318 | 159,318 |
| Trust receipt loans | – | 91,873 | – | – | – | – | 91,873 | 89,618 |
| Discounted bills receivables with full recourse | 40,329 | – | – | – | – | – | 40,329 | 39,993 |
| Bank loans | | | | | | | | |
| – fixed rate | – | – | 15,415 | – | – | – | 15,415 | 14,585 |
| – variable rate | – | – | 15,348 | 35,869 | 47,480 | 73,732 | 172,429 | 149,110 |
| Rental deposits received | 6 | – | – | 2,366 | 1,977 | 2,161 | 6,510 | 6,510 |
| | 196,500 | 95,026 | 30,763 | 38,235 | 49,457 | 75,893 | 485,874 | 459,134 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (h) Liquidity risk management *(Continued)*

***Liquidity and interest risk tables*** *(Continued)*

**THE COMPANY**

| | 0-60 days HK$'000 | 61-180 days HK$'000 | 181-365 days HK$'000 | 1-2 years HK$'000 | 2-3 years HK$'000 | Over 3 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2008 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and bills payables | **94,841** | **18,105** | **–** | **–** | **–** | **–** | **112,946** | **112,946** |
| Other payables | **244** | **–** | **–** | **–** | **–** | **–** | **244** | **244** |
| Trust receipt loans | **71,822** | **–** | **–** | **–** | **–** | **–** | **71,822** | **71,735** |
| Bank loans | | | | | | | | |
| – variable rate | **1,388** | **2,575** | **3,845** | **7,625** | **7,539** | **43,557** | **66,529** | **62,443** |
| Amounts due to subsidiaries | **198,624** | **–** | **–** | **–** | **–** | **–** | **198,624** | **198,624** |
| | **366,919** | **20,680** | **3,845** | **7,625** | **7,539** | **43,557** | **450,165** | **445,992** |

| | 0-60 days HK$'000 | 61-180 days HK$'000 | 181-365 days HK$'000 | 1-2 years HK$'000 | 2-3 years HK$'000 | Over 3 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2007 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and bills payables | 106,597 | – | – | – | – | – | 106,597 | 106,597 |
| Trust receipt loans | – | 84,312 | – | – | – | – | 84,312 | 82,243 |
| Bank loans | | | | | | | | |
| – variable rate | – | – | 6,883 | 7,028 | 21,996 | 50,530 | 86,437 | 71,767 |
| Amounts due to subsidiaries | 168,742 | – | – | – | – | – | 168,742 | 168,742 |
| | 275,339 | 84,312 | 6,883 | 7,028 | 21,996 | 50,530 | 446,088 | 429,349 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (h) Liquidity risk management *(Continued)*

#### *Liquidity and interest risk tables* *(Continued)*

The following table details the Group's and the Company's contractual maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group and the Company anticipate that the cash flow will occur in a different period.

**THE GROUP**

| | 0-60 days HK$'000 | 61-180 days HK$'000 | 181-365 days HK$'000 | 1-2 years HK$'000 | 2-3 years HK$'000 | Over 3 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2008 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | |
| **Non-derivative financial assets** | | | | | | | | |
| Trade and other receivables | 52,930 | 25,252 | – | – | – | – | 78,182 | 78,182 |
| Cash and cash equivalents – variable rate | 164,436 | – | – | – | – | – | 164,436 | 164,065 |
| Amount due from an associate | 44,596 | – | – | – | – | – | 44,596 | 44,596 |
| Loan to an associate | – | – | – | 18,226 | – | – | 18,226 | 17,358 |
| | 261,962 | 25,252 | – | 18,226 | – | – | 305,440 | 304,201 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (h) Liquidity risk management *(Continued)*

#### *Liquidity and interest risk tables (Continued)*

| | 0-60 days HK$'000 | 61-180 days HK$'000 | 181-365 days HK$'000 | 1-2 years HK$'000 | 2-3 years HK$'000 | Over 3 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2007 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | |
| **Non-derivative financial assets** | | | | | | | | |
| Trade and other receivables | 147,662 | 8,089 | – | – | – | – | 155,751 | 155,751 |
| Cash and cash equivalents | | | | | | | | |
| – fixed rate | – | – | 8,929 | – | – | – | 8,929 | 8,602 |
| – variable rate | 70,996 | – | – | – | – | – | 70,996 | 70,778 |
| Amount due from an associate | 44,003 | – | – | – | – | – | 44,003 | 44,003 |
| Loan to an associate | – | – | – | 24,281 | – | – | 24,281 | 21,464 |
| | 262,661 | 8,089 | 8,929 | 24,281 | – | – | 303,960 | 300,598 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (h) Liquidity risk management *(Continued)*

