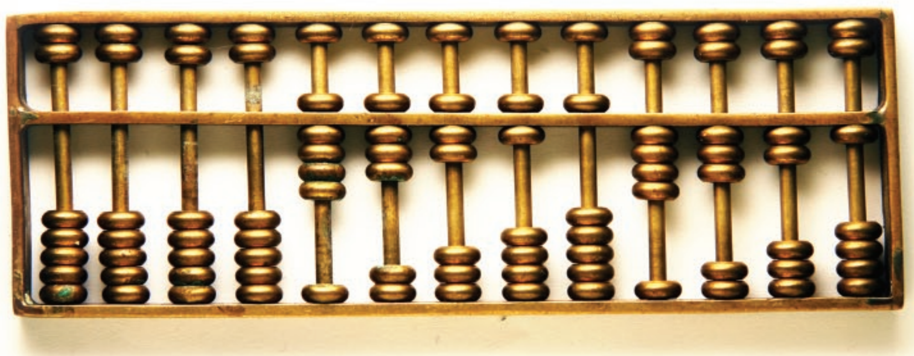
CASH
FINANCIAL SERVICES GROUP
時富金融服務集團



# CASH Financial Services Group Limited

(Stock Code : 510)

Annual Report 2007

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# Corporate Profile

CASH Financial Services Group Limited is a leading financial services group that has been servicing clients in Hong Kong for more than 30 years. We offer a comprehensive range of financial products and services catering to the investment and wealth management needs of clients in China.

We operate one of Hong Kong's premier securities and commodities brokerages. Our fully-fledged Investment Banking division serves regional corporations on a broad range of corporate finance and financial advisory matters. The Wealth Management division offers mid to long-term investment products to serve the various investment and financial planning needs of our clients. Our Asset Management division provides one-stop asset management services for corporate and individual clients to achieve the highest returns in a fast-changing investment environment.

Our corporate mission is to be a China-based leading financial services group with a global perspective that provides best-in-class services and a full range of product offerings to clients with financial products trading, investment, wealth management and capital market needs. We are dedicated to creating value for stakeholders, delivering superior shareholders' returns and caring for employees' welfare, as well as being a trusted partner to the clients we serve and a responsible corporate citizen in the communities in which we operate. We are committed to providing a state-of-the-art service platform that satisfies the versatile needs of boundary-less clients.

# Corporate Information

**BOARD OF DIRECTORS**

Executive:

| | |
|---|---|
| KWAN Pak Hoo Bankee | (Chairman) |
| WONG Kin Yick Kenneth | (CEO) |
| LAW Ping Wah Bernard | (CFO) |
| CHENG Man Pan Ben | (COO) |
| CHAN Chi Ming Benson | (ED) |

Independent Non-executive:

CHENG Shu Shing Raymond

HUI Ka Wah Ronnie

LO Kwok Hung John

**AUDIT COMMITTEE**

CHENG Shu Shing Raymond (committee chairman)

HUI Ka Wah Ronnie

LO Kwok Hung John

**REMUNERATION COMMITTEE**

CHENG Shu Shing Raymond (committee chairman)

HUI Ka Wah Ronnie

KWAN Pak Hoo Bankee

**QUALIFIED ACCOUNTANT**

WONG Hon Ming Wallace, CPA

**COMPLIANCE OFFICER**

CHENG Man Pan Ben, CPA

**COMPANY SECRETARY**

LUKE Wing Sheung Suzanne, FCIS

**AUTHORISED REPRESENTATIVES**

KWAN Pak Hoo Bankee

(alternate: LAW Ping Wah Bernard)

WONG Kin Yick Kenneth

(alternate: LUKE Wing Sheung Suzanne)

## PRINCIPAL BANKERS
Standard Chartered Bank (Hong Kong) Limited
Wing Hang Bank, Limited
DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
The Bank of East Asia, Limited
Nanyang Commercial Bank, Ltd

## AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants

## SOLICITORS
Sidley Austin

## COMPLIANCE ADVISER
First Shanghai Capital Limited

## REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

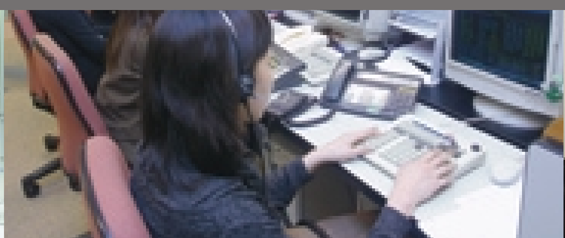
## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
21/F The Center
99 Queen's Road Central
Hong Kong

## REGISTRARS AND TRANSFER OFFICE IN HONG KONG
Tricor Standard Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## WEBSITE
www.cfsg.com.hk

## STOCK CODE ON MAIN BOARD : 510

## CONTACTS
Telephone : (852) 2287 8788
Facsimile : (852) 2287 8700



# Financial Review

During the year under review, the Group ceased to consolidate the revenue and operating results of the Netfield Group subsequent to the completion of the disposal of the Netfield Group on 1 June 2007. The transaction is further elaborated below under the paragraph of "Material Acquisitions and Disposals".

For the year ended 31 December 2007, the Group achieved a net profit attributable to shareholders of HK$207.8 million as compared to HK$39.9 million as recorded in the previous year. Such a significant increase was mainly attributable to an improved performance of the Group's broking business. This was also contributed by the incorporation of the gain on disposal of the Netfield Group of HK$41.7 million.

The Group recorded revenue from the continuing operations of HK$666.4 million for the year ended 31 December 2007 as compared to HK$346.0 million for the previous year. The increase was attributable to the significant growth in the Group's brokerage business and interest income from its financing activities for the year, which in turn, was mainly due to the buoyant stock markets in Hong Kong and the PRC throughout 2007.

