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# THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of this prospectus or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in GFT Holdings Limited (the "Company"), you should at once hand the Prospectus Documents to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

A copy of each of the Prospectus Documents, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrars of Companies" in Appendix III to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). A copy of the Prospectus has been filed, or will as soon as reasonably practicable be filed with the Registrar of Companies in Bermuda in accordance with Companies Act 1981 of Bermuda. The Registrar of Companies in Hong Kong, the Registrar of Companies in Bermuda, the Securities and Futures Commission of Hong Kong and the Bermuda Monetary Authority take no responsibility for the contents of any of these documents.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

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**GFT HOLDINGS LIMITED**  
**真樂發控股有限公司\***  
*(incorporated in Bermuda with limited liability)*  
**(stock code: 1003)**

**RIGHTS ISSUE OF**  
**4,693,672,800 RIGHTS SHARES OF HK\$0.025 EACH AT HK\$0.038 PER RIGHTS SHARE**  
**ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY EXISTING SHARE HELD**  
**ON THE RECORD DATE**

**Financial Adviser**



**Underwriter of the Rights Issue**



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The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Monday, 10 December 2007. The procedures for acceptance and payment for or transfer of the Rights Shares is set out on page 18 of this prospectus.

If at any time at or before 4:00 p.m. on the second Business Day following the Acceptance Date: (i) any of the following events occurs which would, in the reasonable opinion of the Underwriter, materially and adversely affect the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or otherwise make it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Rights Issue: (a) the introduction of any new law or regulation or any change in existing law or regulation or any material change in the judicial interpretation or application thereof or other occurrence of any nature whatsoever; or (b) occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events or changes occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event of change in relation to or a development of an existing state of affairs) of a political, military, financial, regulatory, economic, currency or other nature (whether or not *ejusdem generis* with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict) resulting in a material adverse change in, or which might reasonably be expected to result in a material adverse change in political, economic or stock market conditions; or (c) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances; or (d) a change or development involving a prospective material change in taxation in any jurisdiction or the implementation of exchange controls in any jurisdiction; or (e) the occurrence of any material change in market conditions, taxation or exchange control or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities); or (f) any material and adverse change in the conditions of local, national or international securities markets; or (ii) the Underwriter shall receive notification pursuant to the Underwriting Agreement or shall otherwise become aware of the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material and adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or (iii) any change occurs in the circumstances of any member of the Group which would materially and adversely affect the business, financial or trading position or prospects of the Group as a whole; or (iv) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission would have a material and adverse effect on the business, financial or trading position of the Group as a whole; or (v) there is an occurrence of any event, or series of events, beyond the control of the Underwriter (including, without limitation, acts of government, strike, lock-outs, fire, explosion, flooding, civil commotion, acts of war or acts of God) which, in the reasonable opinion of the Underwriter, has or would have the effect of making any part of the Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Rights Issue or pursuant to the underwriting thereof, then and, in such case, the Underwriter may, by notice in writing given to the Company at or before 4:00 p.m. on the second Business Day after the Acceptance Date, rescind the Underwriting Agreement. **If the Underwriting Agreement is terminated, the Rights Issue will not proceed.**

It should be noted that the Shares have been dealt in on an ex-rights basis from Friday, 16 November 2007. Dealings in the Rights Shares in the nil-paid form will take place from Wednesday, 28 November 2007 to Wednesday, 5 December 2007 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed. Any dealing in the Shares or nil-paid Rights Shares during the period from Wednesday, 28 November 2007 to Wednesday, 5 December 2007 will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

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## EXPECTED TIMETABLE

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The expected timetable for the Rights Issue is set out below:

**2007**

|  |                                     |
|--|-------------------------------------|
| Record Date .....  | Friday, 23 November                 |
| Register of members reopens .....  | Monday, 26 November                 |
| Despatch of Prospectus Documents .....   | Monday, 26 November                 |
| First day of dealings in nil-paid Rights Shares .....  | Wednesday, 28 November              |
| Latest time for splitting of nil-paid Rights Shares.....   | 4:30 p.m. on Friday, 30 November    |
| Last day of dealings in nil-paid Rights Shares .....   | Wednesday, 5 December               |
| Latest time for acceptance of and payment for<br>Rights Shares .....   | 4:00 p.m. on Monday, 10 December    |
| Rights Issue expected to become unconditional on<br>or before .....  | 4:00 p.m. on Wednesday, 12 December |
| Announcement of results of the Rights Issue .....  | Thursday, 13 December               |
| Refund cheques in respect of wholly or partially<br>unsuccessful applications for excess Rights<br>Shares expected to be despatched on or before ..... | Thursday, 13 December               |
| Certificates for fully-paid Rights Shares expected<br>to be despatched on or before .....  | Thursday, 13 December               |
| Dealings in fully-paid Rights Shares expected to<br>commence on .....  | Monday, 17 December                 |

Dates or deadlines specified above for events in the timetable for (or otherwise in relation to) the Rights Issue are indicative only and may be extended or varied by the Company. Any change to the anticipated timetable for the Rights Issue will be published as and when appropriate.

All times and dates in this prospectus refer to Hong Kong local times and dates.

### **EFFECT OF BAD WEATHER ON THE LATEST TIME FOR PAYMENT FOR AND ACCEPTANCE OF THE RIGHTS SHARES**

The latest time for payment for and acceptance of the Rights Shares will not take place if there is:

1. a tropical cyclone warning signal number 8 or above, or
2. a “black” rainstorm warning

in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the offer of Rights Shares. Instead the latest time for payment for and acceptance of the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m.

If the latest time for payment for and acceptance of the Rights Shares does not take place on the expected latest date for acceptance of the offer of the Rights Shares, the dates mentioned in this section may be affected. An announcement will be made by the Company in such event.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms shall have the following meanings:*

|                          |   |
|--------------------------|---|
| “Acceptance Date”        | latest day for acceptance of and payment for the Rights Shares  |
| “Announcement”           | the announcement of the Company dated 10 October 2007 relating to, inter alia, the Placing and the Rights Issue   |
| “associate(s)”           | has the meaning ascribed thereto under the Listing Rules  |
| “Board”                  | the board of Directors  |
| “Business Day”           | a full day (other than a Saturday and Sunday) on which banks are generally open for business in Hong Kong   |
| “CCASS”                  | the Central Clearing and Settlement System established and operated by HKSCC  |
| “Circular”               | the circular of the Company to the Shareholders dated 1 November 2007 in relation to the Placing and the Rights Issue   |
| “Company”                | GFT Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange  |
| “Convertible Bonds”      | 4% convertible bonds in an aggregate principal amount of HK\$300 million proposed to be issued by the Company pursuant to the Placing Agreement   |
| “Convertible Notes 2009” | the interest free convertible notes of principal amount of HK\$24 million due on 23 July 2009 and carrying rights to convert the outstanding principal amount into Shares at a conversion price of HK\$0.10 per Share (subject to adjustment), which was outstanding as at the date of the Circular |
| “Director(s)”            | the director(s) of the Company  |
| “EAF(s)”                 | the excess application form(s) to be issued in connection with the Rights Issue   |
| “Group”                  | the Company and its subsidiaries  |
| “HK\$”                   | Hong Kong dollar, the lawful currency of Hong Kong  |
| “HKSCC”                  | Hong Kong Securities Clearing Company Limited   |
| “Hong Kong”              | the Hong Kong Special Administrative Region of the PRC  |

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## DEFINITIONS

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|                                 |  |
|---------------------------------|--|
| “Last Trading Day”              | 3 October 2007, the last trading day immediately preceding the release of the Announcement   |
| “Latest Practicable Date”       | 22 November 2007, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained herein  |
| “Listing Rules”                 | the Rules Governing the Listing of Securities on the Stock Exchange  |
| “Non-Qualifying Shareholder(s)” | Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose address(es) as shown on the register of members of the Company on the Record Date is (are) outside Hong Kong where the Directors, based on the legal opinions provided by legal advisers, consider it necessary or expedient to exclude any such Shareholder on account either of the legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place |
| “PAL(s)”                        | the provisional allotment letter(s) to be issued in connection with the Rights Issue   |
| “Placee(s)”                     | any individual, institutional or other professional investor(s) procured by the Underwriter to subscribe for the Convertible Bonds pursuant to the Underwriter’s obligation under the Placing Agreement  |
| “Placing”                       | the placing of Convertible Bonds in the principal amount of HK\$300 million pursuant to the Placing Agreement, details of which can be referred to the Circular  |
| “Placing Agreement”             | the conditional convertible bonds placing agreement dated 3 October 2007 (as amended by a supplemental agreement dated 9 October 2007) entered into between the Company and the Underwriter in relation to the Placing, subject to the terms and conditions contained therein  |
| “PRC”                           | the People’s Republic of China   |
| “Prospectus”                    | this prospectus  |
| “Prospectus Documents”          | the Prospectus, PAL and EAF  |
| “Qualifying Shareholder(s)”     | Shareholder(s), other than the Non-Qualifying Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date   |

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## DEFINITIONS

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|                          |   |
|--------------------------|---|
| “Record Date”            | 23 November 2007, the record date by which entitlements to the Rights Issue had been determined   |
| “Registrar”              | Computershare Hong Kong Investor Services Limited, the Company’s branch share registrar in Hong Kong at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong   |
| “Rights Issue”           | the issue of Rights Shares at a price of HK\$0.038 per Rights Share   |
| “Rights Shares”          | 4,693,672,800 new Shares to be issued under the Rights Issue  |
| “SFO”                    | The Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)  |
| “SGM”                    | the special general meeting of the Company held on 23 November 2007 to consider and approve the Placing and the Rights Issue  |
| “Shareholder(s)”         | holder(s) of the Share(s)   |
| “Share(s)”               | share(s) of HK\$0.025 each in the existing capital of the Company   |
| “Stock Exchange”         | The Stock Exchange of Hong Kong Limited   |
| “Underwriter”            | Get Nice Investment Limited, a corporation deemed licensed under the SFO to carry out types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities and corporate finance and asset management), which is not a connected person (as defined in the Listing Rules) of the Company |
| “Underwriting Agreement” | the underwriting agreement dated 3 October 2007 (as amended by a supplemental agreement dated 9 October 2007) entered into between the Company and the Underwriter in relation to the Rights Issue  |
| “Underwritten Shares”    | 4,693,672,800 Rights Shares   |
| “%” or “per cent.”       | percentage or per centum  |

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## LETTER FROM THE BOARD

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**GFT HOLDINGS LIMITED**

**真樂發控股有限公司\***

*(incorporated in Bermuda with limited liability)*

**(stock code: 1003)**

*Executive Directors:*

Mr. Ha Kee Choy, Eugene  
Ms. Ma Wai Man, Catherine

*Independent Non-executive Directors:*

Mr. Cheng Yuk Wo  
Mr. Chui Chi Yun, Robert  
Mr. Lai Wing Leung, Peter

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Head office and principal place of  
business in Hong Kong:*

Unit 707, Tower II, Admiralty Centre  
18 Harcourt Road  
Hong Kong

26 November 2007

*To the Qualifying Shareholders and, for information only,  
the Non-Qualifying Shareholder*

Dear Sir or Madam,

**RIGHTS ISSUE OF  
4,693,672,800 RIGHTS SHARES OF HK\$0.025 EACH AT  
HK\$0.038 PER RIGHTS SHARE ON THE BASIS OF  
THREE RIGHTS SHARES FOR EVERY ONE EXISTING SHARE HELD  
ON THE RECORD DATE**

**INTRODUCTION**

On 10 October 2007, the Board announced that the Company proposed to raise not less than approximately HK\$151 million before expenses (assuming none of the conversion rights attached to the Convertible Notes 2009 is exercised on or before the Record Date) and not more than approximately HK\$178.36 million before expenses (assuming all conversion rights attached to the Convertible Notes 2009 are exercised on or before the Record Date) by way of the Rights Issue of not less than 3,973,672,800 Rights Shares and not more than 4,693,672,800 Rights Shares at a price of HK\$0.038 per Rights Share on the basis of three Rights Shares for every one existing Share held on the Record Date.

*\* for identification purpose only*

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## LETTER FROM THE BOARD

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The Rights Issue was approved by the Shareholders at the SGM held on 23 November 2007.

The purpose of this prospectus is to provide you with further details regarding the Rights Issue including information on dealings in and transfers and acceptances of the Rights Shares.

### RIGHTS ISSUE

#### Issue statistics

|                                      |   |  |
|--------------------------------------|---|--|
| Basis of Rights Issue                | : | three Rights Shares for every one existing Share held on the Record Date |
| Number of Shares in issue            | : | 1,564,557,600 Shares as at the Record Date ( <i>Note</i> )               |
| Number of Rights Shares to be issued | : | 4,693,672,800 Rights Shares  |
| Subscription Price                   | : | HK\$0.038 per Rights Share   |

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represent 300% of the Company's issued share capital as at the Record Date and approximately 75% of the enlarged issued share capital of the Company immediately following the completion of the Rights Issue.

*Note:*

As at the date of the Circular, a principal amount of HK\$24 million of the Convertible Notes 2009 was outstanding and carrying rights to convert such outstanding principal amount into 240,000,000 Shares at a conversion price of HK\$0.10 per Share (subject to adjustment). Subsequently, the holders of Convertible Notes 2009 exercised the above conversion rights in full and 240,000,000 new Shares were issued to these holders on 19 November 2007. As the above conversion rights were exercised before the Record Date, no adjustment to the conversion price of the Convertible Notes 2009 was required as a result of the Rights Issue. Accordingly, the number of Shares in issue has been increased from 1,324,557,600 as at the date of the Circular to 1,564,557,600 as at the Record Date. The Company has no derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

#### Qualifying Shareholders

The Company will send the Prospectus, the PALs and EAFs to Qualifying Shareholders only.

To qualify for the Rights Issue, a Shareholder must on the Record Date:

- (i) be registered as a member of the Company; and
- (ii) not be a Non-Qualifying Shareholder.



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## LETTER FROM THE BOARD

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In order to be registered as a member of the Company on the Record Date, Shareholders must have lodged any transfer of Shares (together with the relevant share certificate(s)) with the Registrar, by 4:30 p.m. (Hong Kong time) on 19 November 2007.

### **Closure of Register of members**

The register of members of the Company was closed from 20 November 2007 to 23 November 2007, both dates inclusive. No transfer of Shares was registered during this period.

### **TERMS OF THE RIGHTS ISSUE**

#### **Subscription price**

HK\$0.038 per Rights Share, payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for Rights Shares.

The subscription price of HK\$0.038 per Rights Share was arrived at after arm's length negotiations between the Company and the Underwriter with reference to recent closing prices of the Shares on the Stock Exchange and represents:

- (i) a discount of approximately 61.62% to the closing price of HK\$0.099 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 63.11% to the average closing price of the Shares of approximately HK\$0.103 for last 5 trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 28.64% to the theoretical ex-rights price of HK\$0.05325 per Share based on the closing price as quoted on the Stock Exchange on the Last Trading Day; and
- (iv) a discount of approximately 33.33% to the closing price of HK\$0.057 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Directors (including the independent non-executive Directors) consider that the discount of the subscription price of the Rights Share is reasonable on the basis that the terms of the Rights Issue (including the price) are arrived at after arms-length negotiation with the Underwriter and should achieve the objective of encouraging existing Shareholders to take up their entitlements, so as to share in the potential growth of the Company.

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## LETTER FROM THE BOARD

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### **Basis of provisional allotments**

The basis of provisional allotment shall be three Rights Shares for every one existing Share held by a Qualifying Shareholder on the Record Date. Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for.

### **Status of the Rights Shares**

When fully paid, issued and allotted, the fully-paid Rights Shares will rank pari passu in all respects with the existing Shares. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of issue and allotment of the fully-paid Rights Shares.

Dealings in nil-paid and fully-paid Rights Shares, both to be traded in board lots of 20,000, will be subject to the payment of stamp duty in Hong Kong.

### **Rights of Non-Qualifying Shareholder**

The Prospectus Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdictions other than Hong Kong and Bermuda. If there are any Shareholders whose addresses as shown on the register of members of the Company are outside Hong Kong as at the Record Date, the Company will comply with all necessary requirements under Rule 13.36(2) of the Listing Rules and will only exclude the Non-Qualifying Shareholders from the Rights Issue after making enquiry regarding the legal restrictions under the laws of the relevant places.

Based on the register of members of the Company as at the Record Date, there was one Shareholder with address in Australia and one Shareholder with address in Macau. Pursuant to Rule 13.36(2)(a) of the Listing Rules, the Board has made enquiries regarding the legal restrictions under the applicable securities legislation of the relevant jurisdictions and the requirements of the relevant regulatory body or stock exchange with respect to the offer of the Rights Shares to such overseas Shareholders.

The Rights Issue will be extended to the overseas Shareholder in Macau, as the Company has obtained legal advice that no local regulatory compliance is required to be made in this jurisdiction.

The Company has also obtained advice from legal advisers in Australia that local legal and regulatory requirements may have to be complied with if the Rights Issue is to be extended to the Shareholder who resided there. In this connection, the Company has considered that it would not be necessary or expedient to include the overseas Shareholder in Australia in the Rights Issue because of the time and costs involved in complying with the relevant legal and regulatory requirements. The Company will therefore send this prospectus, for information only, to such Non-Qualifying Shareholder. The PAL and EAF will not be sent to the Non-Qualifying Shareholder.

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## LETTER FROM THE BOARD

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It is the responsibility of any person (including but not limited to nominee, agent and trustee) outside Hong Kong wishing to make an application for the Rights Shares to satisfy himself or herself or itself as to the full observance of the laws and regulations of the relevant territory or jurisdiction, including the obtaining of any governmental or other consents and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection therewith. Any acceptance by any person will be deemed to constitute a representation and warranty from such person to the Company that these local laws and requirements have been complied with. Shareholders should consult their professional advisers if in doubt.

The Company will make arrangements for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholder, to be sold in the market in their nil-paid form as soon as practicable after dealing in the nil-paid Rights Shares commences, if a premium (net of expenses) can be obtained. The proceeds of each sale, less expenses, of HK\$100 or more will be paid to the Non-Qualifying Shareholder in Hong Kong dollars as soon as possible. The Company will retain individual amounts of less than HK\$100.

### **Fractions of Rights Shares**

The Company will not provisionally allot fractions of Rights Shares to the Qualifying Shareholders. All fractions of Rights Shares will be aggregated and all nil-paid Rights Shares arising from such aggregation will be sold in the market, if a premium (net of expenses) can be achieved, and the Company will retain the proceeds from such sale(s). Any unsold fractions of Rights Shares will be made available for excess application.

### **Share certificates and refund cheques for Rights Issue**

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before 13 December 2007. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before 13 December 2007 by ordinary post to the applicants at their own risk.

Where entitlements to Rights Shares exceed one board lot, it is proposed that, the relevant Qualifying Shareholders will receive one share certificate for the allotment of Rights Shares.

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## LETTER FROM THE BOARD

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The first day of dealings in the Rights Shares in their fully-paid form is expected to commence on Monday, 17 December 2007.

### **Application for listing**

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms or such other dates as may be determined by HKSCC.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted to CCASS. You should seek the advice of your licensed securities dealer or other professional adviser for details of those settlement arrangements and how such arrangements will affect your rights and interests.

### **Taxation**

Qualifying Shareholders are recommended to consult their professional advisors if they are in any doubt as to the tax implications of the holding or disposal of, or dealing in the Rights Shares in both their nil-paid and fully-paid forms and, as regards the Non-Qualifying Shareholder, the receipt of the net proceeds of sale of the Rights Shares otherwise falling to be issued to him/her under the Rights Issue. It is emphasised that none of the Company, its Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of holders of the Rights Shares resulting from the purchase, holding or disposal of, or dealing in the Rights Shares in both their nil-paid and fully-paid forms.

## **UNDERWRITING ARRANGEMENTS**

### **Underwriting Agreement**

|                                      |   |  |
|--------------------------------------|---|--|
| Date                                 | : | 3 October 2007 (as amended by a supplemental agreement dated 9 October 2007) |
| Parties                              | : | the Company and the Underwriter  |
| Number of Rights Shares underwritten | : | 4,693,672,800 Rights Shares  |

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## LETTER FROM THE BOARD

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Commission : 2.5% of the subscription price for the Underwritten Shares, the Directors consider that such rate is fair and reasonable and was determined after arm's length negotiations between the Company and the Underwriter

### **Termination of the Underwriting Agreement**

If at any time at or before 4:00 p.m. on the second Business Day following the Acceptance Date:

- (i) any of the following events occurs which would, in the reasonable opinion of the Underwriter, materially and adversely affect the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or otherwise make it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Rights Issue:
  - (a) the introduction of any new law or regulation or any change in existing law or regulation or any material change in the judicial interpretation or application thereof or other occurrence of any nature whatsoever; or
  - (b) occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events or changes occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event of change in relation to or a development of an existing state of affairs) of a political, military, financial, regulatory, economic, currency or other nature (whether or not ejusdem generis with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict) resulting in a material adverse change in, or which might reasonably be expected to result in a material adverse change in political, economic or stock market conditions; or
  - (c) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances; or
  - (d) a change or development involving a prospective material change in taxation in any jurisdiction or the implementation of exchange controls in any jurisdiction; or
  - (e) the occurrence of any material change in market conditions, taxation or exchange control or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities); or
  - (f) any material and adverse change in the conditions of local, national or international securities markets; or

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## LETTER FROM THE BOARD

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- (ii) the Underwriter shall receive notification pursuant to the Underwriting Agreement or shall otherwise become aware of the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material and adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or
- (iii) any change occurs in the circumstances of any member of the Group which would materially and adversely affect the business, financial or trading position or prospects of the Group as a whole; or
- (iv) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission would have a material and adverse effect on the business, financial or trading position of the Group as a whole; or
- (v) there is an occurrence of any event, or series of events, beyond the control of the Underwriter (including, without limitation, acts of government, strike, lock-outs, fire, explosion, flooding, civil commotion, acts of war or acts of God) which, in the reasonable opinion of the Underwriter, has or would have the effect of making any part of the Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Rights Issue or pursuant to the underwriting thereof,

then and, in such case, the Underwriter may, by notice in writing given to the Company at or before 4:00 p.m. on the second Business Day after the Acceptance Date, rescind the Underwriting Agreement. If the Underwriting Agreement is terminated, the Rights Issue will not proceed.

### **CONDITIONS OF THE RIGHTS ISSUE**

The Rights Issue is conditional upon each of the following events being fulfilled:

- (i) the signing by or on behalf of all of the Directors of one printed copy of each of the Prospectus Documents and the certification by any two Directors (or by their agents duly authorised in writing) of two copies of each of the Prospectus Documents;
- (ii) the delivery of the signed copy by all the Directors of each of the Prospectus Documents referred to in (i) above to the Underwriter;

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## LETTER FROM THE BOARD

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- (iii) the delivery to the Stock Exchange and filing and registration with the Registrar of Companies in Hong Kong respectively of two copies of each of the Prospectus Documents each duly certified by any two Directors (or by their agents duly authorised in writing) in compliance with section 342C of the Companies Ordinance (and all other documents required to be attached thereto) and otherwise complying with the requirements of the Companies Ordinance and the Listing Rules;
- (iv) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus stamped “For Information Only” to the Non-Qualifying Shareholder;
- (v) compliance by the Company with all its obligations under the Underwriting Agreement;
- (vi) the approval of the Rights Issue by the Shareholders who are permitted to vote under the Listing Rules, the applicable laws and the bye-laws of the Company at the SGM;
- (vii) the Listing Committee of the Stock Exchange (a) agreeing to grant listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms either unconditionally or subject to such conditions which the Underwriter in its absolute opinion accepts and the satisfaction of such conditions (if any) on or before the day on which dealings in the Rights Shares in their nil-paid form commence; and (b) not having been withdrawn or revoked such listing and permission before 10:00 a.m. on the settlement date as agreed;
- (viii) the Bermuda Monetary Authority granting their consent to the Rights Issue and the issue of the Rights Shares (if necessary); and
- (ix) the due posting of the Circular on the posting date as agreed.