#### *Liquidity and interest risk tables* *(Continued)*

**THE COMPANY**

| | 0-60 days HK$'000 | 61-180 days HK$'000 | 181-365 days HK$'000 | 1-2 years HK$'000 | 2-3 years HK$'000 | Over 3 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2008 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | |
| **Non-derivative financial assets** | | | | | | | | |
| Amounts due from subsidiaries | **175,313** | **–** | **–** | **303,985** | **–** | **–** | **479,298** | **464,822** |
| Cash and cash equivalents – variable rate | **4,712** | **–** | **–** | **–** | **–** | **–** | **4,712** | **4,702** |
| Amount due from an associate | **44,596** | **–** | **–** | **–** | **–** | **–** | **44,596** | **44,596** |
| Loan to an associate | **–** | **–** | **–** | **18,226** | **–** | **–** | **18,226** | **17,358** |
| | **224,621** | **–** | **–** | **322,211** | **–** | **–** | **546,832** | **531,478** |

| | 0-60 days HK$'000 | 61-180 days HK$'000 | 181-365 days HK$'000 | 1-2 years HK$'000 | 2-3 years HK$'000 | Over 3 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2007 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | |
| **Non-derivative financial assets** | | | | | | | | |
| Amounts due from subsidiaries | 152,008 | – | – | 303,985 | – | – | 455,993 | 437,929 |
| Cash and cash equivalents – variable rate | 20,226 | – | – | – | – | – | 20,226 | 20,123 |
| Amount due from an associate | 44,003 | – | – | – | – | – | 44,003 | 44,003 |
| Loan to an associate | – | – | – | 24,281 | – | – | 24,281 | 21,464 |
| | 216,237 | – | – | 328,266 | – | – | 544,503 | 523,519 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### (i) Fair value of financial instruments

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

The fair value of available-for-sale financial assets are determined with reference to market bid price.

The fair value of derivative instruments are measured using quoted forward rates and discounted using applicable yield for the duration of the instruments.

Except as indicated in the notes 21 and 25 in the financial statements, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the financial statements approximate to their fair values.

# Schedule Of Principal Properties

*For the year ended 31 December 2008*

Details of the principal properties held by the Group at 31 December 2008 are as follows:

| Location | Approximate net floor area (sq.ft.) | Use | Group's attributable interest % | Lease term |
|---|---|---|---|---|
| **HONG KONG** | | | | |
| Shop A2 on Ground Floor East South Building 479-481 Hennessy Road and 29 Percival Street Causeway Bay, Hong Kong | 430 | Shop premises for rental | 100% | Medium lease |
| Shops Nos. G55, G56, G57 and G58 on Ground Floor, Site A Park Lane Shopper's Boulevard 111-139, 143-161 and 165-181 Nathan Road Tsimshatsui, Kowloon | 3,032 | Shop premises for rental | 100% | Medium-term lease |
| Portions A3 and A4 of Shop A Ground Floor, Hollywood Shopping Centre Wing Wah Building 12-24 Sai Yeung Choi Street South and 40P Shantung Street, Mongkok, Kowloon | 326 | Shop premises for rental | 100% | Long lease |
| Flat No. 4 on 18th Floor Apartment Tower on the Western Side Convention Plaza No. 1 Harbour Road, Hong Kong | 1,400 | Residential premises for rental | 100% | Long lease |
| Carpark Space No. P20 on 2nd Floor King Kong Commercial Centre, No. 9 Des Voeux Road West, Hong Kong | 200 | Commercial building | 100% | Long lease |