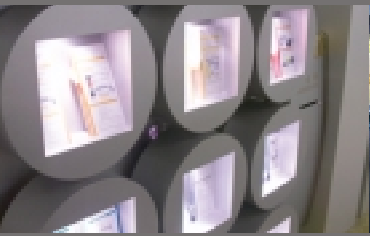
## LIQUIDITY AND FINANCIAL RESOURCES

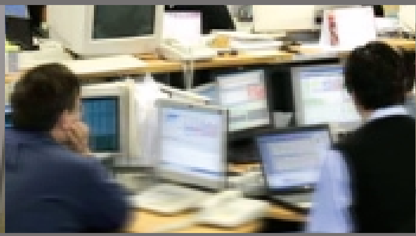
The Group's total equity amounted to HK$899.4 million on 31 December 2007 as compared to HK$483.6 million at the end of the previous year. The improvement, apart from the growth of retained earnings, was mainly attributed to the completion of 5-for-2 rights issue in November 2007 raising approximately HK$237.4 million (before expenses) to strengthen capital bases during the year.

On 31 December 2007, our cash and bank balances including trust and segregated accounts totalled HK$1,213.9 million as compared to HK$675.6 million at the end of the previous year. The increase in cash and bank balances was the combined results of the cash generated from the net profit and the net proceeds raised by the aforesaid rights issue during the year as well as an increase in clients' deposits at the year end date. Our clients would like to place more readily liquid fund with us for catching instant investment opportunities under active market conditions. The liquidity ratio on 31 December 2007 remained healthy at 1.3 times, as compared to 1.2 times on 31 December 2006.

A cash deposit of approximately HK$10.6 million was pledged as collateral for a loan facility of HK$10.0 million but the facility had not been drawn down at 31 December 2007. A further deposit of HK$1.0 million was pledged to secure a general banking facility granted to a subsidiary of the Company. In addition, pursuant to a letter of undertaking provided by the Group to a bank, the Group covenanted to maintain deposits of not less than HK$15.0 million with the bank as a pre-condition for an overdraft facility of HK$15.0 million granted by the bank. Therefore a bank deposit of approximately HK$17.1 million was held for this purpose.

As at 31 December 2007, the Group had total bank borrowings of approximately HK$231.1 million, comprising bank loans of HK$229.0 million and overdrafts of HK$2.1 million.





# Financial Review

The bank borrowings of HK$126.1 million, which were drawn to fund securities margin financing to its clients, were collateralised by its margin clients' securities pledged to the Group for seeking financing. During the year, the Group had obtained a 3-year term syndicated bank loan with total facilities of HK$175.0 million and the total bank borrowings of HK$231.1 million had included a partial draw-down of the syndicated bank loan amounting to HK$105 million at the year-end date. The facilities provide a stable resource for financing our margin financing business expansion and other business developments.

The ratio for our interest bearing borrowings to total equity was 25.7% on 31 December 2007 as compared to 57.9% on 31 December 2006, which was kept at a conservatively low level. On the other hand, we have no material contingent liabilities at the year-end.

## FOREIGN EXCHANGE RISKS

As at the end of the year, the Group did not have any material un-hedged foreign exchange exposure or interest rate mismatch.

## MATERIAL ACQUISITIONS AND DISPOSALS

In January 2007, the Company announced a connected and discloseable transaction for the proposed disposal of the entire issued share capital of the Netfield Group to CIGL, the controlling shareholder of the Company, at a consideration of the higher of HK$120 million or the valuation of the online game business operated by the Netfield Group as at 31 December 2006. The final consideration was fixed at HK$120 million. The transaction was approved by the independent shareholders of the Company at a special general meeting held on 23 April 2007 and was completed on 1 June 2007. Details of the disposal were set out in the Company's announcement dated 9 January 2007 and the circular dated 4 April 2007.

As disclosed in the Company's announcement dated 27 June 2007 and the circular dated 18 July 2007, the Company announced a discloseable transaction in relation to the formation of an associate on 27 June 2007, through Marvel Champ Investments Limited (a 65%-owned subsidiary of the Company), with two independent third parties. The associate, in turn, invested in a property developed in Shanghai, the PRC which comprises a 11-storey office tower, a single-storey retail podium and a single-storey car parking basement, and part of property is used as the Company's offices.

According to the preliminary plan, the maximum capital contribution of the Group was up to RMB150 million (approximately HK$153.2 million). During the year, the associate had also sought certain banking facilities as the partial payment for the purchase price of the property. The Group would provide its share of corporate guarantee for the banking facilities, if required. Accordingly, the outstanding capital contribution of the Group was reduced to HK$84.4 million. Up to 31 December 2007, total amounts of HK$78.1 million had been paid to the associate by the Group as its share of capital contribution and shareholders' loans. The Group's remaining capital contribution on this project was HK$6.3 million.

Save as aforesaid, the Group did not make any material acquisitions or disposals during the year.

# Financial Review

## CAPITAL COMMITMENTS

As at 31 December 2007, the Group has capital commitments of HK$11.6 million in relation to decoration works and acquisitions of equipment. Save as aforesaid, the Group did not have any material capital commitment at the end of the year.

## MATERIAL INVESTMENTS

As at 31 December 2007, the Group was holding a portfolio of listed investments with a market value of approximately HK$59.3 million and a gain on such investments of HK$20.3 million was recorded for the year.

We do not have any future plans for material investments, nor addition of capital assets.