In the event that the conditions of the Rights Issue are not fulfilled (or waived in whole or in part by the Underwriter) on or before the dates specified therein (or such later date or dates as the Company and the Underwriter may agree in writing), the Underwriting Agreement shall terminate and save in respect of costs and expenses as referred to therein.

### **WARNING OF THE RISKS OF DEALINGS IN THE SHARES AND RIGHTS SHARES**

**The Shares have been dealt in on an ex-rights basis from 16 November 2007. Dealings in the Rights Shares in the nil-paid form will take place from 28 November 2007 to 5 December 2007 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or waived or the Underwriting Agreement is terminated, the Rights Issue will not proceed.**

**Any Shareholders or other persons dealing in Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled or waived (and the date on which the Underwriter’s right of termination of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from 28 November 2007 to 5 December 2007 (both dates inclusive) will bear the risk that the Rights Issue may not become unconditional or may not proceed. If in any doubt, investors are recommended to consult their professional advisers.**

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## LETTER FROM THE BOARD

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### FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save for disclosed below, the Company has not conducted any fund raising activities in the past twelve months before the date of the Announcement:

| Date of announcement | Transaction  | Date of completion of the transaction  | Net proceeds raised (approximately) | Intended use of proceeds  | Actual use of proceeds   |
|----------------------|--|--|-------------------------------------|---|--|
| 11 October 2006      | Placing of 300 million existing shares of HK\$0.01 each (the "Pre-Consolidated Share(s)") and subscription of 300 million new Pre-Consolidated Shares at HK\$0.04 per Pre-Consolidated Share | 25 October 2006  | HK\$11.8 million                    | As general working capital of the Group   | As general working capital of the Group  |
| 26 January 2007      | (1) Placing of 340 million new Shares at HK\$0.10 per Share; and (2) placing of convertible notes with an aggregate principal amount of HK\$34 million                                       | Issue of (i) 220 million new Shares on 14 March 2007; (ii) 120 million new Shares on 11 April 2007; and (iii) HK\$34 million convertible notes on 23 July 2007 | HK\$66.6 million                    | As to approximately HK\$20 million as general working capital of the Group and as to approximately HK\$46.6 million for future investment opportunities | As to approximately HK\$20 million has been used for general working capital of the Group and as to the balance of approximately HK\$46.6 million has not been utilized yet and placed in short-term deposits with banks pending for future investment opportunities         |
| 14 August 2007       | Top-up placing of 70 million new Shares at HK\$0.128 per Share   | 20 August 2007   | HK\$8.6 million                     | As general working capital of the Group   | As to approximately HK\$0.5 million has been used for general working capital of the Group and as to the balance of approximately HK\$8.1 million has not been utilized and placed in short-term deposits with banks pending for future general working capital of the Group |



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## LETTER FROM THE BOARD

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### REASONS FOR THE RIGHTS ISSUE AND USE OF THE PROCEEDS

The Company is principally engaged in the business of trading of toys, gifts and premium products and trading and investments in securities.

As set out in the interim report 2007 of the Company, the Company recorded an unaudited net loss of approximately HK\$60.38 million for the six months ended 30 June 2007. Although the Directors will endeavour to improve the business operations and performance of the Group, they are actively pursuing new investments or projects for the medium to long-term growth of the Group and which will broaden the earning base of the Group for the benefits of the Company and the Shareholders as a whole.

As announced by the Company on 14 September 2007, the placing of 150,000,000 new Shares to raise a net proceeds of approximately HK\$18.6 million as set out in the Company's announcement dated 14 August 2007 has been terminated.

The Directors consider that it is prudent to finance the Group's long-term growth by long term funding, preferably in the form of equity which will not increase the Group's finance costs. Furthermore, the Directors consider that it is in the interest of the Company to enlarge its capital base and improve the overall financial and cash position of the Group by way of the Rights Issue which will allow all Shareholders the opportunity to participate in the growth of the Company.

The expenses in connection with the Rights Issue, including underwriting commission, financial advisory fees, printing, registration, translation, legal and accountancy charges are estimated to approximately HK\$5.71 million and are payable by the Company. The net proceeds from the Rights Issue is expected to be approximately HK\$172.65 million, which will be used by the Company as approximately HK\$20 million for its general working capital and the balance of approximately HK\$152.65 million for future investment opportunities.

Under Rule 14.82 of the Listing Rules, the Group shall not consist wholly or substantially of cash upon the completion of the Rights Issue. As disclosed in the Announcement and the Circular, upon completion of the Rights Issue, which is expected to take place approximately two months from the date of the Announcement, and on the assumption that there is no acquisition or investments made by the Group during this period, the percentages of cash to total assets and net assets of the Group will be approximately 84.64% and 98.61% respectively upon completion of the Rights Issue. Under such circumstance, the Company will not satisfy this requirement and will not be regarded as suitable for listing.

As announced by the Company on 13 November 2007, Kennex Investments Limited, a wholly-owned subsidiary of the Company, entered into a preliminary sale and purchase agreement on 10 November 2007 to acquire a property from Bao Chang Investment Holding Limited for a cash consideration of HK\$17,712,600. As a result of acquisition of this property, the percentage of cash to total assets and net assets of the Group will be changed to approximately 79.30% and 82.40% respectively upon completion of the Rights Issue. Under such circumstance, the Company will continue to satisfy the requirement under Rule 14.82 of the Listing Rules on the date of completion of the Rights Issue when the above acquisition is taken into account.

## LETTER FROM THE BOARD

### SHAREHOLDING OF THE COMPANY

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and the effect on the shareholding of the Company following completion of the Rights Issue and the completion of the Placing, assuming that (i) there is no change in the shareholding structure of the Company from the Latest Practicable Date to immediately before completion of the Rights Issue save pursuant to the exercise of the conversion rights attaching to the Convertible Bonds; (ii) none of the Qualifying Shareholders will take up the Right Shares and the Underwriter takes up the 4,693,672,800 Rights Shares to the maximum extent; and (iii) completion of the Placing after completion of the Rights Issue:

| Shareholders                                    | As at the<br>date of the Circular |                | As at the<br>Latest Practicable Date |                | Immediately after<br>completion of the<br>Rights Issue but<br>before the Placing |                | Immediately<br>after completion<br>of the Rights<br>Issue and the<br>Placing (after full<br>conversion of the<br>Convertible Bonds) |                |
|---|-----------------------------------|----------------|--------------------------------------|----------------|--|----------------|---|----------------|
|   | Number of<br>Shares               | %              | Number of<br>Shares                  | %              | Number of<br>Shares  | %              | Number of<br>Shares   | %              |
| Glory Winning Investment<br>Limited (Note 1)    | 141,224,000                       | 10.66%         | 141,224,000                          | 9.03           | 141,224,000  | 2.26%          | 141,224,000   | 1.04%          |
| The Underwriter/sub-underwriters                | —                                 | —              | —                                    | —              | 4,693,672,800  | 75.00%         | 4,693,672,800   | 34.57%         |
| Placees   | —                                 | —              | —                                    | —              | —  | —              | 7,317,073,170   | 53.90%         |
| Public  |                                   |                |                                      |                |  |                |   |                |
| — Holders of Convertible<br>Notes 2009 (Note 2) | —                                 | —              | 240,000,000                          | 15.34          | 240,000,000  | 3.83%          | 240,000,000   | 1.77%          |
| — Others  | 1,183,333,600                     | 89.34%         | 1,183,333,600                        | 75.63          | 1,183,333,600  | 18.91%         | 1,183,333,600   | 8.72%          |
| Total (Note 2)                                  | <u>1,324,557,600</u>              | <u>100.00%</u> | <u>1,564,557,600</u>                 | <u>100.00%</u> | <u>6,258,230,400</u>   | <u>100.00%</u> | <u>13,575,303,570</u>   | <u>100.00%</u> |

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## LETTER FROM THE BOARD

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*Notes:*

1. Glory Winning Investment Limited is a company held by Mr. Tse Cho Tseung and Tellus Investments Limited (the entire issued share capital of which is held by Mr. Tse Cho Tseung) in equal shares. The Directors have no knowledge that whether Glory Winning Investment Limited has any intention to take up its entitlement under the Rights Issue or apply for excess Rights Shares. The shareholding of Glory Winning Investment Limited in the Company has been decreased from approximately 10.66% as at the date of the Circular to approximately 9.03% as at the Latest Practicable Date as a result of the full exercise of the conversion rights attaching to the Convertible Notes 2009 mentioned in note (2) below. Accordingly, Glory Winning Investment Limited has become a public Shareholder as at the Latest Practicable Date and will remain as a public Shareholder immediately after the Rights Issue even though it takes up its entitlement under the Rights Issue in full.
2. As at the date of the Circular, a principal amount of HK\$24 million of the Convertible Notes 2009 was outstanding and carrying rights to convert such outstanding principal amount into 240,000,000 Shares at a conversion price of HK\$0.10 per Share (subject to adjustment). Subsequently, the holders of Convertible Notes 2009 exercised the above conversion rights in full and 240,000,000 new Shares were issued to these holders on 19 November 2007. As the above conversion rights were exercised before the Record Date, no adjustment to the conversion price of the Convertible Notes 2009 was required as a result of the Rights Issue. Accordingly, the number of Shares in issue has been increased from 1,324,557,600 as at the date of the Circular to 1,564,557,600 as at the Latest Practicable Date.

The Underwriter has sub-underwritten its underwriting obligations under the Rights Issue to sub-underwriters such that each of the Underwriter and the sub-underwriters (together with their respective concert parties) will not own 30% or more of the issued share capital of the Company after completion of the Rights Issue. Each of the Underwriter and the sub-underwriters (and their respective ultimate beneficial owners) is not a party acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers) with each other or with any Shareholders. Each of the Underwriter and the sub-underwriters and their respective ultimate beneficial owners do not have any shareholding in the Company and are not connected persons (as defined in the Listing Rules) of the Company.

As stipulated in the Underwriting Agreement, in the event that the Underwriter or any of the sub-underwriters mentioned above is required to take up the Rights Shares pursuant to their underwriting obligations, none of the Underwriter and the sub-underwriters will own 10% or more of the issue share capital of the Company immediately after the Rights Issue and the Underwriter or any of these sub-underwriters shall procure independent placees to take up such number of Rights Shares as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with.

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## LETTER FROM THE BOARD

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### PROCEDURE FOR ACCEPTANCE OR TRANSFER

**A PAL is enclosed with this prospectus which entitles the Qualifying Shareholders to subscribe for the number of Rights Shares indicated on the PAL. If the Qualifying Shareholders wish to exercise the right to subscribe for all the Rights Shares specified in the enclosed PAL, the Qualifying Shareholders must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance of the number of Rights Shares provisionally allotted to the Qualifying Shareholders, with the Registrar at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by not later than 4:00 p.m. on Monday, 10 December 2007. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "GFT Holdings Limited - Rights Issue Account" and crossed "Account Payee Only".**

It should be noted that unless the PAL, together with the appropriate remittance, has been lodged with the Registrar by 4:00 p.m. on Monday, 10 December 2007, whether by the original allottee or any person in whose favour the rights have been transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Qualifying Shareholders wish to accept only part of provisional allotment or to transfer all or part of their rights to subscribe for the Rights Shares provisionally allotted under the PAL to more than one person, the entire PAL must be surrendered by not later than 4:30 p.m. on Friday, 30 November 2007 to the Registrar who will cancel the original PAL and issue a new PAL in the denominations required. The PALs contain full information regarding the procedures to be followed if the Qualifying Shareholders wish to accept only part of the provisional allotment or if the Qualifying Shareholders wish to transfer all or part of provisional allotment.

All cheques and cashier's orders will be presented for payment following receipt and any interest earned on such monies will be retained for the benefit of the Company. Any PAL in respect of which a cheque or cashier's order is dishonoured on first presentation is liable to be rejected and in that event the provisional allotment of Rights Shares and all rights thereunder will be deemed to have been declined and will be cancelled. If the Underwriter exercises the right to terminate the obligations of the Underwriter under the Underwriting Agreement before 4:00 p.m. on Wednesday, 12 December 2007, being the second Business Day following the Acceptance Date, the monies received in respect of the relevant provisional allotment of Rights Shares will be returned to the relevant persons without interest, by means of cheques to be despatched by the ordinary post at the risk of the relevant applicants on or before Thursday, 13 December 2007.

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## LETTER FROM THE BOARD

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### APPLICATIONS FOR EXCESS RIGHTS SHARES

Qualifying Shareholders may apply for any unsold entitlements of the Non-Qualifying Shareholder and any Rights Shares provisionally allotted but not accepted.

Application for excess Rights Shares can be made only by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for.

**If the Qualifying Shareholders wish to apply for any Rights Shares in addition to their provisional allotment, they must complete and sign the enclosed EAF as indicated thereon and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Registrar at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by not later than 4:00 p.m. on Monday, 10 December 2007. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "GFT Holdings Limited - Excess Application Account" and crossed "Account Payee Only". The Registrar will notify the applicants of any allotment of excess Rights Shares made to them.**

The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

- (1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings and that such applications are not made with intention to abuse this mechanism; and
- (2) subject to availability of excess Rights Shares after allocation under principle (1) above, the excess Rights Shares will be allocated to Qualifying Shareholders based on a sliding scale with reference to the number of the excess Rights Shares applied by them (i.e. Qualifying Shareholders applying for smaller number of Rights Shares are allocated with a higher percentage of successful application but will receive less number of Rights Shares; whereas Qualifying Shareholders applying for larger number of Rights Shares are allocated with a smaller percentage of successful application but will receive higher number of Rights Shares).

Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the application for excess Rights Shares will not be extended to beneficial owners individually.

If no excess Rights Shares are allotted to the applicant Qualifying Shareholders, the amount tendered on application is expected to be refunded in full on or before Thursday, 13 December 2007. If the number of excess Rights Shares allotted to the Qualifying Shareholders is less than that applied for, the surplus application monies are also expected to be refunded on or before Thursday, 13 December 2007. If the Underwriter exercises the right to terminate the obligations of the Underwriter under the Underwriting Agreement before 4:00 p.m. on Wednesday, 12 December 2007, being the second

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## LETTER FROM THE BOARD

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Business Day following the Acceptance Date, the monies received in respect of relevant applications for excess Rights Shares will be returned to the relevant persons without interest, by means of cheques to be despatched by the ordinary post at the risk of the relevant applicants on or before Thursday, 13 December 2007.

All cheques and cashier's orders will be presented for payment following receipt and any interest earned on such monies will be retained for the benefit of the Company. Any application in respect of which a cheque or cashier's order is dishonoured on first presentation is liable to be rejected.

The EAF is for use only by the person(s) named in it and is not transferable. All documents, including cheques or cashier's orders for refund, will be sent by ordinary post at the risk of the persons entitled thereto to their registered addresses by no later than Thursday, 13 December 2007.

### **GENERAL**

All documents, including share certificates, cheques or cashier orders for cash entitlement, will be sent by ordinary post at the risk of the persons entitled thereto to their addresses in the register of members of the Company.

### **FURTHER INFORMATION**

Your attention is drawn to the additional information set out in Appendix I to III to this prospectus.

Yours faithfully,  
For and on behalf of  
**GFT Holdings Limited**  
**Ma Wai Man, Catherine**  
*Executive Director*

## 1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results and financial position of the Group for the three years ended 31 December 2006, as extracted from the unqualified annual reports of the Company for the respective years.

**Consolidated Results**

|  | <b>Years ended 31 December</b> |  |  |
|--|--------------------------------|--|--|
|  | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i><br>(Restated) | <b>2004</b><br><i>HK\$'000</i><br>(Restated) |
| Turnover   | <u>130,085</u>                 | <u>165,810</u>                               | <u>165,291</u>                               |
| (Loss)/Profit before taxation                          | (36,389)                       | 11,458                                       | (1,666)                                      |
| Taxation   | (76)                           | (872)  | (1,786)                                      |
| (Loss)/Profit for the year from discontinued operation | <u>(68)</u>                    | <u>585</u>                                   | <u>—</u>                                     |
| (Loss)/Profit for the year                             | <u>(36,533)</u>                | <u>11,171</u>                                | <u>(3,452)</u>                               |
| Attributable to:                                       |                                |  |  |
| Equity holders of the Company                          | (36,610)                       | 10,056                                       | (6,169)                                      |
| Minority interests                                     | <u>77</u>                      | <u>1,115</u>                                 | <u>2,717</u>                                 |
|  | <u>(36,533)</u>                | <u>11,171</u>                                | <u>(3,452)</u>                               |
| (Loss)/Earnings per share                              |                                |  |  |
| Basic  | (5.59 cents)                   | 1.60 cents                                   | (0.52 cents)                                 |
| Diluted  | <u>N/A</u>                     | <u>1.57 cents</u>                            | <u>N/A</u>                                   |

**Financial Positions**

|                   | <b>As at 31 December</b>       |                                |  |
|-------------------|--------------------------------|--------------------------------|--|
|                   | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i><br>(Restated) |
| Total assets      | 126,653                        | 140,282                        | 142,168                                      |
| Total liabilities | <u>(57,039)</u>                | <u>(53,090)</u>                | <u>(64,599)</u>                              |
| Net assets        | <u>69,614</u>                  | <u>87,192</u>                  | <u>77,569</u>                                |

## 2. AUDITED FINANCIAL INFORMATION

Set out below is a summary of the audited consolidated financial statements of the Group for the financial years ended 31 December 2006 and 2005 together with the relevant notes to the accounts, as extracted from the unqualified audited financial statements of the Group for the financial year ended 31 December 2006.

**CONSOLIDATED INCOME STATEMENT**

*For the year ended 31 December 2006*

|  | <i>Notes</i> | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i><br>(restated) |
|--|--------------|--------------------------------|--|
| <b>Continuing operations</b>                           |              |                                |  |
| <b>Turnover</b>  | 5            | 130,085                        | 165,810                                      |
| Cost of sales  |              | <u>(129,847)</u>               | <u>(139,344)</u>                             |
| Gross profit   |              | 238                            | 26,466                                       |
| Other income   | 6            | 1,178                          | 8,854  |
| Distribution costs                                     |              | (2,258)                        | (5,675)                                      |
| Administrative expenses                                |              | (28,465)                       | (17,994)                                     |
| Other expenses   |              | (6,152)                        | (118)  |
| Gain on disposal of subsidiaries                       | 32           | —                              | 10   |
| Finance costs  | 12           | <u>(930)</u>                   | <u>(85)</u>                                  |
| <b>(Loss) Profit before taxation</b>                   |              | (36,389)                       | 11,458                                       |
| Taxation   | 10           | <u>(76)</u>                    | <u>(872)</u>                                 |
| (Loss) Profit for the year from continuing operations  |              | <u>(36,465)</u>                | <u>10,586</u>                                |
| <b>Discontinued operation</b>                          |              |                                |  |
| (Loss) Profit for the year from discontinued operation | 11           | <u>(68)</u>                    | <u>585</u>                                   |
| <b>(Loss) Profit for the year</b>                      | 12           | <u><u>(36,533)</u></u>         | <u><u>11,171</u></u>                         |
| <b>Attributable to:</b>                                |              |                                |  |
| Equity holders of the Company                          | 14           | (36,610)                       | 10,056                                       |
| Minority interests                                     |              | <u>77</u>                      | <u>1,115</u>                                 |
| <b>(Loss) Profit for the year</b>                      |              | <u><u>(36,533)</u></u>         | <u><u>11,171</u></u>                         |
| <b>(Loss) Earnings per share</b>                       |              |                                |  |
| From continuing and discontinued operations            | 15           |                                |  |
| Basic  |              | (5.59 cents)                   | 1.60 cents                                   |
| Diluted  |              | <u>N/A</u>                     | <u>1.57 cents</u>                            |
| From continuing operations                             |              |                                |  |
| Basic  |              | (5.58 cents)                   | 1.52 cents                                   |
| Diluted  |              | <u>N/A</u>                     | <u>1.49 cents</u>                            |



**CONSOLIDATED BALANCE SHEET***At 31 December 2006*

|   | <i>Notes</i> | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| <b>Non-current assets</b>   |              |                                |                                |
| Property, plant and equipment   | <i>16</i>    | 52,551                         | 65,021                         |
| Goodwill  | <i>17</i>    | 4,201                          | 5,733                          |
| Prepaid lease payments  | <i>18</i>    | 3,327                          | 8,698                          |
| Club debenture  |              | 220                            | 220                            |
|   |              | <u>60,299</u>                  | <u>79,672</u>                  |
| <b>Current assets</b>   |              |                                |                                |
| Inventories   | <i>20</i>    | 7,175                          | 8,767                          |
| Trade and other receivables   | <i>21</i>    | 32,648                         | 45,619                         |
| Current portion of prepaid lease payments                                     | <i>18</i>    | 72                             | 180                            |
| Bank balances and cash  |              | 7,136                          | 6,044                          |
| Tax recoverable   |              | 196                            | —                              |
|   |              | <u>47,227</u>                  | <u>60,610</u>                  |
| Non-current assets classified as held for sale                                | <i>13</i>    | 19,127                         | —                              |
|   |              | <u>66,354</u>                  | <u>60,610</u>                  |
| <b>Current liabilities</b>  |              |                                |                                |
| Trade and other payables  | <i>22</i>    | 42,532                         | 43,024                         |
| Current portion of interest-bearing borrowings                                | <i>23</i>    | 8,800                          | 1,750                          |
| Current portion of obligations under<br>finance leases                        | <i>24</i>    | 1,813                          | 1,656                          |
| Taxation  |              | —                              | 1,734                          |
|   |              | <u>53,145</u>                  | <u>48,164</u>                  |
| Liabilities associated with non-current assets<br>classified as held for sale | <i>13</i>    | 2,093                          | —                              |
|   |              | <u>55,238</u>                  | <u>48,164</u>                  |
| <b>Net current assets</b>   |              | <u>11,116</u>                  | <u>12,446</u>                  |
| <b>Total assets less current liabilities</b>                                  |              | <u>71,415</u>                  | <u>92,118</u>                  |

**CONSOLIDATED BALANCE SHEET** *(Continued)**At 31 December 2006*

|   | <i>Notes</i> | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| <b>Non-current liabilities</b>                                  |              |                                |                                |
| Long-term interest-bearing borrowings                           | 23           | —                              | 1,312                          |
| Long-term obligations under finance leases                      | 24           | 1,801                          | 3,614                          |
|   |              | <u>1,801</u>                   | <u>4,926</u>                   |
| <b>NET ASSETS</b>   |              | <u>69,614</u>                  | <u>87,192</u>                  |
| <b>Capital and reserves</b>                                     |              |                                |                                |
| Share capital   | 26           | 19,536                         | 15,785                         |
| Reserves  |              | 48,616                         | 69,861                         |
| <b>Equity attributable to equity holders<br/>of the Company</b> |              | 68,152                         | 85,646                         |
| <b>Minority interests</b>                                       |              | 1,462                          | 1,546                          |
| <b>TOTAL EQUITY</b>   |              | <u>69,614</u>                  | <u>87,192</u>                  |