## Schedule Of Principal Properties

| Location | Approximate net floor area (sq.ft.) | Use | Group's attributable interest % | Lease term |
|---|---|---|---|---|
| **MAINLAND CHINA** | | | | |
| Unit Nos. 404, 504, 604, 704 and 804 of Block 2, Kingswell Garden Lane 3887 Hong Mei Road Chang Ning District, Shanghai | 10,903 | Residential premises for rental | 100% | Long lease |
| Unit Nos. 201 to 220 on Level 2 and Nos. 301 to 314 on level 3 of Block No. 1 Kingswell Garden, Lane 3887 Hong Mei Road Chang Ning District, Shanghai | 40,734 | Residential premises for rental | 100% | Long lease |
| Club House on Level 4 and Car Parking Space Nos. 38, 39, 40, 41 and 60 on Basement 1 of Block No. 1 Kingswell Garden, Lane 3887 Hong Mei Road Chang Ning District, Shanghai | 10,958 (club house) | Club house and car parking spaces | 100% | Long lease |
| Shopping Arcade on Level of Block No. 1 Kingswell Garden Lane 3887 Hong Mei Road, Chang Ning District Shanghai | 16,685 | Shopping arcade for rental | 100% | Long lease |
| Unit G 12/F Block 5 Silver Valley Garden Haikou, Hainan | 1,162 | Residential premises for sale | 100% | Long lease |
| Units 6D, 6E, 14C, 17th, 23rd and 27th Floors, Western Portion of Level 1 Whole Floor of Level 2, Western Portion of Level 3 and Western Portion of Basement Levels 1-3 Merry Tower, No. 396 Yanan Road West and No. 168 Zhenning Road, Jingan District, Shanghai | 95,300 | Residential apartments for sale, shopping arcade and carparks for rental | 100% | Long lease |
| Emerald Court, No. 111 Xing Guo Road Xu Hui District, Shanghai | 31,501 (Garden)<br>96,445 (House)<br>34,825 (Basement) | Residential premises for rental | 43% | Long lease |

# Financial Summary

## Results:

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **1,604,840** | 1,395,161 | 1,459,948 | 1,580,394 | 1,345,175 |
| Cost of sales | **(1,449,221)** | (1,348,685) | (1,259,419) | (1,309,108) | (1,113,973) |
| Gross profit | **155,619** | 46,476 | 200,529 | 271,286 | 231,202 |
| Other income | **20,452** | 11,057 | 9,212 | 2,919 | 14,210 |
| Net (loss) gain on investment properties | **(3,372)** | 98,850 | 22,176 | 31,824 | – |
| Change in fair value of derivative financial instruments | **6,268** | – | – | – | – |
| Gain on disposal of assets classified as held for sale | **21,604** | – | – | – | – |
| Impairment of goodwill | **–** | (19,308) | – | – | – |
| Impairment loss on available-for-sale financial assets | **(1,235)** | – | – | – | – |
| Distribution costs | **(104,609)** | (83,333) | (124,064) | (221,414) | (173,875) |
| Administrative expenses | **(29,164)** | (30,163) | (30,505) | (24,597) | (25,466) |
| Other expenses | **–** | – | – | (11,471) | – |
| Finance costs | **(18,343)** | (15,960) | (12,242) | (7,003) | (8,255) |
| Share of results of associates | **4,569** | 26,770 | 663 | (4,482) | 1,456 |
| Profit before taxation | **51,789** | 34,389 | 65,769 | 37,062 | 39,272 |
| Income tax expenses | **(1,227)** | (4,549) | (3,326) | (7,638) | (5,070) |
| Profit for the year | **50,562** | 29,840 | 62,443 | 29,424 | 34,202 |
| Attributable to: | | | | | |
| Equity holders of the Company | **50,562** | 29,840 | 62,443 | 30,151 | 34,244 |
| Minority interests | **–** | – | – | (727) | (42) |
| | **50,562** | 29,840 | 62,443 | 29,424 | 34,202 |
| Earnings per share | **HK19.32 cents** | HK11.40 cents | HK23.86 cents | HK11.52 cents | HK13.09 cents |

# Financial Summary

## Assets and liabilities:

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **1,303,525** | 1,236,424 | 1,104,194 | 930,214 | 868,439 |
| Total liabilities | **(605,755)** | (611,239) | (540,571) | (430,949) | (392,030) |
| | **697,770** | 625,185 | 563,623 | 499,265 | 476,409 |
| Equity attributable to equity holders of the Company | **697,770** | 625,185 | 563,623 | 499,265 | 475,682 |
| Minority interests | **–** | – | – | – | 727 |
| | **697,770** | 625,185 | 563,623 | 499,265 | 476,409 |

*Note:* The above financial summary prior to 2005 has not been adjusted to take into account the effect on the adoption of certain HKFRSs that are effective for accounting periods beginning on or after 1 January 2007.

The above financial summary prior to 2006 has not been adjusted to take into account the effect on the prior year adjustment on the deferred tax liabilities made in the consolidated financial statements for the year ended 31 December 2007.