# Management Discussion and Analysis

## INDUSTRY REVIEW

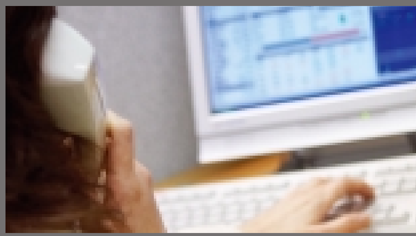
The Hong Kong stock market continued to be buoyant throughout 2007. The domestic economic backdrop remained robust with a decade-low unemployment rate and a strong property market. The market experienced an explosive growth in the second half of the year after the US began to cut interest rates to reflate its economy. The bellwether indices as well as market turnover soared to record highs, fuelled by optimism over the 2008 Beijing Olympics, Renminbi-denominated asset appreciation, and possible implementation of thru-train investment scheme to the Hong Kong stock market by the Mainland individuals. The Hang Seng Index reached an historic high of 31,958 on 30 October and subsequently concluded the year with a 39% increase. In addition, the daily market turnover and the single day ups-and-downs also made new records during the fourth quarter. On the back of these market records, continued influx of liquidity, and strong investors' sentiment, average daily market turnover reached HK$88 billion, an 159% increase compared to the same period last year.

In terms of market capitalisation, the Hang Seng Index reached a record level of HK$23,200 billion on 30 October and ended the year with an increase of 56% to HK$21 trillion. Total capital raised on new issues amounted to HK$285 billion. The Hong Kong new issue market remained strong and ranked seventh in 2007.

In the Mainland, the Shanghai and Shenzhen indices continued to steam ahead and recorded new highs. The rise came to a halt and the market turned sideways after the 17th Congress of the Chinese Communist Party on concerns that the Central Government would intervene by introducing administrative policies to cool down the overheated market.

## BUSINESS REVIEW

The Group achieved superior results for the year of 2007. Revenue hit a record high of HK$666.4 million, an increase of 92.6% compared to HK$346.0 million for the last year. Net profit attributable to shareholders for the year ended 31 December 2007 rose by 420.2% to HK$207.8 million.




## China Development

Our key strategy in 2007 was our positioning in China. Business potential in the Mainland seems unprecedented in recent history as deregulation in the financial sector continued to accelerate. The market is poised to take off thanks to the high savings rate, strong pent-up demand for investment vehicles, and rapid product innovation. To capture these market opportunities and capitalise on these exciting changes, we acquired an office building in Shanghai in preparation to set up our Mainland headquarters there, where we have had a representative office for many years, to further strengthen our capacity and sales network.

The headquarters in Shanghai is strategically placed to lead our future growth in China. Our Hong Kong head office will gear up its execution and control capability to underpin the development in China and remain as a sales and management centre. In addition to the headquarters in Shanghai and operation support centre in Shenzhen, we plan to extend our network in China by setting up branch offices in Chongqing and Beijing by mid 2008. These local offices will carry our brand and serve as contact points for potential clients and marketing means for publicity.

# Management Discussion and Analysis

Over the past years, we have developed a network of financial services partners and formed strategic alliances with a number of well-known brokerage firms in the Mainland. These tie-ups have been instrumental in bringing in new referral business from Mainland clients who have significant investment needs outside of China. In addition to business referrals, the Mainland firms have helped us fine-tune our business model to suit the local market needs, expand our local network, and market our brand.

Our investment banking group started to market its business to the Mainland enterprises in the late nineties. It has developed a good network of connections with corporations, local government offices and regulatory bodies, particularly in the provinces of Shandong, Shanxi, Henan, and Guangxi. Many of these relationships have been long-standing and trustworthy. To further strengthen and nurture these established connections, we plan to setup representative offices in these provinces during 2008. These offices will also serve as contact points for other business units.

Our plan is to position the operations in Hong Kong as a fully-fledged sales and execution centre equipped with a full range of product selection, a scaleable and stable platform with a technologically advanced system to provide a boundary-less and interactive service experience.

**Securities Broking**

We successfully increased our market share as a result of our strategy to bring in a mix of active trading business to our mature and stable brokerage component over the past year. The new business was originally brought in to compensate for the impact of reduced commission on the industry. The result of this new addition has not only increased our revenue, but also raised our securities turnover. What was more significant was that the efforts we made in previous years to optimise our trading platforms and broaden our delivery channels have helped us meet the continued increase in trading volume without compromising our service levels at all time.

With the addition of the active trading business and the abundant inflow of international funds into Hong Kong in anticipation of the appreciation of RMB and RMB denominated assets, our securities turnover increased by more than 1.5 times last year. This was also partly attributable to the large inflow of funds after the announcement that Mainland individuals would be allowed to invest directly in the Hong Kong stock market and the commencement of QDII investments. Though the IPO market was not as strong as 2006 in terms of total funds raised, that did not seem to impact the confidence of the investing public. The strong appetite for IPO subscriptions increased the demand for margin financing which was another component of our revenue.

**Ben Man-pan CHENG**
*Chief Operating Officer*

**Kenneth Kin-yick WONG**
*Chief Executive Officer*

**Bankee Pak-hoo KWAN**
*Chairman*

**Bernard Ping-wah LAW**
*Chief Financial Officer*

**Benson Chi-ming CHAN**
*Executive Director*

## Wealth Management

The wealth management business made a number of significant changes including the re-engineering of its pricing and payout scheme to attract and retain sales professionals over the past year. In addition, it strengthened the recruitment to nearly double the number of sales representatives. As a result of these changes, its sales revenue increased by a high double-digit and the earnings before interest and tax doubled. With a view to enhancing its service experience, the business unit launched an after-sale survey, a pioneer in its field, to gather feedback and strengthen client relationships.