**BALANCE SHEET***At 31 December 2006*

|                             | <i>Notes</i> | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i> |
|-----------------------------|--------------|--------------------------------|--------------------------------|
| <b>Non-current asset</b>    |              |                                |                                |
| Interest in subsidiaries    | <i>19</i>    | <u>1</u>                       | <u>1</u>                       |
| <b>Current assets</b>       |              |                                |                                |
| Other receivables           | <i>21</i>    | 69,604                         | 70,280                         |
| Bank balances and cash      |              | <u>1,947</u>                   | <u>39</u>                      |
|                             |              | <u>71,551</u>                  | <u>70,319</u>                  |
| <b>Current liabilities</b>  |              |                                |                                |
| Other payables              | <i>22</i>    | <u>2,941</u>                   | <u>950</u>                     |
| <b>Net current assets</b>   |              | <u>68,610</u>                  | <u>69,369</u>                  |
| <b>NET ASSETS</b>           |              | <u><b>68,611</b></u>           | <u><b>69,370</b></u>           |
| <b>Capital and reserves</b> |              |                                |                                |
| Share capital               | <i>26</i>    | 19,536                         | 15,785                         |
| Reserves                    | <i>27</i>    | <u>49,075</u>                  | <u>53,585</u>                  |
| <b>TOTAL EQUITY</b>         |              | <u><b>68,611</b></u>           | <u><b>69,370</b></u>           |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

|   | Attributable to equity holders of the Company |               |                    |                       |                                  |                     |                     |               |                    |               |
|---|---|---------------|--------------------|-----------------------|----------------------------------|---------------------|---------------------|---------------|--------------------|---------------|
|   | Share capital                                 | Share premium | Capital reserve    | Share options reserve | Convertible notes equity reserve | Translation reserve | Accumulated profits | Total         | Minority interests | Total         |
|   | HK\$'000<br>(Note 26)                         | HK\$'000      | HK\$'000<br>(Note) | HK\$'000<br>(Note 30) | HK\$'000                         | HK\$'000            | HK\$'000            | HK\$'000      | HK\$'000           | HK\$'000      |
| <b>At 1 January 2005</b>  | 15,285  | 33,124        | 2,099              | —                     | 262                              | —                   | 21,114              | 71,884        | 5,685              | 77,569        |
| Exchange difference on translation of financial statements of overseas subsidiaries recognised directly in equity | —   | —             | —                  | —                     | —                                | 1,399               | —                   | 1,399         | —                  | 1,399         |
| Released on disposal of subsidiaries  | —   | —             | —                  | —                     | —                                | —                   | —                   | —             | (1,961)            | (1,961)       |
| Profit for the year   | —   | —             | —                  | —                     | —                                | —                   | 10,056              | 10,056        | 1,115              | 11,171        |
| <b>Total recognised income and expenses for the year</b>  | —   | —             | —                  | —                     | —                                | 1,399               | 10,056              | 11,455        | (846)              | 10,609        |
| Dividend paid to minority shareholders  | —   | —             | —                  | —                     | —                                | —                   | —                   | —             | (3,293)            | (3,293)       |
| Issue of shares upon conversion of convertible notes  | 500   | 2,069         | —                  | —                     | (262)                            | —                   | —                   | 2,307         | —                  | 2,307         |
| <b>At 31 December 2005</b>  | <b>15,785</b>                                 | <b>35,193</b> | <b>2,099</b>       | <b>—</b>              | <b>—</b>                         | <b>1,399</b>        | <b>31,170</b>       | <b>85,646</b> | <b>1,546</b>       | <b>87,192</b> |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended 31 December 2006

|   | Attributable to equity holders of the Company |               |                 |                       |                                  |                     |                              |               |                    |               |
|---|---|---------------|-----------------|-----------------------|----------------------------------|---------------------|------------------------------|---------------|--------------------|---------------|
|   | Share capital                                 | Share premium | Capital reserve | Share options reserve | Convertible notes equity reserve | Translation reserve | Accumulated profits (losses) | Total         | Minority interests | Total         |
|   | HK\$'000                                      | HK\$'000      | HK\$'000        | HK\$'000              | HK\$'000                         | HK\$'000            | HK\$'000                     | HK\$'000      | HK\$'000           | HK\$'000      |
|   | (Note 26)                                     |               | (Note)          | (Note 30)             |                                  |                     |                              |               |                    |               |
| <b>At 1 January 2006</b>  | 15,785  | 35,193        | 2,099           | —                     | —                                | 1,399               | 31,170                       | 85,646        | 1,546              | 87,192        |
| Exchange difference on translation of financial statements of overseas subsidiaries recognised directly in equity | —   | —             | —               | —                     | —                                | 1,710               | —                            | 1,710         | —                  | 1,710         |
| Released on disposal of subsidiaries  | —   | —             | —               | —                     | —                                | —                   | —                            | —             | (161)              | (161)         |
| (Loss) Profit for the year  | —   | —             | —               | —                     | —                                | —                   | (36,610)                     | (36,610)      | 77                 | (36,533)      |
| <b>Total recognised income and expenses for the year</b>  | —   | —             | —               | —                     | —                                | 1,710               | (36,610)                     | (34,900)      | (84)               | (34,984)      |
| Issue of shares upon placement of shares  | 3,000   | 9,000         | —               | —                     | —                                | —                   | —                            | 12,000        | —                  | 12,000        |
| Equity settled share-based payment transactions   | —   | —             | —               | 1,868                 | —                                | —                   | —                            | 1,868         | —                  | 1,868         |
| Issue on shares upon exercise of share options  | 751   | 4,799         | —               | (1,868)               | —                                | —                   | —                            | 3,682         | —                  | 3,682         |
| Share issue expense   | —   | (144)         | —               | —                     | —                                | —                   | —                            | (144)         | —                  | (144)         |
| <b>At 31 December 2006</b>  | <b>19,536</b>                                 | <b>48,848</b> | <b>2,099</b>    | <b>—</b>              | <b>—</b>                         | <b>3,109</b>        | <b>(5,440)</b>               | <b>68,152</b> | <b>1,462</b>       | <b>69,614</b> |

Note:

The capital reserve represents the difference between the nominal value of the share capital issued by the Company in exchange for the aggregate of the nominal value of the issued share capital of a former subsidiary which was acquired by the Company pursuant to a group reorganisation in 1994 to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

**CONSOLIDATED CASH FLOW STATEMENT***For the year ended 31 December 2006*

|   | <i>Notes</i> | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| <b>OPERATING ACTIVITIES</b>                               |              |                                |                                |
| Cash used in operations                                   | 28           | (11,091)                       | (2,709)                        |
| Income taxes paid   |              | (2,006)                        | (825)                          |
| <b>Net cash used in operating activities</b>              |              | <u>(13,097)</u>                | <u>(3,534)</u>                 |
| <b>INVESTING ACTIVITIES</b>                               |              |                                |                                |
| Interest received   |              | 71                             | 45                             |
| Payment of construction cost payable                      |              | —                              | (11,754)                       |
| Payment for prepaid lease payments                        |              | —                              | (3,275)                        |
| Purchase of club debenture                                |              | —                              | (220)                          |
| Purchase of property, plant and equipment                 |              | (4,194)                        | (16,348)                       |
| Cash (used in) from disposal of subsidiaries              |              | (242)                          | 4,453                          |
| Proceeds from disposal of investments held for trading    |              | —                              | 8,337                          |
| <b>Net cash used in investing activities</b>              |              | <u>(4,365)</u>                 | <u>(18,762)</u>                |
| <b>FINANCING ACTIVITIES</b>                               |              |                                |                                |
| Net proceeds from issue of new shares                     |              | 11,856                         | —                              |
| Issue of shares on exercise of share options              |              | 3,682                          | —                              |
| Dividends paid to minority shareholders                   |              | —                              | (3,293)                        |
| Interest paid   |              | (543)                          | (75)                           |
| Proceeds from new interest-bearing borrowings             |              | 10,000                         | 3,500                          |
| Repayment of interest-bearing borrowings                  |              | (4,262)                        | (438)                          |
| Interest element paid on obligations under finance leases |              | (387)                          | —                              |
| Repayment of obligations under finance leases             |              | (1,656)                        | (730)                          |
| <b>Net cash from (used in) financing activities</b>       |              | <u>18,690</u>                  | <u>(1,036)</u>                 |

**CONSOLIDATED CASH FLOW STATEMENT** *(Continued)**For the year ended 31 December 2006*

|   | <i>Notes</i> | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| <b>Net increase (decrease) in cash and cash equivalents</b>                                     |              | 1,228                          | (23,332)                       |
| <b>Cash and cash equivalents at beginning of year</b>   |              | 6,044                          | 29,348                         |
| Effect on exchange rate changes   |              | (65)                           | 28                             |
| <b>Cash and cash equivalents at end of year</b>   |              | <u>7,207</u>                   | <u>6,044</u>                   |
| <b>Analysis of the balances of cash and cash equivalents</b>                                    |              |                                |                                |
| Bank balances and cash  |              | 7,136                          | 6,044                          |
| Cash and cash equivalents attributable to the non-current assets held for sale <i>(Note 13)</i> |              | 71                             | —                              |
|   |              | <u>7,207</u>                   | <u>6,044</u>                   |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*For the year ended 31 December 2006*

**1. GENERAL INFORMATION**

GFT Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda and its shares are listed on the Stock Exchange. The address of the Company’s registered office and principal place of business are disclosed in the Corporate Information section of the annual report.

The principal activities of the Company and its subsidiaries (the “Group”) are trading and manufacturing of toys, gifts and premiums. The Group was also engaged in the manufacturing and trading of consumer products, which were discontinued in the current year (Note 11).

**2. SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2005 financial statements except for the adoption of the amendment of HKAS 39 and HKFRS 4 as explained in note 3 to the financial statements. A summary of the significant accounting policies adopted by the Group is set out below.

**(b) Basis of preparation of the financial statements**

The measurement basis used in the preparation of these financial statements is historical cost, except for (1) certain financial instruments, which are measured at fair value as explained in note 2(i) to the financial statements; and (2) non-current assets held for sale, which are stated at lower of carrying amount and fair value less costs to sell as explained in note 2(v) to the financial statements.

**(c) Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December. 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.

All intra-group transactions and balances, income and expenses are eliminated on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.



**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(c) Basis of consolidation** *(Continued)*

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interest which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the balance sheet within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

**(d) Subsidiaries**

A subsidiary is an entity, in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, investment in subsidiaries is stated at cost less impairment losses. The carrying amount of investment is reduced to its recoverable amount on an individual basis. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**(e) Goodwill**

Goodwill on acquisition of subsidiary, being the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities, is recognised as a separate asset. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment test and determination of gain or loss on disposal. An impairment loss on goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of businesses at the date of acquisition, after reassessment, is recognised immediately in income statement.

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

### (f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately.

|                                   |  |
|-----------------------------------|--|
| Buildings                         | Over the shorter of the term of the prepaid land lease or 50 years |
| Leasehold improvements            | Over the shorter of the term of the prepaid land lease or 5 years  |
| Plant and machinery               | 20% — 33.33%   |
| Furniture, fixtures and equipment | 20% — 33.33%   |
| Motor vehicles                    | 25% — 33.33%   |

Assets held under finance leases are depreciated over the shorter of their expected useful lives or the term of the leases.

### (g) Construction in progress

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

### (h) Prepaid lease payments

Prepaid lease payments are up-front payments to acquire fixed term interests in lessee-occupied land. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(i) Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

***Loans and receivables***

Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

***Impairment of financial assets***

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

***Financial liabilities***

The Group's financial liabilities include trade and other payables, bank loans and other borrowings and obligations under finance leases. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

***Financial guarantee contracts***

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value, where such information is available, otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

**(j) Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(k) Revenue recognition**

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

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Rental income is recognised when the properties are let out and on the straight-line basis over the lease terms.

**(l) Foreign currency translation**

Items included in the financial statements of each of the group entities, including subsidiaries are measured using the currency of the primary economic environment in which the group entities operate (“functional currency”). The consolidated financial statements are presented in Hong Kong Dollars (HK\$), which is the Company’s functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

On consolidation, the results and financial position of all the group entities that have a functional currency different from the presentation currency are translated as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates;
- (c) all resulting exchange differences are recognised as a separate component of equity;
- (d) upon disposal of a group entity, exchange differences relating thereto and previously recognised in reserves are recognised in the income statement as part of the gain or loss on disposal; and
- (e) goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign entity are treated as assets and liabilities of that foreign entity and translated at the closing rates. Exchange differences arising are recognised in the translation reserve.

**(m) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(n) Club debenture**

Club debenture has indefinite useful life and is measured at cost less accumulated impairment losses.

**(o) Impairment of other assets**

At each balance sheet date, the Group reviews internal and external sources of information to determine whether its property, plant and equipment, prepaid lease payments, club debenture and investment in subsidiaries have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income statement.

**(p) Leases**

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

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as finance lease obligation. Finance charges, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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

Lease incentives are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(q) Employee benefits — Defined contribution plans**

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

**(r) Share-based payment transactions — Equity-settled transactions**

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share options reserve within equity. The fair value is measured at grant date using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share options reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Group's shares. The equity amount is recognised in the share options reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to accumulated profits). Share-based payment transactions in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investments in subsidiaries in the Company's balance sheet which is eliminated on consolidation.

**(s) Taxation**

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(t) Related parties**

A party is related to the Group if:

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

**(u) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(v) Non-current assets held for sale and discontinued operation****(i) Non-current assets held for sale**

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transactions.

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

**(ii) Discontinued operation**

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

**(w) Future changes in HKFRS**

At the date of authorisation of these financial statements, the Group has not early adopted the new/ revised standards and interpretations issued by HKICPA that are not yet effective for the current year. The directors anticipate that the adoption of these new HKFRS in the future periods will have no material impact on the result of the Group.



**3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS****HKAS 39 and HKFRS 4 (Amendment) “Financial guarantee contracts”**

In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities in accordance with HKAS 37, Provisions, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from 1 January 2006, HKAS 39 requires recognising financial guarantees issued as financial liabilities and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. The adoption of this new accounting policy had no material effect on how the results and financial positions for the current or prior accounting periods have been prepared and presented.

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Group’s accounting policies, which are described in note 2 to the financial statements, management makes various estimates based on past experience, expectations of the future and other information. The key sources affect the amounts recognised in the financial information as disclosed below.

**Depreciation**

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful life reflects the directors’ estimate of the periods that the Group intends to derive future economic benefits from the use of the Group’s property, plant and equipment. The residual values reflect the directors’ estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

**Estimated impairment of goodwill**

Determining whether goodwill is impaired required an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. During the year, the directors determined that goodwill has impaired and such impairment has been recognised in the consolidated income statement.

## 5. TURNOVER AND REVENUE

Turnover and revenue represent sale of goods at invoiced value to customers net of return and discounts.

|   | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|---|------------------|------------------|
| Continuing operations                     | 130,085          | 165,810          |
| Discontinued operation ( <i>Note 11</i> ) | 2,547            | 13,318           |
|   | <u>132,632</u>   | <u>179,128</u>   |

## 6. OTHER INCOME

|   | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|---|------------------|------------------|
| Continuing operations                     |                  |                  |
| Interest income                           | 71               | 45               |
| Rental income                             | 159              | 8,362            |
| Sundry income                             | 948              | 447              |
|   | <u>1,178</u>     | <u>8,854</u>     |
| Discontinued operation ( <i>Note 11</i> ) | —                | 646              |
|   | <u>1,178</u>     | <u>9,500</u>     |

## 7. SEGMENT INFORMATION

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

**Primary reporting format — business segments**

The Group comprises the following main business segments:

| Business segments                              | Nature of business activities                                 |
|--|---|
| 1. Toy products trading and manufacturing      | Sourcing, manufacturing and distribution of toys and premium  |
| 2. Securities trading and investments          | Trading and investing of marketable securities                |
| 3. Consumer products trading and manufacturing | Sourcing, manufacturing and distribution of consumer products |

Certain comparative figures for segment information have been restated and reclassified to conform with current year's presentation. In the opinion of the Company's directors, such classifications provide a more appropriate presentation of the Group's business segments.

## 7. SEGMENT INFORMATION (Continued)

## Primary reporting format — business segments (Continued)

2006

|  | Continuing operations                              |  |                   | Discontinued operation                                  | Consolidated<br>HK\$'000 |
|--|--|--|-------------------|---|--------------------------|
|  | Toy products trading and manufacturing<br>HK\$'000 | Securities trading and investments<br>HK\$'000 | Total<br>HK\$'000 | Consumer products trading and manufacturing<br>HK\$'000 |                          |
| <b>Turnover</b>  |  |  |                   |   |                          |
| Revenue from external customers  | 130,085  | —  | 130,085           | 2,547   | 132,632                  |
| <b>Segment results</b>   | <b>(27,350)</b>                                    | <b>(18)</b>                                    | <b>(27,368)</b>   | <b>(423)</b>  | <b>(27,791)</b>          |
| Other income   |  |  | 1,178             | —   | 1,178                    |
| Unallocated operating income and expenses                                |  |  | (9,269)           | —   | (9,269)                  |
| Gain on disposal of subsidiaries   |  |  | —                 | 355   | 355                      |
| Finance costs  |  |  | (930)             | —   | (930)                    |
| <b>Loss before taxation</b>  |  |  | <b>(36,389)</b>   | <b>(68)</b>   | <b>(36,457)</b>          |
| Taxation   |  |  | (76)              | —   | (76)                     |
| <b>Loss for the year</b>   |  |  | <b>(36,465)</b>   | <b>(68)</b>   | <b>(36,533)</b>          |
| <b>Assets</b>  |  |  |                   |   |                          |
| Segment assets   | 119,556  | 408  | 119,964           | —   | 119,964                  |
| Unallocated assets   |  |  | 6,689             | —   | 6,689                    |
| Total assets   |  |  | 126,653           | —   | 126,653                  |
| <b>Liabilities</b>   |  |  |                   |   |                          |
| Segment liabilities  | 53,684   | —  | 53,684            | —   | 53,684                   |
| Unallocated liabilities  |  |  | 3,355             | —   | 3,355                    |
| Total liabilities  |  |  | 57,039            | —   | 57,039                   |
| <b>Other information</b>   |  |  |                   |   |                          |
| Capital expenditure  | 4,194  | —  | 4,194             | —   | 4,194                    |
| Depreciation   |  |  |                   |   |                          |
| Business segment   | 5,112  | 12   | 5,124             | —   | 5,124                    |
| Unallocated items  |  |  | 212               | —   | 212                      |
| Amortisation on prepaid lease payments                                   | 182  | —  | 182               | —   | 182                      |
| Significant non-cash expenses (other than depreciation and amortisation) |  |  |                   |   |                          |
| Business segment   | 2,983  | —  | 2,983             | 26  | 3,009                    |
| Unallocated items  |  |  | 1,136             | —   | 1,136                    |

## 7. SEGMENT INFORMATION (Continued)

## Primary reporting format — business segments (Continued)

2005

|  | Continuing operations                              |  |                   | Discontinued operation                                  | Consolidated<br>HK\$'000 |
|--|--|--|-------------------|---|--------------------------|
|  | Toy products trading and manufacturing<br>HK\$'000 | Securities trading and investments<br>HK\$'000 | Total<br>HK\$'000 | Consumer products trading and manufacturing<br>HK\$'000 |                          |
| <b>Turnover</b>  |  |  |                   |   |                          |
| Revenue from external customers  | 157,473  | 8,337  | 165,810           | 13,318  | 179,128                  |
| <b>Segment results</b>   | 13,941   | 2,785  | 16,726            | (2,625)   | 14,101                   |
| Other income   |  |  | 1,396             | 646   | 2,042                    |
| Unallocated operating income and expenses                                |  |  | (6,589)           | —   | (6,589)                  |
| Gain on disposal of subsidiaries   |  |  | 10                | 2,583   | 2,593                    |
| Finance costs  |  |  | (85)              | (18)  | (103)                    |
| <b>Profit before taxation</b>  |  |  | 11,458            | 586   | 12,044                   |
| Taxation   |  |  | (872)             | (1)   | (873)                    |
| <b>Profit for the year</b>   |  |  | 10,586            | 585   | 11,171                   |
| <b>Assets</b>  |  |  |                   |   |                          |
| Segment assets   | 132,793  | 67   | 132,860           | 3,318   | 136,178                  |
| Unallocated assets   |  |  | 4,104             | —   | 4,104                    |
| Total assets   |  |  | 136,964           | 3,318   | 140,282                  |
| <b>Liabilities</b>   |  |  |                   |   |                          |
| Segment liabilities  | 48,624   | —  | 48,624            | 3,040   | 51,664                   |
| Unallocated liabilities  |  |  | 1,426             | —   | 1,426                    |
| Total liabilities  |  |  | 50,050            | 3,040   | 53,090                   |
| <b>Other information</b>   |  |  |                   |   |                          |
| Capital expenditure  |  |  |                   |   |                          |
| Business segment   | 22,254   | —  | 22,254            | 36  | 22,290                   |
| Unallocated items  |  |  | 58                | —   | 58                       |
| Depreciation   |  |  |                   |   |                          |
| Business segment   | 3,633  | 19   | 3,652             | 75  | 3,727                    |
| Unallocated items  |  |  | 202               | —   | 202                      |
| Amortisation on prepaid lease payments                                   | 179  | —  | 179               | —   | 179                      |
| Significant non-cash expenses (other than depreciation and amortisation) | 29   | —  | 29                | 912   | 941                      |

## 7. SEGMENT INFORMATION (Continued)

## Secondary reporting format — geographical segments

The Group's business is managed on a worldwide basis, but participates in the principal economic environments as shown in the table below. Japan and Hong Kong are the major markets for all of the Group's businesses, and the location of the toy products manufacturing is in the People's Republic of China (the "PRC").