## Asset Management

The asset management business is a showcase of our successful strategy of product and income diversification over the years. The service provides us with a lever to tap into the high-net-worth segment where demand for personalised professional asset management service is growing. The business model provides us with a growing opportunity to increase our base income with considerable incentive revenues earned when we achieve higher returns for our clients. Over the past year, the portfolio of our asset management business doubled in value, thanks to the general market strength and good investment strategies. A number of portfolios have recorded out-performance. Income generated from portfolio management and performance has nearly doubled.

# Management Discussion and Analysis

### Investment Banking Group

In investment banking, corporate activities such as M&As, secondary fund raisings, assets injections seemed to have dominated the market. After a record 2006, IPOs remained robust. Under this favourable environment, the investment banking unit was particularly active in financial advisory and special transactions. It continued to look for IPO sponsorships opportunities for emerging private and state-owned enterprises in China. Our strategic focus was to broaden and deepen client relationships with medium-sized companies and to finalise a number of transactions initiated earlier.

### People

At CFSG, we recognise that the long-term success of our business is built on trust, integrity, and professionalism and people remain our most valuable asset. Our experience shows that if we treat our people right, they will serve our clients well and success will follow.

Throughout the year, our employees participated in a wide spectrum of training and development programs to upgrade their operational and managerial skills. We will continue to dedicate resources towards personal development to enhance employees' competencies as well as their sense of belonging within the organisation. Our goal is to create an environment to attract, develop, motivate, and retain talents and to encourage them to work together as a team.

We foster a culture that values people, focuses on client needs, strives for quality, embraces change, and promotes teamwork.

### A Total Caring Organisation

We are dedicated to creating value for stakeholders, delivering superior shareholders' returns, caring for employees' welfare, and being a trusted partner to clients we serve and a responsible corporate citizen in the communities we operate.

We manage the growth of our business without compromising the environment or society. We believe the health of our environment and society will in turn help sustain the growth of our business over the long term.

Our principles are meeting the needs of our customers with quality products and innovative services; creating an enjoyable work environment that unleashes the full potential of our employees; supporting the preservation of natural environment; and contributing to the betterment of the community, especially for our future generations.

### Our company

We set our corporate objectives four years ago to achieve a respectable growth rate and to change our listing to the main board. We have now achieved all our financial targets and strategically positioned ourselves to participate in the eventual opening up of the financial markets in China. It is our belief that time is right to move our listing to the main board.


CASH
Financial Services Group

# Management Discussion and Analysis

## OUTLOOK

Outlook 2008 will continue to be a year where we focus on the development of our China business. We intend to expand our existing networks which are pivotal for business referrals in securities broking, wealth management, and investment banking business. Specifically, we plan to set up two new sales offices and four representative offices to complement our branches in Shanghai and Shenzhen.

Currently, the offices in China do not conduct securities dealing business and their primary function is to provide potential clients and the investing public with market and investment research. Our experience suggests that investors value this type of investment information from a reputable and trustworthy company like us. Over the course, we will leverage on these local offices to strengthen brand awareness, generate database, gather local market information, and develop strategic alliances with local partners. This strategy will help us tap the local network and talents for future expansion as the market opens up.

The securities broking business remains our core income contributor but its revenue composition will likely change as a result of our strategic shift to focus on the high margin and cash account business. In order to provide a stable and reliable service to a boundary-less clientele, we will continue to strengthen the execution capability and system stability of our platform. To enhance the online trading experience, we will introduce new features and functionalities in the coming year.

Competition in the wealth management business is as intense as ever. To solidify and expand its market share in this increasingly competitive environment, the business will continue to beef up recruitment and strengthen sales training. One of its goals is to diversify and stabilise income source by increasing the fee portion of income generated from discretionary portfolio management service. At the same time, it will continue to expand its product offerings and raise service level with an objective to attract and retain more clients. Strengthening cross-selling synergies with the house-served brokerage clients will continue to be one of the key strategies in 2008.

As a relatively new business to the group, the asset management business will continue to expand its capacity by increasing the number of professional investment analysts and managers and enhancing the service awareness. It will continue to focus its efforts to grow its client-base and assets under management while maintaining its superior performance.

To complement our corporate strategies and capitalise on the business relationships we have developed in China over the years, the investment banking group plans to set up new representative offices in the provinces of Shandong, Shanxi, Henan, and Guangxi. Together with the offices in Shanghai, Shenzhen, Chongqing, and Beijing, the eight offices will be pivotal to our strategy to tap the growing IPO pipeline of medium-sized companies in the PRC. This will also serve as contact points for other business units.

# Management Discussion and Analysis

The Group is generally optimistic about the business outlook for 2008. Hong Kong's GDP is expected to show a reasonable growth of 4.5% while liquidity remains abundant in anticipation of the Renminbi-asset appreciation and continued high growth in the Mainland. The expectation of interest rate cuts in the US and the rising negative real interest rates in the territory will continue to boost the Hong Kong property market.

Granted, there are challenges and factors ahead that could affect the global and local investment environment, such as the global credit crunch, continued consumer and food price inflation, severe slowdown of the US economy, tension in the Middle East which has resulted in high energy prices, and China's macroeconomic tightening and its impact on the rest of the world.

Locally, we have built a strong platform that positions us favourably as we aim to accelerate the pace of growth. With the PRC market as our future expansion focus, we continue to equip our platform with multi-faceted and diversified capabilities in anticipation of the eventual opening up of the financial markets in the Mainland. In the meantime, we will continue to collaborate with Mainland securities and brokerage firms for referral opportunities. Overall, we will continue to diversify our revenue mix through strengthening existing businesses, enriching product types, and sourcing new income streams in concert with our business development in China. Our goal is to position CFSG as clients' financial services house of choice that has comprehensive product offerings to meet their diverse financial needs and values their business relationships.

# Employee Information

At 31 December 2007, the Group had 283 employees. Our employees were remunerated according to their performance, working experience and market conditions. The total amount of remuneration cost of employees of the Group for the year under review was approximately HK$80.0 million.

## BENEFITS

The Company and some of its subsidiaries provide employee benefits including mandatory provident fund scheme, medical insurance scheme, discretionary share options, performance bonus and sales commission for their staff. The Company also provides its employees in the PRC with medical and other subsidies, and contributes to the retirement benefit plans.

## TRAINING

The Group has implemented various training policies and organised a number of training programs aimed specifically at improving the skills of its employees and generally to increase the competitiveness, productivity and efficiency of the Group including training in areas such as product knowledge, customer service, selling techniques, team building, communication, presentation, coaching and also professional regulatory training programs as required by regulatory bodies. The Group also arranges for relevant staff, who are licensed persons under the SFO, to attend the requisite training courses to fulfill/comply with the continuous professional training as prescribed in the SFO.

The Group conducts an initial staff orientation for new employees in order to familiarise them with the Group's history and strategy, corporate culture, rules and regulations and safety measures. This orientation is designed to integrate the employees into the Group and, the Directors believe, helps improve productivity of new employees at an early stage.

# Directors and Senior Management

## EXECUTIVE DIRECTORS

**Bankee Pak-hoo KWAN**

*Chairman, MBA, BBA, FFA, MHKSI, CPM(HK), MHKIM*, aged 48, joined the Board on 11 August 2000. Mr Kwan is a substantial shareholder and the Chairman of CASH. Mr Kwan is a member of the Remuneration Committee, as well as a member of the remuneration committee of CASH.

Mr Kwan has extensive experience in corporate management, strategic planning, marketing management, financial advisory and banking. He is responsible for the overall business strategy of the Group. Prior to joining the Group and CASH, he held several senior executive positions in other listed companies and several leading international banks in Hong Kong. He is a John Harvard fellow of Harvard University, US; a member of the Harvard University Asia Center Advisory Committee; an honorary university fellow of The Open University of Hong Kong, a trustee of New Asia College of the Chinese University of Hong Kong; an honorary member of the Board of Trustees of Nanjing University, the PRC, and an honorary advisor of both the Graduate School of Business, Hong Kong Polytechnic University, and the Fong Yun Wah Foundation and appointed as an honorary advisor of China Charity Federation. He is also an honorary advisor to LiPACE of The Open University of Hong Kong and the Academy of Oriental Studies of Peking University, the PRC; and an advisory professor of Nanjing University, the PRC. Mr Kwan is a member of the Chinese People's Political Consultative Conference, Shanghai Committee. Mr Kwan has been a member of the Central Policy Unit of the Government of the HKSAR. At present, Mr Kwan is the chairman of the Hong Kong Retail Management Association; an advisor of the Quality Tourism Services Association; a general committee member of the Hong Kong Brand Development Council, a member of China Trade Advisory Committee of Hong Kong Trade Development Council, a director of the GS1 Hong Kong Board, an honorary advisor of the CEPA Business Opportunities Development Alliance, a member of the Hong Kong Quality Assurance Agency Governing Council, the Retail Trade Training Board of Vocational Training Council and a member of the vetting committee for the SME Development Fund of the Trade and Industry Department of the Government of the HKSAR.

Mr Kwan graduated from the Murdoch University of Perth, Australia in 1998 with a Master's degree in Business Administration and from the Chinese University of Hong Kong in 1984 with a Bachelor's degree in Business Administration. Mr Kwan is also a fellow membership of the Institute of Financial Accountants of the United Kingdom since 1999 and a member of the Hong Kong Securities Institute since 1999. Mr Kwan is also a Certified Professional Marketer (Hong Kong) of Hong Kong Institute of Marketing and a member of Hong Kong Institute of Marketing.

**Kenneth Kin-yick WONG**

*CEO, MBA, BASc*, aged 50, joined the Board on 11 August 2000 and is in charge of the Group's businesses development and business management. Mr Wong is also the deputy chief executive officer of CASH in charge of its business development within Greater China. Mr Wong graduated from the Queen's University at Kingston, Canada in 1981 with a Master's degree of Business Administration and from the University of Toronto, Canada in 1979 with a Bachelor's degree in Applied Science. He has extensive experience in banking and finance. Prior to joining the Group, he held senior management positions in global financial institutions where he was responsible for overseeing the development of various businesses within the Greater China region, and where he gained broad based experience in credit, capital markets, and commercial and institutional banking. Mr Wong is a responsible officer of Celestial Securities.

# Directors and Senior Management

**Bernard Ping-wah LAW**

*CFO, MBA, FCCA, FCPA, MHKSI,* aged 49, joined the Board on 11 August 2000. He is also an executive director of CASH. Mr Law is in charge of the Group's financial and accounting management. Mr Law graduated from the University of Warwick, United Kingdom in 1997 with a Master's degree of Business Administration. Mr Law has been a fellow of The Association of Chartered Certified Accountants since 1994, a fellow member of the Hong Kong Institute of Certified Public Accountants since 1998 and a member of Hong Kong Securities Institute since 1999. Mr Law has extensive experience in financial management and accountancy. Before joining the Group and CASH, he served as finance director and group financial controller of several Hong Kong listed companies and corporations. Mr Law is also the chief financial officer of CASH.