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

|                          | <b>Revenue</b><br><i>HK\$'000</i> | <b>Total<br/>assets</b><br><i>HK\$'000</i>               | <b>Capital<br/>expenditure</b><br><i>HK\$'000</i> |
|--------------------------|-----------------------------------|--|---|
| <b>2006</b>              |                                   |  |   |
| Japan                    | 52,623                            | 5,534  | —   |
| Hong Kong                | 35,531                            | 19,136   | 5   |
| PRC                      | 32,426                            | 100,722  | 4,189   |
| Taiwan                   | 4,915                             | —  | —   |
| Europe                   | 4,408                             | 390  | —   |
| Singapore                | 1,834                             | —  | —   |
| United States of America | 605                               | 283  | —   |
| Others                   | 290                               | 588  | —   |
|                          | <u>132,632</u>                    | <u>126,653</u>   | <u>4,194</u>                                      |
|                          | <b>Revenue</b><br><i>HK\$'000</i> | <b>Total<br/>assets</b><br><i>HK\$'000</i><br>(restated) | <b>Capital<br/>expenditure</b><br><i>HK\$'000</i> |
| <b>2005</b>              |                                   |  |   |
| Japan                    | 72,012                            | 5,558  | —   |
| Hong Kong                | 39,758                            | 25,473   | 131   |
| PRC                      | 40,824                            | 103,977  | 22,217  |
| Europe                   | 17,423                            | 590  | —   |
| Singapore                | 1,268                             | —  | —   |
| United States of America | 6,839                             | 2,466  | —   |
| Others                   | 1,004                             | 2,218  | —   |
|                          | <u>179,128</u>                    | <u>140,282</u>   | <u>22,348</u>                                     |

## 8. DIRECTORS' REMUNERATION

The emoluments paid or payable to every director for the year ended 31 December 2006 is set out below:

|                          | Directors'<br>fees<br><i>HK\$'000</i> | Salaries,<br>allowances<br>and benefits<br>in kinds<br><i>HK\$'000</i> | Retirement<br>scheme<br>contribution<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--------------------------|---------------------------------------|--|---|--------------------------|
| Executive directors:     |                                       |  |   |                          |
| Leung Wai Ho             | —                                     | 650  | 12  | 662                      |
| Wong Chung Shun          | —                                     | 585  | 12  | 597                      |
| Ha Kee Choy, Eugene      | 200                                   | —  | —   | 200                      |
| Non-executive directors: |                                       |  |   |                          |
| Chui Chi Yun, Robert     | 120                                   | —  | —   | 120                      |
| Lam Kwok Cheong          | 120                                   | —  | —   | 120                      |
| Lai Wing Leung, Peter    | 120                                   | —  | —   | 120                      |
|                          | <u>560</u>                            | <u>1,235</u>   | <u>24</u>   | <u>1,819</u>             |

The emoluments paid or payable to every director for the year ended 31 December 2005 is set out below:

|                          | Directors'<br>fees<br><i>HK\$'000</i> | Salaries,<br>allowances<br>and benefits<br>in kinds<br><i>HK\$'000</i> | Retirement<br>scheme<br>contribution<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--------------------------|---------------------------------------|--|---|--------------------------|
| Executive directors:     |                                       |  |   |                          |
| Leung Wai Ho             | —                                     | 700  | 12  | 712                      |
| Wong Chung Shun          | —                                     | 635  | 12  | 647                      |
| Ha Kee Choy, Eugene      | 290                                   | —  | —   | 290                      |
| Non-executive directors: |                                       |  |   |                          |
| Chui Chi Yun, Robert     | 120                                   | —  | —   | 120                      |
| Lam Kwok Cheong          | 120                                   | —  | —   | 120                      |
| Lai Wing Leung, Peter    | 120                                   | —  | —   | 120                      |
|                          | <u>650</u>                            | <u>1,335</u>   | <u>24</u>   | <u>2,009</u>             |

No directors have waived emoluments in respect of the years ended 31 December 2006 and 2005.

## 9. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, two (2005: two) are directors of the Company whose emoluments are included in the disclosures in note 8 above. The emoluments of the remaining three (2005: three) individuals were as follows:

|  | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i> |
|--|--------------------------------|--------------------------------|
| Salaries, allowances and benefits in kinds | 1,723                          | 1,805                          |
| Retirement scheme contributions            | 41                             | 24                             |
| Share-based payments                       | 934                            | —                              |
|  | <u>2,698</u>                   | <u>1,829</u>                   |

The emoluments of the three (2005: three) individuals with the highest emoluments are within the following bands:

|                               | <b>2006</b><br><i>Number of<br/>individuals</i> | <b>2005</b><br><i>Number of<br/>individuals</i> |
|-------------------------------|---|---|
| Nil – HK\$1,000,000           | 2   | 3   |
| HK\$1,000,001 – HK\$1,500,000 | 1   | —   |
|                               | <u>3</u>  | <u>3</u>  |

## 10. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% (2005: 17.5%) on the Group's estimated assessable profits arising from Hong Kong during the year.

The income tax provision in respect of operations in the PRC and overseas is calculated at the applicable tax rates on the estimated assessable profits, if any, for the year based on existing legislation, interpretations and practices in respect thereof.

|   | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|---|------------------|------------------|
| <b>Continuing operations</b>  |                  |                  |
| Current tax   |                  |                  |
| Hong Kong   | 59               | 661              |
| PRC Enterprise Income Tax   | —                | 216              |
| Under (Over) provision in prior years   |                  |                  |
| Hong Kong   | 17               | (5)              |
| Tax charge from continuing operations   | <u>76</u>        | <u>872</u>       |
| <b>Discontinued operation</b>   |                  |                  |
| Current tax   |                  |                  |
| Hong Kong   | —                | 1                |
| Tax charge from discontinued operation  | —                | 1                |
| Total tax charge for the year   | <u>76</u>        | <u>873</u>       |
| <b>Reconciliation of tax expense</b>  |                  |                  |
|   | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
| (Loss) Profit before taxation   |                  |                  |
| Continuing operations   | (36,389)         | 11,458           |
| Discontinued operation ( <i>Note 11</i> )   | (68)             | 586              |
|   | <u>(36,457)</u>  | <u>12,044</u>    |
| Income tax at applicable tax rate of 17.5% (2005: 17.5%)                          | (6,380)          | 2,108            |
| Non-deductible expenses   | 902              | 465              |
| Tax exempt revenue  | (353)            | (1,204)          |
| Unrecognised tax losses   | 5,240            | 1,303            |
| Unrecognised temporary differences  | 13               | —                |
| Effect of tax exemptions granted to PRC subsidiaries                              | —                | (1,161)          |
| Effect of different tax rates of subsidiaries operating<br>in other jurisdictions | 637              | (633)            |
| Under (Over) provision in prior years   | 17               | (5)              |
| Tax expense for the year  | <u>76</u>        | <u>873</u>       |

The applicable tax rate is Hong Kong profits tax rate of 17.5% (2005: 17.5%).



## 11. DISCONTINUED OPERATION

On 22 June 2006, the Group disposed two non-wholly owned subsidiaries, which manufacture and trade electronic components and were a separate business segment of the Group. The disposal transactions have been completed on 22 June 2006, details of the disposal of assets and liabilities are disclosed in note 32 to the financial statements. The results and net cash flows of the discontinued operation for the current year up to the date of disposal and the prior year are summarised as follows:

|   | <b>2006</b><br><i>HK\$'000</i>         | <b>2005</b><br><i>HK\$'000</i>         |
|---|--|--|
| <b>(Loss) Profit for the year from discontinued operation</b> |  |  |
| Revenue   | 2,547                                  | 13,318                                 |
| Other income  | —                                      | 646                                    |
| Gain on disposal of subsidiaries                              | 355                                    | 2,583                                  |
| Expenses  | (2,970)                                | (15,943)                               |
| Finance costs   | —                                      | (18)                                   |
|   | <u>          </u>                      | <u>          </u>                      |
| (Loss) Profit before taxation                                 | (68)                                   | 586                                    |
| Taxation  | —                                      | (1)                                    |
|   | <u>          </u>                      | <u>          </u>                      |
| (Loss) Profit for the year from discontinued operation        | <u>          </u><br><u>          </u> | <u>          </u><br><u>          </u> |
| <b>Cash flows used in discontinued operation</b>              |  |  |
| Net cash flows used in operating activities                   | (114)                                  | (1,016)                                |
| Net cash flows used in investing activities                   | —                                      | (61)                                   |
| Net cash flows from financing activities                      | —                                      | 203                                    |
|   | <u>          </u>                      | <u>          </u>                      |
| Net cash flows  | <u>          </u><br><u>          </u> | <u>          </u><br><u>          </u> |

## 12. (LOSS) PROFIT FOR THE YEAR

This is stated after charging (crediting):

|   | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|---|------------------|------------------|
| <b>(a) Finance costs</b>  |                  |                  |
| Interest on convertible notes wholly repayable<br>within five years               | —                | 41               |
| Interest on bank loans and other borrowings<br>wholly repayable within five years | 543              | 22               |
| Finance charges on obligations under finance leases                               | 387              | 40               |
|   | <u>930</u>       | <u>103</u>       |
| Attributable to discontinued operation ( <i>Note 11</i> )                         | —                | (18)             |
|   | <u>930</u>       | <u>85</u>        |
| <b>(b) Other items</b>  |                  |                  |
| Staff costs (include directors' emoluments)                                       |                  |                  |
| Salaries, wages and other benefits  | 17,444           | 19,136           |
| Share options granted   | 1,868            | —                |
| Contribution to defined contribution plans  | 2,362            | 1,053            |
|   | <u>21,674</u>    | <u>20,189</u>    |
| Cost of inventories   | 131,923          | 138,487          |
| Auditors' remuneration  | 897              | 1,090            |
| Depreciation on property, plant and equipment                                     | 5,336            | 3,929            |
| Amortisation on prepaid lease payments  | 182              | 179              |
| Provision for obsolete inventories  | 1,516            | —                |
| Provision for impairment losses   |                  |                  |
| Goodwill (included in other expenses)   | 1,136            | 909              |
| Trade and other receivables<br>(included in administrative expenses)              | 1,451            | 20               |
| Net exchange losses   | 152              | 169              |
| Loss on disposal of property, plant and equipment                                 | 42               | 12               |
| Operating lease payments for premises   | 463              | 662              |
| Gain on disposal of investments held for trading                                  | —                | (2,863)          |
|   | <u>—</u>         | <u>(2,863)</u>   |

**13. NON-CURRENT ASSETS HELD FOR SALE**

On 24 November 2006, the directors announced that the Company entered into an agreement with a third party on 23 November 2006 to dispose of all its interest in certain subsidiaries of the Group for an aggregate consideration of HK\$20,000,000. The principal assets held by the subsidiaries are land use rights in respect of parcels of land situated in the PRC. The disposal is expected to be completed in May 2007. The major classes of assets and liabilities of the subsidiaries to be disposed classified as held for sale at the balance sheet date are as follows:

|   | <b>Group<br/>2006<br/>HK\$'000</b> |
|---|------------------------------------|
| <b>Non-current assets classified as held for sale</b>                             |                                    |
| Goodwill  | 396                                |
| Property, plant and equipment   | 13,060                             |
| Prepaid lease payments  | 5,600                              |
| Bank balance and cash   | 71                                 |
|   | <u>19,127</u>                      |
| <b>Liabilities associated with non-current assets classified as held for sale</b> |                                    |
| Due to a related company ( <i>Note 13(a)</i> )                                    | <u>(2,093)</u>                     |
|   | <u>(2,093)</u>                     |
| <b>Net assets classified as held for sale</b>                                     | <u><u>17,034</u></u>               |

**(a) Due to a related company**

The amount due is unsecured, interest-free and repayable on demand. The related company is owned and controlled by Mr. Leung Wai Ho and Mr. Wong Chung Shun, directors and shareholders of the Company.

**14. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of loss of HK\$18,165,000 (2005: HK\$4,018,000).

## 15. (LOSS) EARNINGS PER SHARE

## (a) For continuing and discontinued operations

The calculation of the basic and diluted (loss) earnings per share attributable to the equity holders of the Company are based on the following data:

**Earnings**

|   | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|
| (Loss) Profit for the year attributable to equity holders of the Company for the purpose of basic (loss) earnings per share | (36,610)                       | 10,056                         |
| Effect of dilutive potential ordinary shares:   |                                |                                |
| Interest on convertible notes   | N/A                            | 41                             |
| Earnings for the purpose of diluted earnings per share  | <u>N/A</u>                     | <u>10,097</u>                  |

**Number of shares**

|   | <b>2006</b><br><i>Number of shares</i><br><i>'000</i> | <b>2005</b><br><i>Number of shares</i><br><i>'000</i><br>(restated) |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | 654,390   | 628,074   |
| Effect of dilutive potential ordinary shares:   |   |   |
| Share options issued by the Company   | N/A   | 11,685  |
| Convertible notes   | N/A   | 3,342   |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share      | <u>N/A</u>  | <u>643,101</u>  |

*Note:*

The number of shares in 2006 and 2005 were adjusted to reflect the share consolidation of every five shares of HK\$0.01 each of the Company into two shares of HK\$0.025 each which became effective on 6 March 2007. Comparative figures have been restated accordingly.

Diluted loss per share for the year ended 31 December 2006 has not been shown because there was no dilutive potential ordinary share in issue at the balance sheet date.

## 15. (LOSS) EARNINGS PER SHARE (Continued)

## (b) For continuing operations

The calculation of the basic and diluted (loss) earnings per share from continuing operations attributable to the equity holders of the Company are based on the following data:

**Earnings**

|   | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|
| (Loss) Profit for the year attributable to equity holders of the Company                      | (36,610)                       | 10,056                         |
| Less:   |                                |                                |
| (Loss) Profit for the year from discontinued operation  | <u>67</u>                      | <u>(500)</u>                   |
| (Loss) Earnings for the purpose of basic (loss) earnings per share from continuing operations | (36,543)                       | 9,556                          |
| Effect of dilutive potential ordinary shares:   |                                |                                |
| Interest on convertible notes   | <u>N/A</u>                     | <u>41</u>                      |
| Earnings for the purpose of diluted earnings per share from continuing operations             | <u><u>N/A</u></u>              | <u><u>9,597</u></u>            |

The denominators used are the same as those detailed above for both basic and diluted (loss) earnings per share.

## (c) For discontinued operation

Basic loss per share for the discontinued operation is HK0.01 cent per share (2005: earnings per share of HK0.08 cent per share) and diluted loss per share for the discontinued operation for the year ended 31 December 2006 is not applicable (2005: diluted earnings per share of HK0.08 cent per share), based on the loss for the year from the discontinued operation of HK\$67,000 (2005: profit for the year of HK\$500,000) and the denominators detailed above for both basic and diluted (loss) earnings per share.

## 16. PROPERTY, PLANT AND EQUIPMENT

## Group

|   | Buildings<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Furniture,<br>fixtures and<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Construction<br>in progress<br>HK\$'000 | Total<br>HK\$'000 |
|---|-----------------------|---------------------------------------|------------------------------------|---|-------------------------------|---|-------------------|
| <b>COST</b>                               |                       |                                       |                                    |   |                               |   |                   |
| At 1 January 2005                         | 31,625                | 126                                   | 12,504                             | 2,116   | 479                           | 50                                      | 46,900            |
| Exchange adjustments                      | 764                   | —                                     | 263                                | 38  | 1                             | 1                                       | 1,067             |
| Additions                                 | 12,207                | 68                                    | 6,418                              | 243   | —                             | 3,412                                   | 22,348            |
| Transfer                                  | 53                    | —                                     | —                                  | —   | —                             | (53)                                    | —                 |
| Disposals                                 | —                     | —                                     | (4)                                | (38)  | —                             | —                                       | (42)              |
| Eliminated on disposal of<br>subsidiaries | —                     | (24)                                  | —                                  | (138)   | —                             | —                                       | (162)             |
| At 31 December 2005                       | 44,649                | 170                                   | 19,181                             | 2,221   | 480                           | 3,410                                   | 70,111            |
| Exchange adjustments                      | 1,563                 | —                                     | 441                                | 60  | 2                             | 119                                     | 2,185             |
| Additions                                 | 3,570                 | —                                     | 570                                | 47  | 7                             | —                                       | 4,194             |
| Transfer                                  | 3,200                 | —                                     | 295                                | —   | —                             | (3,495)                                 | —                 |
| Disposals                                 | —                     | (43)                                  | —                                  | (22)  | —                             | —                                       | (65)              |
| Eliminated on disposal of<br>a subsidiary | —                     | (74)                                  | (49)                               | (75)  | —                             | —                                       | (198)             |
| Reclassified as held for sale             | (13,576)              | —                                     | —                                  | —   | —                             | —                                       | (13,576)          |
| <b>At 31 December 2006</b>                | <b>39,406</b>         | <b>53</b>                             | <b>20,438</b>                      | <b>2,231</b>  | <b>489</b>                    | <b>34</b>                               | <b>62,651</b>     |
| <b>Depreciation</b>                       |                       |                                       |                                    |   |                               |   |                   |
| At 1 January 2005                         | 150                   | 49                                    | 726                                | 199   | 98                            | —                                       | 1,222             |
| Exchange adjustments                      | 2                     | —                                     | —                                  | —   | —                             | —                                       | 2                 |
| Charged for the year                      | 777                   | 36                                    | 2,586                              | 431   | 99                            | —                                       | 3,929             |
| Disposals                                 | —                     | —                                     | (2)                                | (28)  | —                             | —                                       | (30)              |
| Eliminated on disposal of<br>subsidiaries | —                     | —                                     | —                                  | (33)  | —                             | —                                       | (33)              |
| At 31 December 2005                       | 929                   | 85                                    | 3,310                              | 569   | 197                           | —                                       | 5,090             |
| Exchange adjustments                      | 70                    | —                                     | 219                                | 25  | 1                             | —                                       | 315               |
| Charged for the year                      | 931                   | 15                                    | 3,880                              | 410   | 100                           | —                                       | 5,336             |
| Disposals                                 | —                     | (16)                                  | —                                  | (7)   | —                             | —                                       | (23)              |
| Eliminated on disposal of<br>a subsidiary | —                     | (48)                                  | (26)                               | (28)  | —                             | —                                       | (102)             |
| Reclassified as held for sale             | (516)                 | —                                     | —                                  | —   | —                             | —                                       | (516)             |
| <b>At 31 December 2006</b>                | <b>1,414</b>          | <b>36</b>                             | <b>7,383</b>                       | <b>969</b>  | <b>298</b>                    | <b>—</b>                                | <b>10,100</b>     |
| <b>Net Book Value</b>                     |                       |                                       |                                    |   |                               |   |                   |
| <b>At 31 December 2006</b>                | <b>37,992</b>         | <b>17</b>                             | <b>13,055</b>                      | <b>1,262</b>  | <b>191</b>                    | <b>34</b>                               | <b>52,551</b>     |
| At 31 December 2005                       | 43,720                | 85                                    | 15,871                             | 1,652   | 283                           | 3,410                                   | 65,021            |

**16. PROPERTY, PLANT AND EQUIPMENT** *(Continued)***Group** *(Continued)*

The net book value of the Group's property, plant and equipment includes an amount of HK\$4,800,000 (2005: HK\$6,000,000) in respect of assets held under finance leases.

Property, plant and equipment with an aggregate net book value at the balance sheet date of HK\$42,792,000 (2005: HK\$Nil) were pledged to secure banking facilities granted to a subsidiary of the Group.

**17. GOODWILL**

|   | <b>Group</b><br><i>HK\$'000</i> |
|---|---------------------------------|
| <b>COST</b>   |                                 |
| At 1 January 2005   | 8,413                           |
| Adjustments to accumulated amortisation on adoption<br>of HKFRS 3 | (696)                           |
| Eliminated on disposal of subsidiaries                            | (1,075)                         |
|   | <u>          </u>               |
| At 31 December 2005   | 6,642                           |
| Eliminated on disposal of subsidiary                              | (909)                           |
| Reclassified as held for sale                                     | (396)                           |
|   | <u>          </u>               |
| <b>At 31 December 2006</b>  | <b><u>5,337</u></b>             |
| <b>Amortisation</b>   |                                 |
| At 1 January 2006   | 696                             |
| Adjustments to accumulated amortisation on adoption<br>of HKFRS 3 | (696)                           |
|   | <u>          </u>               |
| <b>At 31 December 2005 and 2006</b>                               | <b><u>—</u></b>                 |
| <b>IMPAIRMENT</b>   |                                 |
| At 1 January 2005   | —                               |
| Provided for the year   | 909                             |
|   | <u>          </u>               |
| At 31 December 2005   | 909                             |
| Eliminated on disposal of a subsidiary                            | (909)                           |
| Provided for the year   | 1,136                           |
|   | <u>          </u>               |
| <b>At 31 December 2006</b>  | <b><u>1,136</u></b>             |
| <b>NET BOOK VALUE</b>   |                                 |
| <b>At 31 December 2006</b>  | <b><u>4,201</u></b>             |
| At 31 December 2005   | <u>5,733</u>                    |

## 17. GOODWILL (Continued)

**Impairment tests for cash-generating units containing goodwill**

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to business segment and country of operation. The entire amount of goodwill have been allocated to the toy products trading and manufacturing segment located in Hong Kong.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period (2005: ten-year period), and a discount rate of 7.8% per annum (2005: 7.8% per annum). In 2006, cash flows for the five-year period were extrapolated using a 10% growth rate, while in 2005, cash flows for the first five-year and the last five-year period were extrapolated using a 10% and zero growth rate, respectively. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU.

## 18. PREPAID LEASE PAYMENTS

Prepaid lease payments represent cost paid for medium-term leasehold land located outside Hong Kong. The cost is amortised over the leasehold period. The amount to be amortised more than twelve months after the balance sheet date amounted to HK\$3,327,000 (2005: HK\$8,698,000). The amount to be amortised within the next twelve months after the balance sheet date of HK\$72,000 (2005: HK\$180,000) is included in current assets.

At the balance sheet date, all the leasehold lands were pledged to secure banking facilities granted to a subsidiary of the Group (2005: HK\$nil).

## 19. INTEREST IN SUBSIDIARIES

|  | <b>Company</b>  |                 |
|--|-----------------|-----------------|
|  | <b>2006</b>     | <b>2005</b>     |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted shares, at cost                   | 1               | 1               |
| Equity share-based payment in subsidiaries | 1,868           | —               |
|  | <u>1,869</u>    | <u>1</u>        |
| Less: Impairment losses                    | (1,868)         | —               |
|  | <u>1</u>        | <u>1</u>        |

In accordance with HKFRS 2 Share-based payment, share-based payment transactions in which an entity receives services from its employees as consideration for equity instruments of the entity are accounted for as equity-settled transactions (see note 2(r)). The Company recognises the grant of equity instruments to its subsidiaries' employees and eligible participants amounted to HK\$1,868,000 (2005: HK\$nil) as capital contributions to its subsidiaries.

Particulars of the Company's subsidiaries at the balance sheet date, which in the opinion of the directors principally affected the results, assets or liabilities of the Group are set out in note 39 to the financial statements.



## 20. INVENTORIES

|                  | <b>Group</b>    |                 |
|------------------|-----------------|-----------------|
|                  | <b>2006</b>     | <b>2005</b>     |
|                  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Raw material     | 4,866           | 4,319           |
| Work in progress | 1,918           | 2,115           |
| Finished goods   | 391             | 2,333           |
|                  | <u>7,175</u>    | <u>8,767</u>    |

All inventories, excluding those fully provided for with nil carrying value, are stated at cost.

## 21. TRADE AND OTHER RECEIVABLES

|  |              | <b>Group</b>    |                 | <b>Company</b>  |                 |
|--|--------------|-----------------|-----------------|-----------------|-----------------|
|  |              | <b>2006</b>     | <b>2005</b>     | <b>2006</b>     | <b>2005</b>     |
|  | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <b>Trade receivables</b>                       | <i>21(a)</i> | <u>23,006</u>   | <u>35,384</u>   | <u>—</u>        | <u>—</u>        |
| <b>Other receivables</b>                       |              |                 |                 |                 |                 |
| Deposits, prepayments<br>and other receivables |              | 9,642           | 10,235          | 224             | 198             |
| Due from subsidiaries                          | <i>21(b)</i> | <u>—</u>        | <u>—</u>        | <u>69,380</u>   | <u>70,082</u>   |
|  |              | <u>9,642</u>    | <u>10,235</u>   | <u>69,604</u>   | <u>70,280</u>   |
|  |              | <u>32,648</u>   | <u>45,619</u>   | <u>69,604</u>   | <u>70,280</u>   |

## (a) Trade receivables

The Group allows an average credit period ranging from 30 to 90 days to its trade customers. The ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) as of the balance sheet date is as follows:

|               | <b>Group</b>    |                 |
|---------------|-----------------|-----------------|
|               | <b>2006</b>     | <b>2005</b>     |
|               | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0 to 60 days  | 10,851          | 19,345          |
| 61 to 90 days | 3,803           | 5,031           |
| Over 90 days  | 8,352           | 11,008          |
|               | <u>23,006</u>   | <u>35,384</u>   |

## (b) Due from subsidiaries

The amounts due are unsecured, interest-free and has no fixed term of repayment.