**Ben Man-pan CHENG**

*COO, BA, FCCA, CPA*, aged 38, joined the Board on 7 June 2004. He acts as the COO in charge of monitoring the Group's day-to-day operation. Mr Cheng graduated from the City University of Hong Kong in 1992 with a Bachelor's degree in Accountancy. Mr Cheng has been admitted as a fellow member of The Association of Chartered Certified Accountants since 2001 and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants since 1995. Mr Cheng has extensive experience in auditing, accounting, financial controlling and project management. Before joining the Group and CASH, he held a senior position in an international accounting firm and assumed a senior financial executive position in a local company in Hong Kong. Mr Cheng is also the Company's compliance officer. Mr Cheng is a responsible officer of Celestial Securities and Celestial Commodities.

**Benson Chi-ming CHAN**

*ED, MBA, BA, FCCA, CPA, MHKSI*, aged 41, joined the Board on 5 October 2007. He is in charge of the operation of the Group's corporate finance business, including investment banking advisory. He is a holder of Master Degree of Business Administration from The Hong Kong University of Science and Technology and a holder of Bachelor of Arts (Hons.) Degree in Accountancy from The Hong Kong Polytechnic University. He is a fellow member of The Association of Chartered Certified Accountants, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute since 1999. Mr Chan has over 17 years of relevant experience in the field of auditing, accounting, investment banking and corporate finance. He is also the managing director and head of investment banking group of the Group, and a responsible officer of Celestial Capital.

# Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Raymond Shu-shing CHENG**

*INED*, aged 52, joined the Board on 18 September 2002. Mr Cheng has been admitted as a fellow of The Professional Validation Centre of Hong Kong Business Sector in 2005 and an associateship of The Professional Validation Council of Hong Kong Industries in 2002. Mr Cheng was the winner of The Young Industrialist Awards for the year 1992 and has been a member of Young Industrialists Council Ltd. since 1996. Mr Cheng has extensive experience in watch manufacturing industry and is the managing director of a watch manufacturing and trading company in Hong Kong. Mr Cheng is also a member of The Watches and Clocks Advisory Committee of Hong Kong Trade Development Council from 1988 to 2007 and an advisor of The Federation of Hong Kong Watch Trades and Industries Limited. Mr Cheng is also the chairman of the Audit Committee and the Remuneration Committee.

**Ronnie Ka-wah HUI**

*INED, JP, MBBS, DCH, MBA, MRCP, FHKAM, FHKCP, CFA*, aged 44, joined the Board on 3 November 2004. Dr Hui is the Justice of Peace. He graduated from the University of Hong Kong in 1986 with Bachelor's degree in Medicine and Bachelor's degree in Surgery. Dr Hui has obtained Diploma in Child Health respectively from the Royal College of Physicians of Ireland and Royal College of Surgeons in Ireland in 1989 and from the Royal College of Physicians and Surgeons of Glasgow in 1990 in United Kingdom, and he holds a Master of Business Administration (MBA) degree in Universitas 21 Global, Singapore. Dr Hui is a member of the Royal Colleges of Physicians of the United Kingdom since 1990. He is a fellow member of the Hong Kong Academy of Medicine in the Specialty of Paediatrics since 1998 and the Hong Kong College of Paediatricians since 1999 respectively. He is also elected as the council member of the Hong Kong Medical Association and is appointed as the chairman of the investment subcommittee of the Hong Kong Medical Association. Dr Hui is a specialist in Paediatrics and is the principal of a private medical clinic in Hong Kong. He is a Chartered Financial Analyst (CFA) charterholder and is currently the head of corporate investment of a listed company in Hong Kong. Dr Hui is also a member of the Energy Advisory Committee of the HKSAR and a member of the executive committee of the liberal party. Dr Hui is a member of the Audit Committee and the Remuneration Committee.

**John Kwok-hung LO**

*INED, MBA, LLB, FCCA, CFC*, aged 49, joined the Board on 27 September 2005. Mr Lo graduated from the Oklahoma City University, US in 1992 with a Master's degree in Business Administration and from the University of London, United Kingdom in 2001 with a Bachelor's degree in Laws. Mr Lo has been admitted as a fellow of The Association of Chartered Certified Accountants since 1990. Mr Lo is also a Certified Financial Consultant of US since September 2007. Mr Lo has extensive experience in the accounting, auditing and finance field and is the managing partner of a certified public accounting firm in Hong Kong. Mr Lo is also a member of the Audit Committee.

# Directors and Senior Management

## SENIOR MANAGEMENT

**Tonnie Lai-man YU**

*Director, Sales Development and Client Service*, aged 46, is an ordinary member of Hong Kong Securities Institute. Ms Yu joined the Group in July 1998 and has over 15 years of experience in the financial services industry. She is a responsible officer of Celestial Securities. She is responsible for the sales of the Group's brokerage business.

**Horace Pak-leung KWAN**

*Director*, aged 44 is an ordinary member of Hong Kong Securities Institute. Mr Kwan joined the Group in March 1998 and has over 15 years of experience in the field of financial services. He is a responsible officer of Celestial Securities and Celestial Commodities respectively. He is responsible for the operation of the Group. He is the brother of Mr Kwan Pak Hoo Bankee.

**Majone Pui-lai CHENG**

*Deputy Managing Director of CASH on-line Limited*, aged 35, is a Master Degree holder of Science in Financial Management from the University of London, United Kingdom. Ms Cheng joined the Group in March 1998 and has over 9 years of relevant experiences in the financial services industry. She is responsible for the overall supervision of the Group's online electronic trading operation.

**Dennis Tat-tung WONG**

*Managing Director of Wealth Management*, aged 38, is a Master Degree holder of Business Administration in Management from the Southeastern University, US. Mr Wong joined the Group in July 2003 and has over 12 years of experience in the field of wealth management. He is a responsible officer of both CASH Asset Management Limited and CASH Frederick Taylor Limited licensed to engage in type 9 (asset management) and also a responsible officer of CASH Frederick Taylor Limited to engage in type 4 (advising on securities) regulated activities under the SFO. He is in charge of overseeing the operation of the Group's wealth management service.