## 22. TRADE AND OTHER PAYABLES

|  | Notes | Group            |                  | Company          |                  |
|--|-------|------------------|------------------|------------------|------------------|
|  |       | 2006<br>HK\$'000 | 2005<br>HK\$'000 | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
| <b>Trade payables</b>                  | 22(a) | 20,099           | 17,617           | —                | —                |
| <b>Other payables</b>                  |       |                  |                  |                  |                  |
| Accrued charges and<br>other creditors |       | 17,606           | 11,987           | 2,941            | 950              |
| Due to related companies               | 22(b) | 4,827            | 13,420           | —                | —                |
|  |       | 22,433           | 25,407           | 2,941            | 950              |
|  |       | 42,532           | 43,024           | 2,941            | 950              |

## (a) Trade payables

The ageing analysis of trade payable as at the balance sheet date is as follows:

|               | Group            |                  |
|---------------|------------------|------------------|
|               | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
| 0 to 60 days  | 5,540            | 6,566            |
| 61 to 90 days | 836              | 5,694            |
| Over 90 days  | 13,723           | 5,357            |
|               | 20,099           | 17,617           |

## (b) Due to related companies

The amounts due are unsecured, interest-free and repayable on demand. The related companies are owned and controlled by Mr. Leung Wai Ho and Mr. Wong Chung Shun, directors and shareholders of the Company.

## 23. INTEREST-BEARING BORROWINGS

|  | Notes | Group            |                  |
|--|-------|------------------|------------------|
|  |       | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
| Fixed rate loans wholly repayable<br>within five years |       |                  |                  |
| Bank loan, secured                                     | 23(a) | 8,800            | —                |
| Loan from a third party, unsecured                     | 23(b) | —                | 3,062            |
|  |       | 8,800            | 3,062            |
| Current portion  |       | 8,800            | 1,750            |
| Non-current portion                                    |       | —                | 1,312            |
|  |       | 8,800            | 3,062            |

Note:

- (a) The bank loan is interest-bearing at 7.254% per annum and repayable within 1 year. The loan is secured by certain leasehold land and buildings held by the Group in PRC (see note 16 and note 18) and personal guarantee by Mr. Leung Wai Ho, a director and shareholder of the Company.
- (b) The loan was unsecured, interest-bearing at 1.8% per annum and had been fully repaid during the year.

## 24. OBLIGATIONS UNDER FINANCE LEASES

## Group

|  | Minimum lease<br>payments |                  | Present value of<br>minimum lease<br>payments |                  |
|--|---------------------------|------------------|---|------------------|
|  | 2006<br>HK\$'000          | 2005<br>HK\$'000 | 2006<br>HK\$'000                              | 2005<br>HK\$'000 |
| Amount payable:                        |                           |                  |   |                  |
| Within one year                        | 2,043                     | 2,043            | 1,813   | 1,656            |
| In the second to fifth years inclusive | 1,873                     | 3,916            | 1,801   | 3,614            |
|  | 3,916                     | 5,959            | 3,614   | 5,270            |
| Future finance charges                 | (302)                     | (689)            | —   | —                |
| Present value of lease obligations     | 3,614                     | 5,270            | 3,614   | 5,270            |

The average lease term for its plant and equipment under finance leases is 3 years (2005: 3 years). Interest rate underlying all obligations under finance leases is fixed at 8.4% per annum. No arrangements have been entered into for contingent rental payments.

## 25. DEFERRED TAXATION

At the balance sheet date, the Group has unused tax losses of HK\$52,947,000 (2005: HK\$23,472,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. The tax losses will not expire except for HK\$22,659,000 (2005: HK\$597,000), which will expire if they are not utilised to set off against the income within five years from the year in which they arose under the current tax legislation.

## 26. SHARE CAPITAL

|   | 2006                                 |                                       | 2005                                |                                       |
|---|--------------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|
|   | <i>Number of<br/>shares<br/>'000</i> | <i>Share<br/>capital<br/>HK\$'000</i> | <i>Number of<br/>Share<br/>'000</i> | <i>Share<br/>capital<br/>HK\$'000</i> |
| <b>Authorised:</b>  |                                      |                                       |                                     |                                       |
| Ordinary shares of HK\$0.01 each  | 50,000,000                           | 500,000                               | 50,000,000                          | 500,000                               |
| <b>Issued and fully paid:</b>   |                                      |                                       |                                     |                                       |
| At beginning of the year  | 1,578,540                            | 15,785                                | 1,528,540                           | 15,285                                |
| Issue of shares upon conversion<br>of convertible notes ( <i>Note a</i> ) | —                                    | —                                     | 50,000                              | 500                                   |
| Issue of shares upon placement<br>of shares ( <i>Note b</i> )             | 300,000                              | 3,000                                 | —                                   | —                                     |
| Issue of shares upon exercise<br>of share options ( <i>Note c</i> )       | 75,142                               | 751                                   | —                                   | —                                     |
| <b>At balance sheet date</b>  | <b>1,953,682</b>                     | <b>19,536</b>                         | <b>1,578,540</b>                    | <b>15,785</b>                         |

*Notes:*

- (a) On 30 September 2004, the Company issued unsecured convertible notes with an aggregate principal amount of HK\$2,500,000. The convertible notes bear interest at a rate of 3% per annum. The convertible notes can be converted into ordinary shares in the Company at a conversion price of HK\$0.05 per share, subject to adjustment, at the option of noteholders, on any business day after 30 days following the date of issue of the convertible notes and the maturity date is 29 March 2006.

On 3 March 2005, all convertible noteholders exercised their rights to convert the notes into 50,000,000 ordinary shares of the Company at a conversion price of HK\$0.05 per share.

- (b) Pursuant to a placing and subscription agreement dated 11 October 2006 made between the Company, Charm Management Limited ("Charm"), a substantial shareholder of the Company, and the placing agent, the placing agent agreed to place 300,000,000 ordinary shares in the Company held by Charm at a placing price of HK\$0.04 per share. Also, the Company agreed to allot and issue 300,000,000 ordinary shares in the Company to Charm at a subscription price of HK\$0.04 per share.

On 25 October 2006, 300,000,000 ordinary shares of HK\$0.01 each were issued and allotted to Charm at a consideration of HK\$0.04 per share. The net proceeds were used for additional working capital.

- (c) During the year ended 31 December 2006, options were exercised for 75,141,600 ordinary shares at the exercise price of HK\$0.049 per share under the share option schemes.

All the shares issued during both years rank *pari passu* with the existing shares of the Company in all respects.

## 27. RESERVES

## Company

|   | Share<br>premium<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Convertible<br>notes equity<br>reserve<br><i>HK\$'000</i> | Share<br>options<br>reserve<br><i>HK\$'000</i> | Accumulated<br>losses<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|-------------------------------------|---|---|--|--|--------------------------|
| At 1 January 2005                                       | 33,124                              | 49,948                                    | 262   | —  | (27,538)                                 | 55,796                   |
| Issue of shares upon conversion<br>of convertible notes | 2,069                               | —   | (262)   | —  | —  | 1,807                    |
| Loss for the year                                       | —                                   | —   | —   | —  | (4,018)                                  | (4,018)                  |
| At 31 December 2005                                     | <u>35,193</u>                       | <u>49,948</u>                             | <u>—</u>  | <u>—</u>                                       | <u>(31,556)</u>                          | <u>53,585</u>            |
| At 1 January 2006                                       | 35,193                              | 49,948                                    | —   | —  | (31,556)                                 | 53,585                   |
| Issue of shares upon placement<br>of shares             | 9,000                               | —   | —   | —  | —  | 9,000                    |
| Equity settled share-based<br>payment transactions      | —                                   | —   | —   | 1,868  | —  | 1,868                    |
| Issue of shares upon exercise<br>of share options       | 4,799                               | —   | —   | (1,868)  | —  | 2,931                    |
| Share issue expense                                     | (144)                               | —   | —   | —  | —  | (144)                    |
| Loss for the year                                       | —                                   | —   | —   | —  | (18,165)                                 | (18,165)                 |
| At 31 December 2006                                     | <u>48,848</u>                       | <u>49,948</u>                             | <u>—</u>  | <u>—</u>                                       | <u>(49,721)</u>                          | <u>49,075</u>            |

## 28. CASH USED IN OPERATIONS

|   | Group                   |                         |
|---|-------------------------|-------------------------|
|   | 2006<br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
| (Loss) Profit before taxation   | (36,457)                | 12,044                  |
| Depreciation of property, plant and equipment                           | 5,336                   | 3,929                   |
| Impairment loss recognised in respect of trade and<br>other receivables | 1,451                   | 20                      |
| Impairment loss on goodwill   | 1,136                   | 909                     |
| Provision for obsolete inventories                                      | 1,516                   | —                       |
| Equity settled share-based transactions                                 | 1,868                   | —                       |
| Loss on disposal of property, plant and equipment                       | 42                      | 12                      |
| Gain on disposal of investments held for trading                        | —                       | (2,863)                 |
| Gain on disposal of subsidiaries  | (355)                   | (2,593)                 |
| Amortisation of prepaid lease payments                                  | 182                     | 179                     |
| Net exchange (gain) loss  | (398)                   | 169                     |
| Finance costs   | 930                     | 103                     |
| Interest income   | (71)                    | (45)                    |
| Changes in working capital:   |                         |                         |
| Inventories   | 16                      | (6,521)                 |
| Trade and other receivables   | 9,666                   | (9,078)                 |
| Trade and other payables  | 4,047                   | 1,026                   |
| Cash used in operations   | <u>(11,091)</u>         | <u>(2,709)</u>          |

**29. MAJOR NON-CASH TRANSACTIONS**

During the year ended 31 December 2006, the Group has no major non-cash transaction. In 2005, the major non-cash transactions were as follows:

- (a) The Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of lease of HK\$6,000,000.
- (b) Deposits paid for acquisition of property, plant and equipment of HK\$4,330,000 was transferred to set-off the construction cost payable due to the same contractor.

**30. SHARE OPTIONS**

Pursuant to the resolution passed at a special general meeting held on 17 September 2004, the Company adopted a new share option scheme (the "Scheme"). The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The eligible participants of the Scheme include the Company's or its subsidiaries' executive directors, non-executive directors and employees, and any business consultants, agents, financial or legal advisers and any other persons who the Board consider, at its sole discretion, will contribute or have contributed to the Group.

The grant of share options should be accepted within 30 days from the date of the grant, at a consideration of HK\$1, being payable by the grantee upon the acceptance of grant. The options may be exercised at any time within the period commencing from the date of grant of the options and expiring on the date determined by the directors, but in any event such exercise period shall not exceed a period of ten years commencing on the date the relevant option is deemed to be granted.

The exercise price of the share options was determinable by the directors, but was not able to be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company's share.

Pursuant to the Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is not permitted to exceed 127,854,000 shares, representing 10% of the issued share capital of the Company as at the date of adoption of the Scheme. Subject to the issue of a circular and the approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meeting. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

No option may be granted to any person if the total number of shares of the Company already issued and issuable to him under all the options granted to him in any 12 month period up to and including the date of grant exceeding 1% of total number of shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting. Such participant and his associates (as defined in the Listing Rules) abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

## 30. SHARE OPTIONS (Continued)

## (a) Movements in share options

The following table discloses movements of the Company's share options during the year.

|  | Date of grant    | Exercise period                         | Exercise price<br>HK\$ | Number of share options    |                               |                                 |                              | Outstanding<br>at 31.12.2006 |
|--|------------------|---|------------------------|----------------------------|-------------------------------|---------------------------------|------------------------------|------------------------------|
|  |                  |   |                        | Outstanding<br>at 1.1.2006 | Granted<br>during<br>the year | Exercised<br>during<br>the year | Lapsed<br>during<br>the year |                              |
| Directors                                | 1 December 2004  | 31 December 2004 to<br>30 December 2006 | 0.0676                 | 7,671,240                  | —                             | —                               | (7,671,240)                  | —                            |
| Employees                                | 1 December 2004  | 31 December 2004 to<br>30 December 2006 | 0.0676                 | 51,141,600                 | —                             | —                               | (51,141,600)                 | —                            |
|  | 16 November 2006 | 16 November 2006 to<br>15 November 2008 | 0.0490                 | —                          | 37,570,800                    | (37,570,800)                    | —                            | —                            |
| Others                                   | 1 December 2004  | 31 December 2004 to<br>30 December 2006 | 0.0676                 | 43,470,360                 | —                             | —                               | (43,470,360)                 | —                            |
|  | 16 November 2006 | 16 November 2006 to<br>15 November 2008 | 0.0490                 | —                          | 37,570,800                    | (37,570,800)                    | —                            | —                            |
|  |                  |   |                        | <u>102,283,200</u>         | <u>75,141,600</u>             | <u>(75,141,600)</u>             | <u>(102,283,200)</u>         | <u>—</u>                     |
| Weight average exercise<br>prices (HK\$) |                  |   |                        | <u>0.0676</u>              | <u>0.0490</u>                 | <u>0.0490</u>                   | <u>0.0676</u>                | <u>N/A</u>                   |

The following table discloses movements of the Company's share options during the prior year.

|  | Date of grant   | Exercise period                         | Exercise price<br>HK\$ | Number of share options    |                               |                                 |                              | Outstanding<br>at 31.12.2005 |
|--|-----------------|---|------------------------|----------------------------|-------------------------------|---------------------------------|------------------------------|------------------------------|
|  |                 |   |                        | Outstanding<br>at 1.1.2005 | Granted<br>during<br>the year | Exercised<br>during<br>the year | Lapsed<br>during<br>the year |                              |
| Directors                                | 1 December 2004 | 31 December 2004 to<br>30 December 2006 | 0.0676                 | 7,671,240                  | —                             | —                               | —                            | 7,671,240                    |
| Employees                                | 1 December 2004 | 31 December 2004 to<br>30 December 2006 | 0.0676                 | 63,927,000                 | —                             | —                               | (12,785,400)                 | 51,141,600                   |
| Others                                   | 1 December 2004 | 31 December 2004 to<br>30 December 2006 | 0.0676                 | 43,470,360                 | —                             | —                               | —                            | 43,470,360                   |
|  |                 |   |                        | <u>115,068,600</u>         | <u>—</u>                      | <u>—</u>                        | <u>(12,785,400)</u>          | <u>102,283,200</u>           |
| Weight average exercise<br>prices (HK\$) |                 |   |                        | <u>0.0676</u>              | <u>—</u>                      | <u>—</u>                        | <u>0.0676</u>                | <u>0.0676</u>                |

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was nil year (2005: 1 year).

**30. SHARE OPTIONS** *(Continued)***(b) Share options exercised during the year**

During the year, all share options granted in the year ended 31 December 2006 were exercised at the exercise price of HK\$0.049 per share. The weighted average closing price of the shares of the Company at the date of exercise was HK\$0.048 per share.

**(c) Fair value of share options granted during the year and assumptions**

The fair value of the share options granted during the year is HK\$0.0249 (2005: HK\$nil). The estimate of the fair value of the share options granted is measured based on Black-Scholes pricing model. The inputs into the model were as follows:

|  |           |
|--|-----------|
| Closing price of the shares at the date of grant | HK\$0.052 |
| Exercise price                                   | HK\$0.049 |
| Expected volatility                              | 78.75%    |
| Risk-free interest rate                          | 6.75%     |
| Option life                                      | 2 years   |
| Expected dividend yield                          | 0.00%     |

The expected volatility was determined by using the historical volatility of the share price of the Company over the previous one year.

The Black-Scholes pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

**31. RETIREMENT BENEFIT SCHEME**

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, this contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

During the year, the total amount contributed by the Group to the relevant retirement benefit schemes are as follows:

|   | <b>2006</b>     | <b>2005</b>     |
|---|-----------------|-----------------|
|   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| MPF Scheme                                  | 210             | 326             |
| State-management retirement benefit schemes | 2,152           | 727             |
|   | <u>2,362</u>    | <u>1,053</u>    |



## 32. DISPOSAL OF SUBSIDIARIES

## 2005

On 19 November 2005, the Group disposed of its entire interest in a 50.01% owned subsidiary, Unique Force Limited. The disposal was completed on 19 November 2005. On 28 December 2005, the Group also entered into an agreement to dispose of its entire interest in a 70% owned subsidiary, Maple Force Limited. The disposal was completed on 30 December 2005.

## 2006

On 22 June 2006, the Group disposed of its entire interest in two 51% owned subsidiaries, Thunder Force Limited (“Thunder Force”) and Thunder Tech Electronic Co., Limited (“Thunder Tech”). Thunder Force was engaged in trading and manufacturing of electronic components while Thunder Tech was inactive. The Group discontinued its consumer products business at the time of disposal of these subsidiaries on 22 June 2006.

|   | Group        |              |
|---|--------------|--------------|
|   | 2006         | 2005         |
|   | HK\$'000     | HK\$'000     |
| <b>Net (liabilities) assets disposed of by the Group:</b> |              |              |
| Property, plant and equipment                             | 96           | 129          |
| Inventories   | 60           | 475          |
| Trade and other receivables                               | 1,854        | 4,529        |
| Bank balances and cash                                    | 292          | 800          |
| Bank overdrafts   | —            | (558)        |
| Trade and other payables                                  | (2,446)      | (2,387)      |
|   | <u>(144)</u> | <u>2,988</u> |
| Minority interests  | (161)        | (1,961)      |
|   | <u>(305)</u> | <u>1,027</u> |
| Attributable goodwill                                     | —            | 1,075        |
|   | <u>(305)</u> | <u>2,102</u> |
| Gain on disposal  |              |              |
| Continuing operations                                     | —            | 10           |
| Discontinued operation ( <i>Note 11</i> )                 | 355          | 2,583        |
|   | <u>355</u>   | <u>2,593</u> |
| Total consideration satisfied by cash                     | <u>50</u>    | <u>4,695</u> |
| Net cash (outflow) inflow arising on disposal:            |              |              |
| Cash consideration  | 50           | 4,695        |
| Bank balances and cash disposed of                        | (292)        | (800)        |
| Bank overdrafts disposed of                               | —            | 558          |
|   | <u>(242)</u> | <u>4,453</u> |

The impact of Thunder Force and Thunder Tech on the Group's result and cash flows in the current and prior periods is disclosed in note 11 to the financial statements.

## 33. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties:

| Related party relationship  | Nature of transactions        | 2006<br>HK\$'000  | 2005<br>HK\$'000  |
|---|-------------------------------|-------------------|-------------------|
| Key management personnel,<br>including directors ( <i>note</i> )                            | Compensation                  |                   |                   |
|   | Short-term benefits           | 3,021             | 3,430             |
|   | Post employment benefits      | 48                | 48                |
|   |                               | <u>3,069</u>      | <u>3,478</u>      |
| Companies under common control<br>by executive directors and<br>shareholders of the Company | Administrative expenses paid: |                   |                   |
|   | — staff welfare               | 157               | —                 |
|   | — transportation              | 39                | 10                |
|   | — security                    | 403               | —                 |
|   | — office supplies             | —                 | 34                |
|   |                               | <u>599</u>        | <u>44</u>         |
|   | Sales of goods                | 84                | 976               |
|   | Purchase of goods             | —                 | 36                |
|   | Transfer of land use right    | —                 | 7,500             |
|   |                               | <u>          </u> | <u>          </u> |

*Note:*

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

**34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's major financial instruments include trade and other receivables, trade and other payables, interest-bearing borrowings, convertible notes and obligation under finance leases. Details of these financial instruments are disclosed in respective notes and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Currency risk**

Certain trade and other receivables and trade and other payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

**Fair value interest rate risk**

Interest rate risk arises from the potential changes in interest rates that may have an adverse effect on the Group in the current and future years.

The Group is exposed to fair value interest rate risk through the impact of interest rates changes on interest bearing debts and interest bearing cash. The Group does not enter into any derivative instruments to hedge this risk.

**Credit risk**

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The Group has adopted procedures extending credit terms to customers and in monitoring its credit risk.

The Group's current credit practices include assessment and valuation of customer's credit reliability and periodic review of their financial status to determine the credit limits to be granted.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial year in relation to each to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet.

As at the balance sheet, the Group has no significant concentration of credit risk, with exposure spread over a number of customers and counterparts.

## 35. COMMITMENTS

## (a) Capital expenditure commitments

At the balance sheet date, the Group had no commitment (2005: HK\$1,651,000) in respect of expenditure on property, plant and equipment contracted but not provided for in the financial statements.

## (b) Commitments under operating leases

*The Group as lessee*

Operating lease payments represent rentals payable by the Group for certain of its warehouses and office premises. Leases are negotiated for an average term of two years (2005: two years) and rentals are fixed during the lease period.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

|                                       | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i> |
|---------------------------------------|--------------------------------|--------------------------------|
| Within one year                       | 300                            | 483                            |
| In the second to fifth year inclusive | 157                            | 117                            |
|                                       | <u>457</u>                     | <u>600</u>                     |

*The Group as lessor*

The Group leases out part of its properties under operating leases with average lease terms of 2 to 3 years. The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

|                                       | <b>2006</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i> |
|---------------------------------------|--------------------------------|--------------------------------|
| Within one year                       | 47                             | 793                            |
| In the second to fifth year inclusive | 43                             | 793                            |
|                                       | <u>90</u>                      | <u>1,586</u>                   |

**36. CONTINGENT LIABILITIES****Group**

On 8 October 2004, Mr. Kwok Chin Wing (“Kwok”), a former director of the Company, commenced legal proceedings (“the Action”) against the Company in respect of the loans due from two former subsidiaries of the Company, namely, Rockapetta Industrial Company Limited and Grand Extend Investment Limited, for a sum of approximately HK\$44.5 million and accrued interest thereof.

The Action is still pending in the High Court of Hong Kong SAR. The Company had already completed discovery of all documentary evidence and exchange of witness statements as to the fact pursuant to the directions of the Court and also obtained Counsel’s advice on the pleadings, evidence and merit of defence in the Action. The Company was ready to proceed with the trial of the Action since early 2006.

However, Kwok took out applications in the Action in July 2006 for substantial amendments to his Re-Re-Amended Statement of Claim (“the Amendment Application”) and joinder of party to the Action (“the Joinder Application”). The Amendment Application and the Joinder Application had substantially delayed the setting of the Action for trial.

The Amendment Application and the Joinder Application were granted by the Court on 19 April 2007 and the parties are now working on the proper directions to be sought for the further conduct of the Action. Notwithstanding the substantial amendments made to the Re-Re-Amended Statement of Claim and the joining of a new party to the Action, the Solicitors and Counsel acting for the Company still hold good for their advice previously delivered to the Company. With the benefit of the advice of the Solicitors and Counsel acting for the Company, the directors of the Company formed the opinion that Kwok does not have a valid claim against the Company and therefore it is unlikely to have any material adverse financial impact on the Group.

**Company**

At 31 December 2006, the Company had executed an unconditional and irrevocable guarantee to secure banking facilities in respect of a finance lease granted to a subsidiary. The aggregate outstanding balances due by the subsidiary amounted to HK\$3,614,000 as at 31 December 2006 (2005: HK\$5,270,000).