**Patrick Ho-yin YIU**

*Associate Director, Asset Management*, aged 34, is a Bachelor Degree holder of Economics from The Chinese University of Hong Kong. Mr Yiu joined the Group in April 2006 and has over 10 years of relevant experiences in the financial services field. He is a responsible officer of CASH Asset Management Limited licensed to engage in type 9 (asset management) regulated activities under the SFO. He is responsible for the provision of asset management services.

# Directors and Senior Management

**Rozina Lok-sze CHO**

*Head of Compliance and Risk Management*, aged 32, is a Bachelor Degree holder of Commerce from McGill University in Canada with major in marketing. Ms Cho joined the Group in August 1997 and has over 10 years of experience in compliance, electronic trading development and operations. She is responsible for all brokerage compliance and risk management issues of the Group.

**Hon-wo SHUM**

*Head of Legal*, aged 35, is a qualified solicitor of the HKSAR. He is a Master Degree holder in Laws from City University of Hong Kong, Master Degree holder in Laws from Renmin University of China and Bachelor Degree holder in Laws from University of Hong Kong. Mr Shum joined the Group in August 2005 and has over 10 years of experience in legal field. He is the Group's legal counsel and is responsible for all legal issues of the Group.

**Raymond Pak-lau YUEN**

*Deputy Chief Financial Officer*, aged 44, is a fellow member of The Association of Chartered Certified Accountants and is also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr Yuen joined the Group in November 2000 and has over 18 years of experience in accounting, auditing, financial management and operations control. He is responsible for assisting the CFO to oversee the Group's finance, treasury and accounting functions.

**Wallace Hon-ming WONG**

*Qualified Accountant*, aged 41, is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr Wong joined the Group in March 2000 and has over 15 years of relevant experiences in the field of accounting and auditing. He is also the deputy financial controller of the Group.

**Suzanne Wing-sheung LUKE**

*Company Secretary*, aged 39, is a fellow of the Institute of Chartered Secretaries and Administrators. Ms Luke joined the Group in May 2000 and has over 15 years of listed company secretarial experience. In addition to taking the role as company secretary of the Company, she is also the company secretary of CASH.

# Corporate Governance Report

This CG Report presents the corporate governance matters during the CG Period required to be disclosed under the Listing Rules.

## ADOPTION OF THE PRINCIPLES IN THE CG CODE

The Board has adopted the Principles which aligns with or is more restrictive than all requirements set out in the CG Code. The Company had duly complied with the Principles throughout the CG Period. The Board is not aware of any deviations from the Principles during the CG Period.

### Directors' Securities Transactions

The Company has also adopted the Model Code. Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code during the CG Period.

## BOARD OF DIRECTORS

The Board is responsible for formulating the strategies and policies of the business development of the Group, while the management is delegated with the powers and authorities for overseeing the day-to-day operations of the Group under the leadership of the Board.

During the CG Period, the Board had held the following number of physical meetings of the Directors:

- 12 meetings of the full Board
- 10 meetings of the EDs

Out of the 12 full Board meetings, 5 of them were held to discuss and/or approve the annual/quarterly financial performance/results of the Group, while 7 meetings to consider and resolve the corporate transactions of the Company which arose during the CG Period. The ED meetings were held to report, discuss and/or resolve for the ordinary business and operation matters.

During the CG Period, the composition of the Board, and the respective attendances of the Directors at the above Directors' meetings are presented as follows:

| Director | Board capacity | Appointment during the CG Period | Attendance Full Board meetings | ED meetings |
|---|---|---|---|---|
| Mr Kwan Pak Hoo Bankee | ED & Chairman | | 11/12 | 10/10 |
| Mr Wong Kin Yick Kenneth | ED & CEO | | 11/12 | 10/10 |
| Mr Law Ping Wah Bernard | ED & CFO | | 12/12 | 10/10 |
| Mr Cheng Man Pan Ben | ED & COO | | 11/12 | 10/10 |
| Mr Chan Chi Ming Benson | ED | was appointed on 5 October 2007 | 4/5 | 3/3 |
| Mr Cheng Shu Shing Raymond | INED | | 11/12 | N/A |
| Dr Hui Ka Wah Ronnie | INED | | 12/12 | N/A |
| Mr Lo Kwok Hung John | INED | | 10/12 | N/A |

During the CG Period, none of the Directors above has or maintained any financial, business, family or other material/relevant relationship with any of the other Directors.

The terms of the appointments of the EDs and the INEDs were governed by the respective employment or service contracts while the appointments of the directorship were subject to, as to EDs, retirement, rotation and re-election at least once every 3 financial years and, as to INEDs, retirement and re-election every year, all at annual general meetings of the Company.

## REMUNERATION COMMITTEE

Throughout the CG Period, the Company had maintained a Remuneration Committee. The role and function of the Remuneration Committee includes:

- recommendation to the Board on the remuneration policy for the Directors;

- review of, approval of and recommendation for (if any) the remuneration package of each Director including benefits in kind, pension right, bonus payment and compensation payable;

- review and approval of performance-based remuneration of each Director (if any) by reference to achievement goals and objectives set by the Board;

- review and approval of the compensation payment to any Director upon his/her cessation of directorship in or employment with the Company; and

- engagement of external professional advisors to assist and/or advise the Remuneration Committee on its duties when necessary and reasonable.

Terms of reference of the Remuneration Committee had been compiled since the establishment of the Remuneration Committee and were endorsed and adopted by the Remuneration Committee. The most updated version of the terms of reference of the Remuneration Committee has been posted onto the corporate website of the Company.

During the CG Period, the Remuneration Committee had held 2 physical meetings for the purpose of considering the remuneration of the Directors.