**37. POST BALANCE SHEET EVENTS**

- (a) On 23 November 2006, the Company entered into an agreement with Sky Hawk International Limited, a third party, to dispose its entire interest in Good Prosper Trading Limited (“GPTL”), a wholly owned subsidiary, and the amounts owed by GPTL to the Company and its subsidiaries that are outstanding at completion of the agreement at a consideration of HK\$20 million. The disposal is expected to be completed in May 2007.
- (b) On 24 January 2007, the Board proposed to effect the share consolidation (“Share Consolidated”) on the basis that every five issued and unissued shares of HK\$0.01 each will be consolidated into two consolidated shares of HK\$0.025 each (“Consolidated Share”). The Share Consolidation was approved by the shareholders of the Company in the special general meeting held on 5 March 2007 (“SGM”) and the Share Consolidation was effective from 6 March 2007. Details of the Share Consolidation are set out in the circular issued by the Company dated 14 February 2007.

**37. POST BALANCE SHEET EVENTS** *(Continued)*

- (c) On 24 January 2007, the Company entered into a conditional share placing agreement with Hani Securities (H.K.) Limited ("Placing Agent") whereby the Placing Agent agreed to place up to 340,000,000 new Consolidated Shares at a price of HK\$0.10 per Consolidated Share to places who are independent third parties procured by the Placing Agent. Of those Consolidated Shares, the Placing Agent has agreed to place 150,000,000 new Consolidated Shares on a fully underwritten basis, with the balance of up to 190,000,000 new Consolidated Shares to be placed on a best effort basis. The net proceeds from the share placing amounted to approximately HK\$33 million. The share placing was approved by the shareholders of the Company in the SGM.

220,000,000 new Consolidated Shares and 120,000,000 new Consolidated Shares were issued and allotted to HKSCC Nominees Limited at a consideration of HK\$0.10 per Consolidated Share on 14 March 2007 and 11 April 2007 respectively. The net proceeds of approximately HK\$33 million will be used as additional working capital and for future investment opportunities for the Group. These shares rank pari passu with the existing shares of the Company in all respects.

- (d) On 24 January 2007, the Company entered into a conditional note placing agreement with the Placing Agent whereby the Placing Agent would procure, on a best effort basis, subscribers to subscribe for the convertible notes in the aggregate principal amount of up to HK\$34 million to be issued by the Company ("Convertible Notes") which carrying right to convert into shares of the Company at a conversion price of HK\$0.10 per Consolidated Share (subject to adjustments). The net proceeds from the note placing will amount to approximately HK\$33.6 million and will be used as additional working capital and for future investment opportunities for the Group. The issue of Convertible Notes and note placing were approved by the shareholders of the Company in the SGM. Details of which are set out in the circular issued by the Company dated 14 February 2007.
- (e) On the 16 April 2007, Prosper Overseas Limited ("POL"), a wholly owned subsidiary of the Company entered into an agreement with Innovative Sonic International Limited, a company which is beneficially owned and controlled by Mr. Leung Wai Ho and Mr. Wong Chung Shun, both are directors and substantial shareholders of the Company, to dispose of its entire interest in GFT Holding Limited and the rights of and benefits in the total amount of loans or advances outstanding and owing from Great Force Technology Limited, one of the subsidiaries of GFT Holding Limited, to POL as at the date of completion of the agreement at a consideration of HK\$2.00. The disposal is conditional upon (a) the approval by independent shareholders at a special general meeting; (b) the release by the banks of the obligation of the Company as a corporate guarantor under the existing banking facilities granted to GFT Holding Limited group; and (c) all necessary consents being granted by third parties. Details of disposal are set out in the announcement issued by the Company dated 17 April 2007.

**38. COMPARATIVE FIGURES**

Certain comparative figures, particularly relate to discontinued operation, have been reclassified to conform to the current year's presentation.

## 39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

| Name of subsidiary                                    | Place of incorporation/<br>establishment | Place of operation | Issued and paid-up share capital/<br>registered capital | Proportion ownership interest held by the Company |            | Principal activities   |
|---|--|--------------------|---|---|------------|--|
|   |  |                    |   | Directly  | Indirectly |  |
| Capital Prosper Limited                               | Hong Kong                                | Hong Kong          | HK\$2 ordinary share                                    | 100%  | —          | Inactive   |
| GFT Group Limited                                     | British Virgin Islands                   | PRC                | US\$1 ordinary share                                    | —   | 100%       | Inactive   |
| GFT Holding Limited                                   | British Virgin Islands                   | Hong Kong          | US\$640,000 ordinary share                              | —   | 100%       | Investment holding   |
| GFT International (Macao Commercial Offshore) Limited | Macao                                    | Macao              | MOP100,000 quota share                                  | —   | 100%       | Trading of electronic toys   |
| Good Prosper Trading Limited                          | British Virgin Islands                   | Hong Kong          | US\$1 ordinary share                                    | 100%  | —          | Securities trading and investment  |
| Great Force Technology Limited                        | Hong Kong                                | Hong Kong          | HK\$2 ordinary share                                    | —   | 100%       | Investment holding   |
| New Challenge Limited                                 | Hong Kong                                | Hong Kong          | HK\$1,000,000 ordinary share                            | —   | 85%        | Research and development of toy products and provision of marketing services |
| Prosper Overseas Limited                              | Hong Kong                                | Hong Kong          | HK\$2 ordinary share                                    | 100%  | —          | Investment holding   |
| Prosper Services Limited                              | Hong Kong                                | Hong Kong          | HK\$2 ordinary share                                    | 100%  | —          | Provision of management services to the Group                                |

## 39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

| Name of subsidiary           | Place of incorporation/<br>establishment | Place of operation | Issued<br>and paid-up<br>share capital/<br>registered capital | Proportion ownership<br>interest held by the<br>Company |            | Principal<br>activities                                |
|------------------------------|--|--------------------|---|---|------------|--|
|                              |  |                    |   | Directly  | Indirectly |  |
| Sky Union (Far East) Limited | Hong Kong                                | Hong Kong          | HK\$4<br>ordinary share                                       | —   | 100%       | Investment<br>holding                                  |
| Yanyan Force Limited         | Hong Kong                                | Hong Kong          | HK\$100<br>ordinary share                                     | —   | 60%        | Trading<br>of toys, gifts<br>and premiums              |
| Wiz Limited                  | Hong Kong                                | Hong Kong          | HK\$1<br>ordinary share                                       | 100%  | —          | Provision of<br>management<br>services to<br>the Group |
| 宏科電子(惠州)<br>有限公司 (Note)      | PRC                                      | PRC                | HK\$27,898,000<br>paid-up capital                             | —   | 100%       | Manufacturing<br>and sales of<br>toys                  |
| 天源(惠州) 電子<br>有限公司 (Note)     | PRC                                      | PRC                | US\$4,200,000<br>paid-up capital                              | —   | 100%       | Investment<br>in land                                  |
| 博羅縣天河電子<br>有限公司 (Note)       | PRC                                      | PRC                | RMB500,000<br>paid-up capital                                 | —   | 100%       | Investment<br>in land                                  |
| 博羅縣天興電子<br>有限公司 (Note)       | PRC                                      | PRC                | RMB500,000<br>paid-up capital                                 | —   | 100%       | Investment<br>in land                                  |

Note: These companies are wholly foreign-owned enterprise established in the PRC.

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



## 3. UNAUDITED INTERIM RESULTS

Set out below is a summary of the unaudited consolidated financial statements of the Group together with the relevant notes to the accounts as extracted from the interim report of the Company for the six months ended 30 June 2007.

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30 June 2007*

|   |              | <b>Six months ended 30 June</b> |                            |
|---|--------------|---------------------------------|----------------------------|
|   | <i>Notes</i> | <b>2007</b>                     | <b>2006</b>                |
|   |              | <i>HK\$'000</i>                 | <i>HK\$'000</i>            |
|   |              | (unaudited)                     | (unaudited and restated)   |
| <b>Continuing operations</b>                          |              |                                 |                            |
| Turnover  | 3            | 69,345                          | 52,809                     |
| Cost of sales   |              | <u>(68,408)</u>                 | <u>(49,370)</u>            |
| Gross profit  |              | 937                             | 3,439                      |
| Other income  |              | 851                             | 521                        |
| Distribution costs                                    |              | (857)                           | (2,513)                    |
| Administrative expenses                               |              | (12,644)                        | (10,754)                   |
| Loss on assignment of an amount due from a subsidiary | 6(b)         | (68,599)                        | —                          |
| Gain on disposal of subsidiaries                      | 14           | 20,343                          | —                          |
| Finance costs   | 6(a)         | <u>(408)</u>                    | <u>(394)</u>               |
| Loss before taxation                                  |              | (60,377)                        | (9,701)                    |
| Taxation  | 4            | <u>—</u>                        | <u>—</u>                   |
| Loss for the period from continuing operations        |              | (60,377)                        | (9,701)                    |
| <b>Discontinued operation</b>                         |              |                                 |                            |
| Loss for the period from discontinued operation       | 5            | <u>—</u>                        | <u>(68)</u>                |
| <b>Loss for the period</b>                            | 6            | <u><u>(60,377)</u></u>          | <u><u>(9,769)</u></u>      |
| <b>Attributable to:</b>                               |              |                                 |                            |
| Equity holders of the Company                         |              | (59,831)                        | (9,512)                    |
| Minority interests                                    |              | <u>(546)</u>                    | <u>(257)</u>               |
| <b>Loss for the period</b>                            |              | <u><u>(60,377)</u></u>          | <u><u>(9,769)</u></u>      |
| <b>Loss per share</b>                                 |              |                                 |                            |
| From continuing and discontinued operations           | 8            |                                 |                            |
| Basic   |              | <u><u>(6.17 cents)</u></u>      | <u><u>(1.51 cents)</u></u> |
| From continuing operations                            |              |                                 |                            |
| Basic   |              | <u><u>(6.17 cents)</u></u>      | <u><u>(1.50 cents)</u></u> |

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

|   | <i>Notes</i> | <b>30 June<br/>2007</b><br><i>HK\$'000</i><br>(unaudited) | <b>31 December<br/>2006</b><br><i>HK\$'000</i><br>(audited) |
|---|--------------|---|---|
| <b>Non-current assets</b>   |              |   |   |
| Property, plant and equipment   | 10           | 240   | 52,551  |
| Goodwill  |              | 4,201   | 4,201   |
| Prepaid lease payments  |              | —   | 3,327   |
| Club debenture  |              | —   | 220   |
|   |              | <u>4,441</u>  | <u>60,299</u>   |
| <b>Current assets</b>   |              |   |   |
| Inventories   |              | —   | 7,175   |
| Trade and other receivables   | 11           | 32,128  | 32,648  |
| Current portion of prepaid lease payments                                     |              | —   | 72  |
| Bank balances and cash  |              | 16,545  | 7,136   |
| Tax recoverable   |              | 516   | 196   |
|   |              | <u>49,189</u>   | <u>47,227</u>   |
| Non-current assets classified as held for sale                                | 9            | —   | 19,127  |
|   |              | <u>49,189</u>   | <u>66,354</u>   |
| <b>Current liabilities</b>  |              |   |   |
| Trade and other payables  | 12           | 10,202  | 42,532  |
| Current portion of interest-bearing borrowings                                |              | —   | 8,800   |
| Current portion of obligations under<br>finance leases                        |              | —   | 1,813   |
|   |              | <u>10,202</u>   | <u>53,145</u>   |
| Liabilities associated with non-current<br>assets classified as held for sale | 9            | —   | 2,093   |
|   |              | <u>10,202</u>   | <u>55,238</u>   |
| <b>Net current assets</b>   |              | <u>38,987</u>   | <u>11,116</u>   |
| <b>Total assets less current liabilities</b>                                  |              | <u>43,428</u>   | <u>71,415</u>   |

**CONDENSED CONSOLIDATED BALANCE SHEET** (*Continued*)*At 30 June 2007*

|   | <i>Notes</i> | <b>30 June<br/>2007</b><br><i>HK\$'000</i><br>(unaudited) | <b>31 December<br/>2006</b><br><i>HK\$'000</i><br>(audited) |
|---|--------------|---|---|
| <b>Non-current liabilities</b>                                  |              |   |   |
| Long-term obligations under<br>finance leases                   |              | —   | 1,801   |
|   |              | —   | 1,801   |
| <b>NET ASSETS</b>   |              | <b>43,428</b>   | <b>69,614</b>   |
| <b>Capital and reserves</b>                                     |              |   |   |
| Share capital   | <i>13</i>    | 28,367  | 19,536  |
| Reserves  |              | 14,216  | 48,616  |
| <b>Equity attributable to equity holders<br/>of the Company</b> |              |   |   |
| Minority interests  |              | 845   | 1,462   |
| <b>TOTAL EQUITY</b>   |              | <b>43,428</b>   | <b>69,614</b>   |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

|   | Attributable to equity holders of the Company |               |                 |                       |                     |                              |               |                    |               |
|---|---|---------------|-----------------|-----------------------|---------------------|------------------------------|---------------|--------------------|---------------|
|   | Share capital                                 | Share premium | Capital reserve | Share options reserve | Translation reserve | Accumulated profits (losses) | Total         | Minority interests | Total         |
|   | HK\$'000                                      | HK\$'000      | HK\$'000        | HK\$'000              | HK\$'000            | HK\$'000                     | HK\$'000      | HK\$'000           | HK\$'000      |
| At 1 January 2006   | 15,785  | 35,193        | 2,099           | —                     | 1,399               | 31,170                       | 85,646        | 1,546              | 87,192        |
| Exchange difference on translation of financial statements of overseas subsidiaries recognised directly in equity | —   | —             | —               | —                     | (354)               | —                            | (354)         | —                  | (354)         |
| Released on disposal of subsidiaries  | —   | —             | —               | —                     | —                   | —                            | —             | (161)              | (161)         |
| Loss for the period   | —   | —             | —               | —                     | —                   | (9,512)                      | (9,512)       | (257)              | (9,769)       |
| At 30 June 2006   | <u>15,785</u>                                 | <u>35,193</u> | <u>2,099</u>    | <u>—</u>              | <u>1,045</u>        | <u>21,658</u>                | <u>75,780</u> | <u>1,128</u>       | <u>76,908</u> |
| At 1 January 2007   | 19,536  | 48,848        | 2,099           | —                     | 3,109               | (5,440)                      | 68,152        | 1,462              | 69,614        |
| Released on disposal of subsidiaries  | —   | —             | —               | —                     | (3,109)             | —                            | (3,109)       | (71)               | (3,180)       |
| Loss for the period   | —   | —             | —               | —                     | —                   | (59,831)                     | (59,831)      | (546)              | (60,377)      |
| Issue of shares upon placement of shares  | 8,500   | 25,500        | —               | —                     | —                   | —                            | 34,000        | —                  | 34,000        |
| Equity settled share-based payment transactions   | —   | —             | —               | 2,282                 | —                   | —                            | 2,282         | —                  | 2,282         |
| Issue of shares upon exercise of share options  | 331   | 2,435         | —               | (913)                 | —                   | —                            | 1,853         | —                  | 1,853         |
| Share issue expense   | —   | (764)         | —               | —                     | —                   | —                            | (764)         | —                  | (764)         |
| At 30 June 2007   | <u>28,367</u>                                 | <u>76,019</u> | <u>2,099</u>    | <u>1,369</u>          | <u>—</u>            | <u>(65,271)</u>              | <u>42,583</u> | <u>845</u>         | <u>43,428</u> |

The capital reserve represents the difference between the nominal value of the share capital issued by the Company in exchange for the aggregate of the nominal value of the issued share capital of a former subsidiary which was acquired by the Company pursuant to a group reorganisation in 1994 to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 June 2007*

|   | <b>Six months ended 30 June</b> |                 |
|---|---------------------------------|-----------------|
|   | <b>2007</b>                     | <b>2006</b>     |
|   | <i>HK\$'000</i>                 | <i>HK\$'000</i> |
|   | (unaudited)                     | (unaudited)     |
| Net cash used in operating activities   | (29,877)                        | (178)           |
| Net cash used in investing activities   | (4,079)                         | (2,858)         |
| Net cash from financing activities  | 43,294                          | 7,786           |
|   | <hr/>                           | <hr/>           |
| Net increase in cash and cash equivalents   | 9,338                           | 4,750           |
| Cash and cash equivalents at beginning of the period  | 7,207                           | 6,044           |
|   | <hr/>                           | <hr/>           |
| <b>Cash and cash equivalents at end of the period,</b><br>represented by bank balances and cash | <u>16,545</u>                   | <u>10,794</u>   |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2007***1. BASIS OF PREPARATION**

These condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2006.

**2. PRINCIPAL ACCOUNTING POLICIES**

The accounting policies used in preparing these condensed consolidated financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 December 2006.

**3. SEGMENT INFORMATION****Business segments**

During the six months ended 30 June 2007, the Group is principally engaged in toy products trading and manufacturing. An analysis of the Group's turnover and results for the period by business segments is as follows:

|                                  | <b>Six months ended 30 June 2007</b>                  |   |                     |
|----------------------------------|---|---|---------------------|
|                                  | <b>Toy products<br/>trading and<br/>manufacturing</b> | <b>Securities<br/>trading and<br/>investments</b> | <b>Consolidated</b> |
|                                  | <i>(Note a)</i>                                       | <i>(Note b)</i>                                   |                     |
|                                  | <i>HK\$'000</i>                                       | <i>HK\$'000</i>                                   | <i>HK\$'000</i>     |
| Turnover                         | 69,345  | —   | 69,345              |
| Segment results                  | (76,245)  | —   | (76,245)            |
| Other income                     |   |   | 134                 |
| Unallocated operating expenses   |   |   | (4,201)             |
| Gain on disposal of subsidiaries |   |   | 20,343              |
| Finance costs                    |   |   | (408)               |
| Loss before taxation             |   |   | (60,377)            |
| Taxation                         |   |   | —                   |
| Loss for the period              |   |   | <u>(60,377)</u>     |

## 3. SEGMENT INFORMATION (Continued)

|                                  | Six months ended 30 June 2006 (restated) |  |          |   |                          |
|----------------------------------|--|--|----------|---|--------------------------|
|                                  | Continuing operations                    |  |          | Discontinued operation                                  | Consolidated<br>HK\$'000 |
|                                  | Toy products trading and manufacturing   | Securities trading and investments<br>(Note b) | Total    | Consumer products trading and manufacturing<br>(Note c) |                          |
|                                  | HK\$'000                                 | HK\$'000                                       | HK\$'000 | HK\$'000  |                          |
| Turnover                         | 52,809                                   | —  | 52,809   | 2,547   |                          |
| Segment results                  | (6,801)                                  | —  | (6,801)  | (423)   | (7,224)                  |
| Other income                     |  |  | 52       | —   | 52                       |
| Unallocated operating expenses   |  |  | (2,924)  | —   | (2,924)                  |
| Gain on disposal of subsidiaries |  |  | —        | 355   | 355                      |
| Finance costs                    |  |  | (28)     | —   | (28)                     |
| Loss before taxation             |  |  | (9,701)  | (68)  | (9,769)                  |
| Taxation                         |  |  | —        | —   | —                        |
| Loss for the period              |  |  | (9,701)  | (68)  | (9,769)                  |

## Notes:

- (a) Upon the disposal of GFT Holding Limited and its subsidiaries, the operation of manufacturing of toy products was terminated in June 2007.
- (b) The operation of securities trading and investments has been dormant since May 2005.
- (c) The consumer products trading and manufacturing operation was discontinued in June 2006.

**Geographical segments**

An analysis of the Group's turnover for the period by geographical segments is as follows:

|                                    | Six months ended 30 June |                  |
|------------------------------------|--------------------------|------------------|
|                                    | 2007<br>HK\$'000         | 2006<br>HK\$'000 |
| Japan                              | 42,277                   | 25,595           |
| People's Republic of China ("PRC") | 13,594                   | 13,152           |
| Hong Kong                          | 9,465                    | 11,002           |
| Taiwan                             | 1,362                    | 3,461            |
| Singapore                          | 932                      | 721              |
| Europe                             | 830                      | 917              |
| Others                             | 885                      | 508              |
|                                    | <u>69,345</u>            | <u>55,356</u>    |

#### 4. TAXATION

No provision for Hong Kong Profits Tax or tax in other jurisdictions has been made for the six months ended 30 June 2007 as neither the Company nor any of its subsidiaries had any assessable profit subject to tax during the period (six months ended 30 June 2006: nil).

No deferred tax asset has been recognised in respect of the unused tax losses of the Group due to the unpredictability of future profit streams.

#### 5. DISCONTINUED OPERATION

On 22 June 2006, the Group disposed two non-wholly owned subsidiaries which manufacture and trade electronic components and were a separate business segment of the Group. The results of the discontinued operation up to the date of disposal are as follows:

|  | <b>Six months ended<br/>30 June 2006</b><br><i>HK\$'000</i> |
|--|---|
| <b>Loss for the period from discontinued operation</b> |   |
| Revenue  | 2,547   |
| Gain on disposal of subsidiaries                       | 355   |
| Expenses   | (2,970)   |
|  | <hr/>   |
| Loss before taxation                                   | (68)  |
| Taxation   | —   |
|  | <hr/>   |
| Loss for the period from discontinued operation        | <u>(68)</u>   |

#### 6. LOSS FOR THE PERIOD

(a) This is stated after charging (crediting):

|  | <b>Six months ended 30 June</b> |                 |
|--|---------------------------------|-----------------|
|  | <b>2007</b>                     | <b>2006</b>     |
|  | <i>HK\$'000</i>                 | <i>HK\$'000</i> |
| <b>Finance costs</b>   |                                 |                 |
| Interest on bank loans and other borrowings wholly repayable within five years | 314                             | 181             |
| Finance charges on obligations under finance leases                            | 94                              | 213             |
| <b>Other items</b>   |                                 |                 |
| Cost of inventories  | 68,408                          | 51,447          |
| Depreciation on property, plant and equipment                                  | 1,925                           | 2,649           |
| Amortisation on prepaid lease payments   | 63                              | 94              |
| Interest income  | (96)                            | (20)            |
|  | <hr/> <hr/>                     | <hr/> <hr/>     |

(b) The amount represented the loss on assignment of an amount due from Great Force Technology Limited, one of the subsidiaries of GFT Holding Limited, upon the disposal of GFT Holding Limited during the six months ended 30 June 2007 (details of which is set out in Note 14).



## 7. DIVIDENDS

No dividends were paid during the period. The Board does not recommend payment of interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: nil).

## 8. LOSS PER SHARE

## (a) For continuing and discontinued operations

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

|   | <b>Six months ended 30 June</b> |   |
|---|---------------------------------|---|
|   | <b>2007</b>                     | <b>2006</b>                             |
|   | <i>HK\$'000</i>                 | <i>HK\$'000</i>                         |
| Loss for the period attributable to equity holders of the Company for the purpose of basic loss per share | <u>(59,831)</u>                 | <u>(9,512)</u>                          |
|   | <i>Number of shares '000</i>    | <i>Number of shares '000 (restated)</i> |
| Weighted average number of ordinary shares for the purpose of basic loss per share                        | <u>969,013</u>                  | <u>631,416</u>                          |

*Notes:*

The number of shares for the six months ended 30 June 2007 was adjusted to reflect the share consolidation of every five shares of HK\$0.01 each of the Company into two shares of HK\$0.025 each which became effective on 6 March 2007. Comparative figures have been restated accordingly.

No diluted loss per share has been presented as the exercise of the share options would result in decrease on loss per share.

**8. LOSS PER SHARE (Continued)****(b) For continuing operations**

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

|   | <b>Six months ended 30 June</b> |                             |
|---|---------------------------------|-----------------------------|
|   | <b>2007</b>                     | <b>2006</b>                 |
|   | <i>HK\$'000</i>                 | <i>HK\$'000</i>             |
| Loss for the period attributable to equity holders of the Company       | (59,831)                        | (9,512)                     |
| Less: Loss for the period from discontinued operation                   | —                               | 67                          |
|   | <u>                    </u>     | <u>                    </u> |
| Loss for the purpose of basic loss per share from continuing operations | <u>(59,831)</u>                 | <u>(9,445)</u>              |

The denominators used are the same as those detailed above for basic loss per share from continuing and discontinued operations.

**(c) For discontinued operation**

Basic loss per share for discontinued operation for the six months ended 30 June 2006 is HK0.01 cent per share, based on loss for the period from the discontinued operation of HK\$67,000 and the denominators detailed above for the basic loss per share from continuing and discontinued operations.

**9. NON-CURRENT ASSETS HELD FOR SALE**

On 23 November 2006, the Company entered into an agreement with an independent third party to dispose of all its equity interest in Good Prosper Trading Limited (“GPTL”) and its subsidiaries (“GPTL Group”) and the amount due from GPTL for an aggregate consideration of HK\$20,000,000. The principal assets held by GPTL Group are land use rights in respect of parcels of land situated in the PRC. The assets and liabilities of GPTL Group were classified as held for sale as at 31 December 2006. The disposal was completed on 28 June 2007 with a deferred consideration of HK\$16,000,000, details of which is set out in Note 11(b).

**10. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2007, the Group, through the disposal of its subsidiaries, disposed certain property, plant and equipment with an aggregate carrying value of approximately HK\$50,477,000. There is no addition of property, plant and equipment during the six months ended 30 June 2007 (six months ended 30 June 2006: HK\$2,242,000).

## 11. TRADE AND OTHER RECEIVABLES

|   | <i>Notes</i> | <b>30 June<br/>2007<br/>HK\$'000</b> | <b>31 December<br/>2006<br/>HK\$'000</b> |
|---|--------------|--------------------------------------|--|
| <b>Trade receivables</b>                    | <i>(a)</i>   | 11,141                               | 23,006                                   |
| <b>Other receivables</b>                    |              |                                      |  |
| Deposits, prepayments and other receivables |              | 4,987                                | 9,642                                    |
| Promissory note receivable                  | <i>(b)</i>   | 16,000                               | —  |
|   |              | 20,987                               | 9,642                                    |
|   |              | <u>32,128</u>                        | <u>32,648</u>                            |

- (a) The Group allows an average credit period ranging from 30 to 90 days to its trade customers. The ageing analysis of trade receivables as of the balance sheet date is as follows:

|               | <b>30 June<br/>2007<br/>HK\$'000</b> | <b>31 December<br/>2006<br/>HK\$'000</b> |
|---------------|--------------------------------------|--|
| 0 to 60 days  | 10,074                               | 10,851                                   |
| 61 to 90 days | 342                                  | 3,803                                    |
| Over 90 days  | 725                                  | 8,352                                    |
|               | <u>11,141</u>                        | <u>23,006</u>                            |

- (b) The amount represents the deferred consideration receivable from Sky Hawk International Limited, the purchaser of GPTL. The amount due is interest free, due on 31 December 2007 and secured by the entire issued share capital of GPTL.

## 12. TRADE AND OTHER PAYABLES

|                                     | <b>30 June<br/>2007</b><br><i>HK\$'000</i> | <b>31 December<br/>2006</b><br><i>HK\$'000</i> |
|-------------------------------------|--|--|
| <b>Trade payables</b>               | 2,034                                      | 20,099   |
| <b>Other payables</b>               |  |  |
| Accrued charges and other creditors | 6,608                                      | 17,606   |
| Due to related companies            | 1,560                                      | 4,827  |
|                                     | 8,168                                      | 22,433   |
|                                     | <u>10,202</u>                              | <u>42,532</u>                                  |

The ageing analysis of trade payables as at the balance sheet date is as follows:

|               | <b>30 June<br/>2007</b><br><i>HK\$'000</i> | <b>31 December<br/>2006</b><br><i>HK\$'000</i> |
|---------------|--|--|
| 0 to 60 days  | 854  | 5,540  |
| 61 to 90 days | 117  | 836  |
| Over 90 days  | 1,063                                      | 13,723   |
|               | <u>2,034</u>                               | <u>20,099</u>                                  |

## 13. SHARE CAPITAL

|  | Number of shares<br>'000 | Share capital<br>HK\$'000 |
|--|--------------------------|---------------------------|
| <b>Authorised:</b>   |                          |                           |
| Ordinary shares  |                          |                           |
| At 1 January 2006 and 31 December 2006,<br>at HK\$0.01 each      | 50,000,000               | 500,000                   |
| Share consolidation ( <i>note a</i> )                            | (30,000,000)             | —                         |
|  | <u>20,000,000</u>        | <u>500,000</u>            |
| At 30 June 2007, at HK\$0.025 each                               | <u>20,000,000</u>        | <u>500,000</u>            |
| <b>Issued and fully paid:</b>                                    |                          |                           |
| Ordinary shares  |                          |                           |
| At 1 January 2006, at HK\$0.01 each                              | 1,578,540                | 15,785                    |
| Issue of shares upon placing of shares ( <i>note b</i> )         | 300,000                  | 3,000                     |
| Issue of shares upon exercise of share options ( <i>note c</i> ) | 75,142                   | 751                       |
|  | <u>1,953,682</u>         | <u>19,536</u>             |
| At 31 December 2006, at HK\$0.01 each                            | 1,953,682                | 19,536                    |
| Share consolidation ( <i>note a</i> )                            | (1,172,209)              | —                         |
| Issue of shares upon placing of shares ( <i>note d</i> )         | 340,000                  | 8,500                     |
| Issue of shares upon exercise of share options ( <i>note e</i> ) | 13,234                   | 331                       |
|  | <u>1,134,707</u>         | <u>28,367</u>             |
| At 30 June 2007, at HK\$0.025 each                               | <u>1,134,707</u>         | <u>28,367</u>             |

*Notes:*

- (a) Pursuant to a special resolution passed in a special general meeting of the Company on 5 March 2007, every five issued and unissued shares of HK\$0.01 each in the capital of the Company were consolidated into two shares of HK\$0.025 each (the “Shares”) with effect from 6 March 2007.
- (b) Pursuant to a placing and subscription agreement dated 11 October 2006, the placing agent agreed to place 300,000,000 shares of the Company held by Charm Management Limited (“Charm”), a substantial shareholder of the Company, at a placing price of HK\$0.04 per share. The Company also agreed to allot and issue 300,000,000 shares of the Company to Charm at a subscription price of HK\$0.04 per share. On 25 October 2006, 300,000,000 shares of HK\$0.01 each were issued and allotted to Charm at a consideration of HK\$0.04 per share.
- (c) During the year ended 31 December 2006, 75,141,600 shares of HK\$0.01 each were issued and allotted at the exercise price of HK\$0.049 per share pursuant to the options granted under the share option scheme of the Company.
- (d) Pursuant to a placing agreement dated 24 January 2007 (as amended by a supplemental agreement dated 9 February 2007), 220,000,000 Shares and 120,000,000 Shares were issued and allotted at a consideration of HK\$0.10 per Share on 14 March 2007 and 11 April 2007 respectively.
- (e) During the six months ended 30 June 2007, 13,233,984 Shares were issued and allotted at the exercise price of HK\$0.14 per Share pursuant to the options granted under the share option scheme of the Company.

All the Shares issued during the period rank *pari passu* with the existing Shares in all respect.

## 14. DISPOSAL OF SUBSIDIARIES

On 22 June 2006, the Group disposed of its entire interest in two 51% owned subsidiaries, Thunder Force Limited and Thunder Tech Electronic Co., Limited. The Group discontinued its consumer products business at the time of disposal of these subsidiaries on 22 June 2006.

On 28 June 2007, the Group disposed of its entire interest in GFT Holding Limited and its subsidiaries which were principally engaged in the manufacturing and trading of toy products. Upon the disposal, the Group ceased its operation of manufacturing of toy products.

The disposal of GPTL Group (details of which is set out in Note 9) was completed on 28 June 2007.

|  | <b>Six months ended 30 June</b> |                 |
|--|---------------------------------|-----------------|
|  | <b>2007</b>                     | <b>2006</b>     |
|  | <i>HK\$'000</i>                 | <i>HK\$'000</i> |
| Net liabilities disposed of by the Group | (14,455)                        | (144)           |
| Minority interests                       | (71)                            | (161)           |
| Translation reserve released             | (3,109)                         | —               |
|  | <u>(17,635)</u>                 | <u>(305)</u>    |
| Gain on disposal of subsidiaries         |                                 |                 |
| Continuing operations                    | 20,343                          | —               |
| Discontinued operation ( <i>Note 5</i> ) | —                               | 355             |
|  | <u>2,708</u>                    | <u>50</u>       |
| Total consideration satisfied by cash    | <u>2,708</u>                    | <u>50</u>       |
| Net cash outflow arising on disposal:    |                                 |                 |
| Cash consideration                       | 2,708                           | 50              |
| Bank balances and cash disposed of       | (6,884)                         | (292)           |
|  | <u>(4,176)</u>                  | <u>(242)</u>    |

## 15. RELATED PARTIES TRANSACTIONS

The Group had the following transactions with related parties:

| Related party relationship  | Nature of transactions        | Six months ended 30 June |                  |
|---|-------------------------------|--------------------------|------------------|
|   |                               | 2007<br>HK\$'000         | 2006<br>HK\$'000 |
| Companies under common control by executive directors and shareholders of the Company | Administrative expenses paid: |                          |                  |
|   | — security                    | 155                      | 283              |
|   | — staff welfare               | 128                      | —                |
|   | — transportation              | 52                       | 9                |
|   |                               | 335                      | 292              |
|   | Sales of goods                | —                        | 84               |

## 16. CONTINGENT LIABILITIES

On 8 October 2004, Mr. Kwok Chin Wing (“Kwok”), a former director of the Company, commenced legal proceedings against the Company in respect of the loans due from two former subsidiaries of the Company, namely, Rockapetta Industrial Company Limited and Grand Extend Investment Limited, for a sum of approximately HK\$44.5 million and accrued interest thereof (the “Action”).

The Action is still pending in the High Court of Hong Kong SAR. The Company had already completed discovery of all documentary evidence and exchange of witness statements as to the fact pursuant to the directions of the Court and also obtained Counsel’s advice on the pleadings, evidence and merit of defence in the Action. The Company was ready to proceed with the trial of the Action since early 2006.

However, Kwok took out applications in the Action in July 2006 for substantial amendments to his Re-Re-Amended Statement of Claim (the “Amendment Application”) and joinder of party to the Action (the “Joinder Application”). The Amendment Application and the Joinder Application had substantially delayed the setting down of the Action for trial.

The Amendment Application and the Joinder Application were granted by the Court on 19 April 2007. The newly joined party has filed his Defence to Kwok’s claims in the Action and the Company has also made consequential amendments to its Defence. The parties are now working on the proper directions for the further conduct of the Action. Notwithstanding the substantial amendments made to the Re-Re-Amended Statement of Claim and the joining of a new party to the Action, the Solicitors and Counsel acting for the Company still hold good of their advice previously delivered to the Company. With the benefit of the advice of Solicitors and Counsel acting for the Company, the directors of the Company formed the opinion that Kwok does not have a valid claim against the Company and therefore it is unlikely to have any material adverse financial impact on the Group.

**17. POST BALANCE SHEET EVENTS**

- (a) On 24 January 2007, the Company entered into a note placing agreement (as amended by the supplemental note placing agreement dated 9 February 2007 and the second supplemental note placing agreement dated 28 May 2007) whereby the placing agent agreed to procure subscribers to subscribe for the convertible notes in an aggregate principal amount of HK\$34,000,000 to be issued by the Company (the “Convertible Notes”). The issue of the Convertible Notes was approved by the shareholders of the Company in special general meetings held on 5 March 2007 and 28 June 2007. The Convertible Notes were issued on 23 July 2007 and are interest free, due on 23 July 2009 and carrying right to convert the outstanding principal amount into Shares at a conversion price of HK\$0.10 per Share (subject to adjustments). Details of the Convertible Notes are set out in the circulars dated 14 February 2007 and 11 June 2007 issued by the Company.

On 9 August 2007, holder of the Convertible Notes with principal amount of HK\$10,000,000 exercised the conversion rights and 100,000,000 Shares were issued and allotted in accordance with the terms of the Convertible Notes.

- (b) On 14 August 2007, the Company entered into a placing and subscription agreement with Charm and Kingston Securities Limited (“Kingston”) whereby Kingston agreed to place 70,000,000 Shares held by Charm at a placing price of HK\$0.128 per Share and the Company agreed to allot and issue 70,000,000 Shares to Charm at a subscription price of HK\$0.128 per Share (the “Top-up Placing”). On 20 August 2007, 70,000,000 Shares were issued and allotted to Charm. The net proceeds will be used for general working capital purpose.

On the same date, the Company entered into a conditional placing agreement with Kingston whereby Kingston agreed to place up to 150,000,000 new Shares of the Company on a best effort basis at a placing price of HK\$0.128 per Shares (the “Placing”). The Placing has yet been completed at the date of this Report but, if all the conditions stipulated in the placing agreement would be fulfilled, shall be completed on or before 28 September 2007 or such later date as may be agreed between the Company and Kingston.

Details of the Top-up Placing and the Placing are set out in the announcement of the Company dated 14 August 2007.

**18. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current period’s presentation.



#### 4. INDEBTEDNESS

##### STATEMENT OF INDEBTEDNESS

As at the close of business on 30 September 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the borrowings and contingent liabilities of the Group, apart from intra-group liabilities, are as follows:

##### **Borrowings**

As at 30 September 2007, the Group had outstanding indebtedness of liability component of convertible bonds of approximately HK\$21.2 million. The principal amount of these convertible bonds outstanding as at 30 September 2007 was HK\$24 million.

##### **Contingent liabilities**

On 8 October 2004, Mr. Kwok Chin Wing (“Kwok”), a former director of the Company, commenced legal proceedings against the Company in respect of the loans due from two former subsidiaries of the Company, namely, Rockapetta Industrial Company Limited and Grand Extend Investment Limited, for a sum of approximately HK\$44.5 million and accrued interest thereof (“the Action”).

The Action is still pending in the High Court of Hong Kong SAR. The Company had already completed discovery of all documentary evidence and exchange of witness statements as to the fact pursuant to the directions of the Court and also obtained Counsel’s advice on the pleadings, evidence and merit of defence in the Action. The Company was ready to proceed with the trial of the Action since early 2006.

However, Kwok took out applications in the Action in July 2006 for substantial amendments to his Re-Re-Amended Statement of Claim (“the Amendment Application”) and joinder of party to the Action (“the Joinder Application”). The Amendment Application and the Joinder Application had substantially delayed the setting of the Action for trial.

The Amendment Application and the Joinder Application were granted by the Court on 19 April 2007. The newly joined party has filed his Defence to Kwok’s claims in the Action and the Company has also made consequential amendments to its Defence. The parties are now working on the proper directions for the further conduct of the Action. Notwithstanding the substantial amendments made to the Re-Re-Amended Statement of Claim and the joining of a new party to the Action, the Solicitors and Counsel acting for the Company still hold good for their advice previously delivered to the Company. With the benefit of the advice of Solicitors and Counsel acting for the Company, the directors of the Company formed the opinion that Kwok does not have a valid claim against the Company and therefore it is unlikely to have any material adverse financial impact on the Group.

##### **Capital commitments**

The Group had no capital commitments as at 30 September 2007.

**Disclaimer**

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on 30 September 2007, the Group did not have any loan capital (issued and outstanding, or agreed to be issued), bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirmed that there has been no material adverse change in the indebtedness and contingent liabilities of the Group since 30 September 2007.

**5. WORKING CAPITAL**

The Directors are of the opinions that after taking into account the financial resources available to the Group including internally generated funds, the Group has sufficient working capital for its present requirements for the next twelve months from the date of this prospectus, in the absence of unforeseen circumstances.

**6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Company were made up.

**7. MANAGEMENT DISCUSSION AND ANALYSIS****Business and financial review for the six months ended 30 June 2007**

The Group continues its streamlining process during the review period. Following the discontinuation of the secondary consumer products business last year, the Group successfully discarded its unused assets and underperformed investments in June 2007. The process is inevitably painful as the Group suffered from substantial losses and downsizing but is justified as the management and financial resources of the Group were relieved from those detrimental businesses to viable operations.

Come with the streamlining exercise, the Group ceased to have any contribution from the consumer products trading and manufacturing segment and remains inactive in the securities trading and investments segment. Toy products trading and manufacturing thus became the only active segment in the review period. Turnover in this segment boosted by 31.3% to HK\$69.3 million when compared with last corresponding period as the subsidiary which engages in the trading of toy, gift and premium successfully secured certain new customers with sizable orders during the review period.

*Material Disposal of Subsidiaries***Good Prosper Trading Limited**

The Company entered into an agreement in November 2006 to dispose of its entire equity interest in and the amount due from Good Prosper Trading Limited (“GPTL”), the principal assets of which are the land use rights in respect of parcels of adjacent lands situated at Boluo, Huizhou and the infrastructure erected thereon (the “GPTL Disposal”) to an independent third party, Sky Hawk International Limited (“Sky Hawk”), for an aggregate consideration of HK\$20 million. HK\$2 million was paid by Sky Hawk upon signing of the agreement and the balance was to be settled on completion.

However, at the request of Sky Hawk, the payment terms for the outstanding consideration of HK\$18 million were revised pursuant to a supplemental agreement entered into between the Company and Sky Hawk. According to the supplemental agreement, Sky Hawk paid a further sum of HK\$2 million and delivered to the Company a promissory note with a principal amount of HK\$16 million which is interest free, due on 31 December 2007 and secured by the entire issued share capital of GPTL (“PN”) on 28 June 2007, the completion date.

The deferred consideration payable by Sky Hawk in HK\$16 million constitutes an advance to an entity under Rule 13.13 of Listing Rules. Details of the GPTL Disposal and the terms of the PN are set out in the circular dated 11 December 2006 and the announcement dated 29 June 2007 issued by the Company.

**GFT Holding Limited**

On 16 April 2007, the Group entered into an agreement to dispose of its entire interest in and amount due from GFT Holding Limited and its subsidiaries (the “Disposal Group”), a sub-group of the Company engaged in toy manufacturing at Boluo, Huizhou and toy trading, to a company beneficially owned by Mr. Leung Wai Ho, the then Chairman of the Company, and then Mr. Wong Chung Shun, the Deputy Chairman of the Company, at an aggregate consideration of HK\$2 (the “GFT Disposal”).

The GFT Disposal constituted a major disposal and connected transaction for the Company under the Listing Rules and was approved by the independent shareholders of the Company in a special general meeting held on 28 May 2007.

The completion of GFT Disposal took place on 28 June 2007, upon which the obligations of the Company as a corporate guarantor under the banking facilities granted to the Disposal Group has been released by the bank and the Company ceased its operation in manufacturing of toy products.

*Review of Results*

The Group reported revenue of approximately HK\$69.3 million for the six months ended 30 June 2007, representing an increase of HK\$16.5 million or 31.3% when compared with that of last corresponding period. The surge is attributable to the increased orders from both the existing and new customers of the trading of toy, gift and premium business during the review period.

Nevertheless, the unfavourable factors hampering the toy manufacturing operation in the PRC, including the lasting inflation in wages and material costs and the appreciation of Renminbi, kept on eroding the margin and profits of the Group before its disposal during the review period. The profits margin was at a low level of approximately HK\$0.9 million, being a drop of HK\$2.5 million when compared with same period in last year.

The Group maintained to keep the expenses at a relatively consistent level. However, because of the GPTL Disposal and GFT Disposal, the Group wrote off of an amount due from the disposed subsidiary of HK\$68.6 million which was partially covered by the associated gain from disposal of subsidiaries of HK\$20.3 million. The fair value of the share options granted during the period of HK\$2.3 million as computed and recognized as an expense under the provisions of new accounting standard was another item not appearing in last review period. Consequently, the Group suffered from loss attributable to equity holders of HK\$59.8 million for the six months ended 30 June 2007.

*Liquidity and Financial Resources*

Following the GPTL Disposal and GFT Disposal, the Group ceased to have any borrowings as at 30 June 2007 (31 December 2006: total borrowings of HK\$12.4 million, including a secured bank loan of approximately HK\$8.8 million and obligations under finance leases of HK\$3.6 million, of which HK\$10.6 million was repayable within one year).

Subsequent to the period end, the Group issued convertible notes in an aggregate principal amount of HK\$34.0 million (the “Convertible Notes”) on 23 July 2007. The Convertible Notes are interest-free, due on 23 July 2009 and carrying rights to convert the outstanding principal amounts into shares of the Company at a conversion price of HK\$0.1 per share (subject to adjustments).

The Group maintained sufficient working capital as at 30 June 2007 with net current assets of HK\$39.0 million (31 December 2006: HK\$11.1 million) and bank balances and cash of HK\$16.5 million (31 December 2006: HK\$7.1 million). Gearing ratio, expressed as the percentage of total liability over equity attributable to equity holders of the Company, of the Group was 24.0% (31 December 2006: 83.7%).

*Charges on Assets*

As at 30 June 2007, none of the Group's assets was under charges (31 December 2006: certain building, land use right and plant and machinery with carrying values of HK\$38.0 million, HK\$3.4 million and HK\$4.8 million respectively were pledged to banks to secure the bank loans and finance leases granted to the Group).

*Exposure to Exchange Rates*

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, United States dollars and Renminbi. The Group's exposure to United States dollars currency risk is minimal as Hong Kong dollars is pegged to United States dollars. Nevertheless, as Renminbi is becoming more volatile, the Group's operations and performances might thus be affected. Presently, the Group does not have any currency hedging policy but will closely monitor the fluctuation of Renminbi exchange rate and take appropriate measures to minimise any adverse impact that may be caused by such fluctuation.

*Contingent Liabilities*

The Group has no material contingent liabilities save that a writ of summons dated 8 October 2004 was filed by Mr. Kwok Chin Wing ("Kwok"), a former director of the Company, against the Company in respect of the loans due from two former subsidiaries of the Company for a sum of approximately HK\$44.5 million together with accrued interests thereof (the "Action").

The Company had already completed discovery of all documentary evidence and exchange of witness statements and was ready to proceed with the trial since early 2006. However, Kwok took out applications in July 2006 for substantial amendments to his Re-Re-Amended Statement of Claim (the "Amendment Application") and joinder of party to the Action (the "Joinder Application"). The Amendment Application and the Joinder Application had substantially delayed the setting down of the Action for trial.

The Amendment Application and the Joinder Application were granted by the Court on 19 April 2007. The newly joined party has filed his Defence to Kwok's claims in the Action and the Company has also made consequential amendments to its Defence. The parties are now working on the proper directions for the further conduct of the Action. Notwithstanding the substantial amendments made to the Re-Re-Amended Statement of Claim and the joining of a new party to the Action, the solicitors and counsel acting for the Company still hold good of their advice previously delivered to the Company. With the benefit of the advice of solicitors and counsel acting for the Company, the directors of the Company formed the opinion that Kwok does not have a valid claim against the Company and therefore it is unlikely to have any material adverse financial impact on the Group.

*Employees*

As at 30 June 2007, the Group had 11 employees (30 June 2006: approximately 2,200). The substantial decrease in the number of staff during the review period is attributable to the disposal of the Disposal Group (as detailed in the section under the heading “Material Disposal of Subsidiaries”) which employees over 2,000 workers and staff in Hong Kong and the PRC.

To attract, retain and motivate its employees, the Group has developed effective remuneration policies that are subject to review on regular basis. The Group’s employees are remunerated with competitive packages which are in line with prevailing industry practice and individual performance. Furthermore, share option and performance-based bonus scheme are also in place to recognise the outstanding employees.

**8. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

After the GPTL Disposal and GFT Disposal, the Group has asset base with greater flexibility and currently focuses on the trading of toy, gift and premium. The management is cautiously optimistic on this business as, on one hand, it is a niche in which the management team has proven record and able to secure more orders from both new and existing customers even in this tough market conditions. But, on the other hand, the market remains competitive and the involvement of the historic low cost PRC suppliers which in turn suffer from the persisting unfavourable factors in the PRC still poses awful concerns to the Group.

Equipped with the fund raised from recent new share placements and convertible note placement, the management is diligently searching for promising strategic investments with attractive potential of growth and profitability and is confident that the Group will sail through the difficult period and poised to embark on the next era of expansion and prosperity.

**1. UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

The following is the unaudited pro forma statement of consolidated net tangible assets of the Group which has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules to illustrate the effect of the Rights Issue on the unaudited consolidated net tangible assets of the Group as at 30 June 2007, as set out in Appendix I to this prospectus, as if it had taken place on 30 June 2007. The unaudited pro forma statement of consolidated net tangible assets has been prepared for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group following the Rights Issue.

The unaudited pro forma statement of consolidated net tangible assets of the Group as at 30 June 2007 is based on the net tangible assets of the Group as at 30 June 2007 as extracted from the published unaudited interim results of the Group as of 30 June 2007 as set out in Appendix I to this prospectus and the adjustments described below.

|   | <i>HK\$'000</i>            |
|---|----------------------------|
| Unaudited consolidated net assets<br>as at 30 June 2007   | 43,428                     |
| Less: Intangible assets — Goodwill  | <u>(4,201)</u>             |
| Adjusted unaudited consolidated net<br>tangible assets as at 30 June 2007   | 39,227                     |
| Estimated net proceeds from the<br>Rights Issue ( <i>Note 1</i> )   | <u>172,656</u>             |
| Unaudited pro forma consolidated net<br>tangible assets after completion of<br>Rights Issue                             | <u><u>211,883</u></u>      |
| Unaudited consolidated net<br>tangible assets per Share before<br>completion of Rights Issue ( <i>Note 2</i> )          | <u><u>HK3.46 cents</u></u> |
| Unaudited pro forma consolidated<br>net tangible assets per Share after<br>completion of Rights Issue ( <i>Note 3</i> ) | <u><u>HK3.64 cents</u></u> |

*Notes:*

- (1) The estimated gross proceeds from the Rights Issue, which was calculated based on 4,693,672,800 Rights Shares to be issued at a subscription price of HK\$0.038 per Rights Share, is approximately HK\$178,360,000. Estimated expenses associated with the Rights Issue is expected to be approximately HK\$5,704,000, resulting in an estimated net proceeds from the Rights Issue of approximately HK\$172,656,000.
- (2) The calculation of the unaudited consolidated net tangible assets per Share before completion of Rights Issue is based on 1,134,706,624 Shares in issue as at 30 June 2007.
- (3) The calculation of the unaudited pro forma consolidated net tangible assets per Share after completion of Rights Issue is based on 5,828,379,424 Shares (1,134,706,624 Shares in issue as at 30 June 2007 plus 4,693,672,800 Shares to be issued upon the Rights Issue) in issue after Rights Issue.
- (4) The number of Shares in issue has been increased by 429,850,976 from 1,134,706,624 as at 30 June 2007 to 1,564,557,600 as at the Latest Practicable Date. This increase in the number of issued Shares comprises (i) the issue of an aggregate of 19,850,976 new Shares pursuant to the exercise of the share options of the Company by the holders of these options during this period; (ii) the issue of 100,000,000 new Shares on 9 August 2007 pursuant to the exercise of the conversion rights attaching to the Convertible Notes 2009 with a principal amount HK\$10 million (out of a total principal amount of HK\$34 million raised pursuant to the placing as announced by the Company on 26 January 2007, details of which can be referred to the section headed “Fund raising activities in the past twelve months” in the Letter from the Board in this prospectus) at a conversion price of HK\$0.1 per Share; (iii) the issue of 70,000,000 new Shares on 20 August 2007 pursuant to a top-up placing as announced by the Company on 14 August 2007 to raise a net proceeds of approximately HK\$8.6 million for general working capital of the Group; and (iv) the issue of 240,000,000 new Shares on 19 November 2007 pursuant to the exercise of the conversion rights attaching to the Convertible Notes 2009 with a principal amount HK\$24 million (out of a total principal amount of HK\$34 million raised pursuant to the placing as announced by the Company on 26 January 2007, details of which can be referred to the section headed “Fund raising activities in the past twelve months” in the Letter from the Board in this prospectus) at a conversion price of HK\$0.1 per Share. However, for the purpose of calculating the relevant figures of the net tangible assets per Share in notes (2) and (3) above, such increases in the number of issued Shares have not been included.



**2. LETTER ON THE UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

*The following is the text of a report from Moores Rowland, the auditors of the Company, in respect of the unaudited pro forma financial information of the Group for the purpose of incorporation in this prospectus.*

# Moores Rowland

摩斯倫 會計師事務所

26 November 2007

**The Directors**  
**GFT Holdings Limited**

*Dear Sirs,*

We report on the unaudited pro forma statement of consolidated net tangible assets of GFT Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed Rights Issue of shares on the basis of three right shares for every existing share held on the Record Date, might have affected the consolidated net tangible assets of the Group presented, for inclusion in Section 1 of Appendix II of the prospectus of the Company dated 26 November 2007 (the “Prospectus”). The basis of preparation of the unaudited pro forma statement of consolidated net tangible assets is set out in Section 1 of Appendix II of the Prospectus.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma statement of consolidated net tangible assets in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma statement of consolidated net tangible assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of consolidated net tangible assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of consolidated net tangible assets with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of consolidated net tangible assets has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma statement of consolidated net tangible assets as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma statement of consolidated net tangible assets is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2007 or any future date.

**Opinion**

In our opinion:

- (a) the unaudited pro forma statement of consolidated net tangible assets has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma statement of consolidated net tangible assets as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**Moores Rowland**

*Chartered Accountants*

*Certified Public Accountants*

Hong Kong

**1. RESPONSIBILITY STATEMENT**

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

**2. SHARE CAPITAL**

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following completion of the Rights Issue were as follows:

| <i>Authorised:</i>   | <i>HK\$</i>        |
|--|--------------------|
| <u>20,000,000,000</u> Shares of HK\$0.025 each   | <u>500,000,000</u> |
| <br><i>Issued and to be issued:</i>  |                    |
| 1,564,557,600 Shares in issue as at the Latest Practicable Date                          | 39,113,940         |
| 4,693,672,800 Rights Shares to be allotted and issued<br>under the Rights Issue          | <u>117,341,820</u> |
| <u>6,258,230,400</u> Shares in issue immediately after<br>completion of the Rights Issue | <u>156,455,760</u> |

All of the Rights Shares to be issued will rank *pari passu* in all respect with each other, including, in particular, as to dividends, voting rights and capital, and with all the Shares in issue as at the date of allotment and issue of the Rights Shares. The Rights Shares to be issued will be listed on the Stock Exchange.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, the Company has no derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares.

Save as disclosed above, the Company did not have any other options, warrants or other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to put under option as at the Latest Practicable Date.

### 3. DISCLOSURE OF INTERESTS

#### (a) Interests of Directors and chief executives

As at the Latest Practicable Date, none of the Directors or the chief executives of the Company and their associates had any interests or short positions in any Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which 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), the Model Code for Securities Transactions by Directors of Listed Issuers and which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO.

#### (b) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, the following persons (other than a director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

##### (i) long position in Shares

| Name                                 | Capacity and nature of interest              | Number of Shares held   | Approximate percentage of shareholding |
|--------------------------------------|--|-------------------------|--|
| Tse Cho Tseung                       | Through controlled corporation               | 141,224,000<br>(Note 1) | 9.03%<br>(Note 2)                      |
| Glory Winning Investment Limited     | Directly beneficially owned                  | 141,224,000<br>(Note 1) | 9.03%<br>(Note 2)                      |
| Galaxy China Opportunities Fund      | Directly beneficially owned                  | 92,600,000              | 5.92%<br>(Note 2)                      |
| Deutsche Bank Aktiengesellschaft     | Persons having a security interest in shares | 92,600,000              | 5.92%<br>(Note 2)                      |
| Honeylink Agents Limited (Note 3)    | Through controlled corporation               | 4,693,672,800           | 75.00%<br>(Note 4)                     |
| Get Nice Holdings Limited (Note 3)   | Through controlled corporation               | 4,693,672,800           | 75.00%<br>(Note 4)                     |
| Get Nice Incorporated (Note 3)       | Through controlled corporation               | 4,693,672,800           | 75.00%<br>(Note 4)                     |
| Get Nice Investment Limited (Note 3) | Directly beneficially owned                  | 4,693,672,800           | 75.00%<br>(Note 4)                     |

*Notes:*

1. These are the Shares held by Glory Winning Investment Limited, a company held by Mr. Tse Cho Tseung and Tellus Investments Limited, the entire issued share capital of which is held by Mr. Tse Cho Tseung, in equal shares. If Glory Winning Investment Limited takes up all its entitlements under the Rights Issue in full, the number of Shares held by it will be increased to 564,896,000 immediately after the Rights Issue.
2. The percentage shareholding is calculated on the basis of 1,564,557,600 Shares in issue as at the Latest Practicable Date.
3. These are the Rights Shares which Get Nice Investment Limited has underwritten in respect of the Rights Issue. Get Nice Investment Limited is wholly-owned by Get Nice Incorporated which in turn is wholly-owned by Get Nice Holdings Limited. As at the Latest Practicable Date, Get Nice Holdings Limited is owned as to approximately 24.12% by Honeylink Agents Limited in which Mr. Hung Hon Man is the beneficial owner.
4. The percentage shareholding is calculated on the basis of 6,258,230,400 Shares in issue immediately after the Rights Issue but before the Placing.

*(ii) interest in other members of the Group*

| <b>Name of non-wholly owned subsidiary of the Company</b> | <b>Name of registered substantial shareholders (other than members of the Group)</b> | <b>Number of shares held</b>     | <b>Approximate percentage of shareholding</b> |
|---|--|----------------------------------|---|
| Yanyan Force Limited                                      | Ng Kai Lok, Paul   | 40 ordinary shares of HK\$1 each | 40%   |

Save as disclosed above, the Directors and the chief executive of the Company were not aware that there was any person (other than a director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or 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 who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

(c) **Directors' interests in assets/contracts and other interests**

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

None of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**4. EXPERT**

The following is the qualification of the expert who has given opinions or advice, which are contained in this prospectus:

| <b>Name</b>    | <b>Qualification</b>         |
|----------------|------------------------------|
| Moores Rowland | Certified Public Accountants |

As at the Latest Practicable Date, Moores Rowland was not beneficially interested in the share capital of any member of the Group, nor did it has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it has any interest, either directly or indirectly, in any assets which had been acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up.

Moores Rowland has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion therein of its letters and reports (as the case may be) and references to its name in the form and context in which they appear.

**5. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any other member of the Group (excluding contracts expiring or which may be terminated by the Company within a year without payment of any compensation (other than statutory compensation)).

**6. LITIGATION**

On 8 October 2004, a writ of summons was filed by Mr. Kwok Chin Wing (“Kwok”), a former director of the Company, against the Company in respect of the loans due from two former subsidiaries of the Company for a sum of approximately HK\$44.5 million together with accrued interests thereof (the “Action”).

The Company had already completed discovery of all documentary evidence and exchange of witness statements and was ready to proceed with the trial since early 2006. However, Kwok took out applications in July 2006 for substantial amendments to his Re-Re-Amended Statement of Claim (the “Amendment Application”) and joinder of party to the Action (the “Joinder Application”). The Amendment Application and the Joinder Application had substantially delayed the setting down of the Action for trial.

The Amendment Application and the Joinder Application were granted by the Court on 19 April 2007. The newly joined party has filed his Defence to Kwok’s claims in the Action and the Company has also made consequential amendments to its Defence. The parties are now working on the proper directions for the further conduct of the Action. Notwithstanding the substantial amendments made to the Re-Re-Amended Statement of Claim and the joining of a new party to the Action, the solicitors and counsel acting for the Company still hold good of their advice previously delivered to the Company. With the benefit of the advice of solicitors and counsel acting for the Company, the directors of the Company formed the opinion that Kwok does not have a valid claim against the Company and therefore it is unlikely to have any material adverse financial impact on the Group.

Save as disclosed above, as at the Latest Practicable Date, to the best knowledge of the Directors, neither the Company nor other member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

**7. MATERIAL CONTRACTS**

The following are the material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within two years immediately preceding the Latest Practicable Date:

- (a) the sold note dated 19 November 2005 entered into by Prosper Overseas Limited (“POL”), a subsidiary of the Company, to dispose of its entire interest in a 50.01% owned subsidiary, Unique Force Limited, to an independent third party at a consideration of approximately HK\$2.0 million;
- (b) the sale and purchase agreement dated 28 December 2005 entered into between POL and Mr. Ko Chi Shing, a third party independent of the Company and its connected persons, whereby POL agreed to dispose of 70% equity interest in Maple Force Limited and assign the rights and benefits of the outstanding amounts owed by Maple Force Limited and its subsidiary to POL to Mr. Ko Chi Shing at a total consideration of approximately HK\$2.7 million;
- (c) the sale and purchase agreement dated 22 June 2006 entered into by POL to dispose of its entire interest in a 51% owned subsidiary, Thunder Force Limited and to assign the amounts due by Thunder Force Limited to POL and Prosper Services Limited, a fellow subsidiary of POL, on 22 June 2006 to an independent third party at a consideration of HK\$53;
- (d) the sale and purchase agreement dated 22 June 2006 entered into by POL to dispose of its entire interest in a 51% owned subsidiary, Thunder Tech Electronic Co., Limited to an independent third party at a consideration of HK\$49,947;
- (e) the placing agreement dated 11 October 2006 entered into between the Company and Charm Management Limited (“Charm”), a substantial shareholder of the Company, and Hani Securities (H.K.) Limited (“Hani”), pursuant to which Hani agreed to place, on a best effort basis, up to 300,000,000 shares of the Company of HK\$0.01 each (equivalent to 120,000,000 Shares after share consolidation) at a price of HK\$0.04 per share to not less than six places and Charm agreed to subscribe for such number of new shares equivalent to the number of shares placed by Hani at the same price of HK\$0.04 per share;
- (f) the sale and purchase agreement dated 23 November 2006 entered into between the Company and Sky Hawk International Limited, a third party independent of the Company and its connected persons, whereby the Company agreed to dispose of the entire equity interest in Good Prosper Trading Limited and assign the rights and benefits of the outstanding amounts owed by Good Prosper Trading Limited to the Group to Sky Hawk International Limited at a total consideration of HK\$20 million;
- (g) the non-legally binding letter of intent dated 3 January 2007 entered into between the Company and Talus Holdings Limited in relation to a possible investment by the Company of not less than 50% equity interest in a company to be incorporated by Talus Holdings



Limited, which will be principally engaged in coal mining, coal chemical processing, magnetic-levitated wind power generation and related business in 內蒙古巴彥淖爾市烏拉特中旗 (Urad Middle Banner, Bayannur, Inner Mongolia\*);

- (h) the placing agreement dated 24 January 2007 (as amended by the supplemental agreement dated 9 February 2007) entered into between the Company and Hani pursuant to which Hani agreed to place up to 340,000,000 Shares (of which 150,000,000 Shares on a fully underwritten basis and up to 190,000,000 Shares on a best effort basis) at a price of HK\$0.10 per Share;
- (i) the placing agreement dated 24 January 2007 (as amended by the supplemental agreement dated 9 February 2007 and the second supplemental agreement dated 28 May 2007) entered into between the Company and Hani pursuant to which Hani agreed to procure subscribers to subscribe for the convertible notes to be issued by the Company with an aggregate principal amount of up to HK\$34,000,000, which carrying right to convert the outstanding principal amount into Shares at an initial conversion price of HK\$0.10 per Share (subject to adjustment);
- (j) the sale and purchase agreement dated 16 April 2007 entered into between POL and Innovative Sonic International Limited whereby POL agreed to dispose of the entire equity interest in GFT Holding Limited and assign the rights and benefits of the outstanding amounts owing from Great Force Technology Limited, one of the subsidiary of GFT Holding Limited, to POL to Innovative Sonic International Limited at a total consideration of HK\$2;
- (k) the placing and subscription agreement dated 14 August 2007 entered into between the Company, Charm and Kingston Securities Limited (“Kingston”), pursuant to which Kingston agreed to place, on a fully underwritten basis, 70,000,000 Shares held by Charm at a price of HK\$0.128 per Share to not less than six placees and Charm agreed to subscribe for 70,000,000 new Shares at the same price of HK\$0.128 per Share;
- (l) the placing agreement dated 14 August 2007 entered into between the Company and Kingston, whereby Kingston agreed to place, on a best effort basis, a maximum of 150,000,000 new Shares at a price of HK\$0.128 per Share to not less than six placees;
- (m) the termination agreement dated 14 September 2007 entered into between the Company and Kingston to terminate the placing agreement dated 14 August 2007 as disclosed in (g) above;
- (n) the Underwriting Agreement;
- (o) the Placing Agreement; and
- (p) the preliminary sale and purchase agreement dated 10 November 2007 entered into between Kennex Investments Limited (“Kennex”), a wholly-owned subsidiary of the Company, and Bao Chang Investment Holding Limited (“Bao Chang”) whereby Kennex agreed to purchase a property from Bao Chang for a cash consideration of HK\$17,712,600.

\* for identification purpose only

## 8. CORPORATION INFORMATION

|   |  |
|---|--|
| Registered Office of the Company  | Canon's Court<br>22 Victoria Street<br>Hamilton HM12<br>Bermuda  |
| Head office and principal place of business of the Company in Hong Kong | Unit 707, Tower II<br>Admiralty Centre<br>18 Harcourt Road<br>Hong Kong  |
| Authorized representatives  | Ms. Ma Wai Man, Catherine<br>Flat G, 15th Floor, Maple Mansion<br>18 Taikoo Wan Road<br>Taikooshing, Quarry Bay<br>Hong Kong<br><br>Ms. Lau Siu Mui<br>16E, 210 Castle Peak Road<br>Tsuen Wan, New Territories<br>Hong Kong                      |
| Company secretary and qualified accountant                              | Ms. Lau Siu Mui, ACCA  |
| The Hong Kong branch share registrar and transfer office of the Company | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716, 17th Floor<br>Hopewell Centre<br>183 Queen's Road East<br>Wan Chai, Hong Kong  |
| Legal advisers to the Company   | <i>(As to Hong Kong law)</i><br>Sidley Austin<br>39th Floor, Two International Finance Centre<br>8 Finance Street, Central<br>Hong Kong<br><br><i>(As to Bermuda law)</i><br>Appleby<br>5511, The Center<br>99 Queen's Road Central<br>Hong Kong |
| Auditors  | Moore Rowland<br>Chartered Accountants<br>Certified Public Accountants<br>13th Floor, Gloucester Tower<br>The Landmark<br>15 Queen's Road Central<br>Hong Kong   |
| Principal bankers   | The Bank of East Asia Limited<br>10 Des Voeux Road Central<br>Hong Kong  |

**DIRECTORS****Particulars of Directors****Name****Address****Executive Directors**

Mr. Ha Kee Choy, Eugene

26E, Hsia Kung Mansion  
Taikooshing, Hong Kong

Ms. Ma Wai Man, Catherine

Flat G, 15th Floor, Maple Mansion  
18 Taikoo Wan Road  
Taikooshing, Quarry Bay  
Hong Kong**Independent non-executive Directors**

Mr. Cheng Yuk Wo

59 Nga Tsin Wai Road, 3C,  
Kowloon

Mr. Chui Chi Yun, Robert

Flat A, 2nd Floor, Braemar Hill Mansion  
21 Braemar Hill Road, Hong Kong

Mr. Lai Wing Leung, Peter

8B, Ewan Court  
54-56 Kennedy Road, Hong Kong**Executive Directors:**

**Mr. Ha Kee Choy, Eugene**, aged 50, joined the Company as an executive Director in July 2004. Mr. Ha holds a Master's degree in business administration and is a fellow member of the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. Mr. Ha possesses over 15 years experience in the finance and banking industry and acts as director of a number of private and listed companies in Hong Kong.

**Ms. Ma Wai Man, Catherine**, aged 41, joined the Company as an executive Director in October 2007. Ms. Ma is a graduate of the City University of Hong Kong. She is a chartered secretary and a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Ms. Ma has extensive management experience in companies with diversified interests ranging from manufacturing, telecommunications to infrastructure and property investments. She has previously held executive directorship in a number of companies listed on local and overseas stock exchanges.

**Independent Non-Executive Directors:**

**Mr. Cheng Yuk Wo**, aged 47, joined the Company as an independent non-executive Director in October 2007. Mr. Cheng is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Cheng worked at Coopers and Lybrand (now known as PricewaterhouseCoopers) in London and Swiss Bank Corporation (now known as UBS AG) in Toronto. He has held senior management positions in a number of Hong Kong listed companies and is a co-founder of a Hong Kong merchant banking firm. He is the proprietor of a certified public accountant practice in Hong Kong. Mr. Cheng holds a Master of Science (Economics) degree in Accounting and Finance and a Bachelor of Arts (Honours) degree in Accounting.

**Mr. Chui Chi Yun, Robert**, aged 50, joined the Company as an independent non-executive Director in July 2004. Mr. Chui holds a Bachelor's degree in Commerce (major in Accounting) and is a practicing Certified Public Accountant in Hong Kong. Mr. Chui is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom.

**Mr. Lai Wing Leung, Peter**, aged 50, joined the Company as an independent non-executive Director in September 2004. Mr. Lai holds a Bachelor's degree in Science from the University of Hong Kong and is an associate member of the Hong Kong Institute of Bankers. He has over 25 years of experience in banking and securities industries.

**9. DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES**

A copy of each of the Prospectus Documents, having attached thereto the written consent referred to under the heading "Expert" in this appendix, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). A copy of the Prospectus has been filed, or will as soon as reasonably practicable be filed with the Registrar of Companies in Bermuda in accordance with Companies Act 1981 of Bermuda.

**10. BINDING EFFECT**

The Prospectus Documents and all acceptances of any offer or application contained in such documents are governed by and shall be construed in accordance with the laws of Hong Kong. When an acceptance or application is made in pursuant to such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions (other than the penal provisions) of Section 44A and 44B of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), so far as applicable.

**11. MISCELLANEOUS**

The English text of this prospectus shall prevail over their Chinese text in case of inconsistencies.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Unit 707, Tower II, Admiralty Centre, 18 Harcourt Road, Hong Kong from the date of this prospectus up to and including 10 December 2007:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the year ended 31 December 2005 and 31 December 2006 and the interim report of the Company for the six months ended 30 June 2007;
- (c) the copy of each circular issued by the Company dated 11 December 2006, 14 February 2007, 25 April 2007, 10 May 2007, 11 June 2007 and 1 November 2007 respectively;
- (d) the letter on the unaudited pro forma financial information of the Group issued by Moores Rowland set out in Appendix II to this prospectus;
- (e) the material contracts disclosed in the paragraph under the heading “Material Contracts” in this Appendix; and
- (f) the written consent referred to in the paragraph under the heading “Expert” in this Appendix.