The composition of the Remuneration Committee, and the respective attendances of the committee members are presented as follows:

| **Member** | **Board capacity** | **Attendance** |
|---|---|---|
| Mr Cheng Shu Shing Raymond | INED | 2/2 |
| Dr Hui Ka Wah Ronnie | INED | 2/2 |
| Mr Kwan Pak Hoo Bankee | Chairman of the Board | 2/2 |

The chairman of the Remuneration Committee since its establishment has been Mr Cheng Shu Shing Raymond.

The summary of the work performed by the Remuneration Committee for the financial period under review included:

- endorsement to the remuneration policy for the Directors;

- review and approval of the remuneration package of each Director including benefits in kind, pension right, bonus payment and compensation payable.

## REMUNERATION POLICY FOR DIRECTORS

The Company adopted a remuneration policy providing guideline for Directors' remuneration.

Under the remuneration policy, Directors' remuneration should be based on internal equity factors and external market conditions and will be reviewed from time to time.

The remuneration of EDs generally consists of:

- fixed monthly salary/allowance – which is set in accordance to the Director's duties, responsibilities, skills, experiences and market influences;
- pension – which is based on the local Mandatory Provident Fund Contribution Scheme;
- short term variable incentive – which may include discretionary cash bonus depending on the achievement of short-term corporate objectives and/or personal targets;
- long term variable incentive – which may include share options designed to encourage long-term commitment.

The remuneration of NEDs will be a lump sum of management fee made annually.

### Directors' Remuneration

The remuneration paid to and/or entitled by each of the Directors for the financial period under review is set out in note 10 to the consolidated financial statements in this annual report.

The share options granted to and/or entitled by the Directors during the financial period under review are set out in the section headed "Directors' Interests in Securities" in the Directors' report of this annual report.

## NOMINATION OF DIRECTORS

The Board shall be composed of members with mixed skills and experience with appropriate weights necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. Each member of the Board shall possess, be recognised for and be able to exhibit high and professional standard of a set of core criteria of competence.

The Company had adopted a nomination policy for the criteria, procedures, and process of the appointment and removal of Directors.

Under the nomination policy, the board of EDs has been delegated the full power to the administration of the nomination policy and the appointment and the termination of Directors, where the full Board remains to have the full and overriding power and absolute right thereover.

During the CG Period, 1 meeting was held by the EDs in resolving for the appointment of a new Director. The attendances of the EDs were as follows:

| **Director** | **Attendance** |
|---|---|
| Mr Kwan Pak Hoo Bankee | 1/1 |
| Mr Wong Kin Yick Kenneth | 1/1 |
| Mr Law Ping Wah Bernard | 1/1 |
| Mr Cheng Man Pan Ben | 1/1 |
| Mr Chan Chi Ming Benson (was appointed on 5 October 2007) | 0/0 |

## AUDIT COMMITTEE

Throughout the CG Period, the Company had maintained an Audit Committee. The major role and function of the Audit Committee includes:

- monitoring the integrity of the financial statements of the Group;
- providing independent review and supervision of the effectiveness of the internal control of the Group;
- review of the adequacy of the external audits;
- review on the compliance issues with the Listing Rules and other compliance requirements;
- providing independent views on connected transactions and transactions involving materially conflicted interest; and
- consideration and reviewing the appointment of the auditor and the audit fee.

# Corporate Governance Report

Terms of reference of the Audit Committee had been compiled since the establishment of the Audit Committee and each version was endorsed and adopted by the then Audit Committee. The most updated version of the terms of reference of the Audit Committee has been posted onto the corporate website of the Company.

During the CG Period, the Audit Committee had held 5 physical meetings for discussing and/or approving the periodic financial results of the Group.

The composition of the Audit Committee, and the respective attendances of the committee members are presented as follows:

| **Member** | **Board capacity** | **Attendance** |
|---|---|---|
| Mr Cheng Shu Shing Raymond | INED | 4/5 |
| Dr Hui Ka Wah Ronnie | INED | 5/5 |
| Mr Lo Kwok Hung John | INED | 4/5 |

The chairman of the Audit Committee had been Mr Cheng Shu Shing Raymond during the CG period.

The report of the work performed by the Audit Committee for the financial period under review is set out in the section headed "Audit Committee Report" of this annual report.

## AUDITOR'S REMUNERATION

The analysis of the auditor's remuneration for the financial period under review is presented as follows:

| | **Fee amount**<br>HK$ |
|---|---|
| Audit services | 1,800,000 |
| Non-audit services | 3,100,000 |
| Total | 4,900,000 |

The audit services include the audit for the annual accounts of the Group. The non-audit services included the reporting accountant and internal control services required under the GEM Listing Rules for the corporate transactions of the Group which took place during the financial period under review.

# Corporate Governance Report

## ACKNOWLEDGEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the accounts of the Group. In preparing the accounts for the financial period under review, the Directors have:

- based on a going concern basis;
- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were prudent, fair and reasonable.

## REVIEW OF INTERNAL CONTROL

During the financial period under review, the Directors had arranged to conduct a review over the effectiveness of the internal control system of the Group including functions of financial, operation, compliance and risk management. The review showed a satisfactory control system. The review had been reported to the Audit Committee. The Directors had also initiated necessary improvement and reinforcement to the internal control system during the year under review.

On behalf of the Board
**Bankee P Kwan**
*Chairman*

Hong Kong, 17 March 2008

# Audit Committee Report

The Audit Committee was established on 30 October 2000. Its composition shall be a minimum of 3 members of NEDs with a majority being INEDs. For the financial period under review, the Audit Committee comprised all the INEDs of the Company at all times.

For the financial period under review, the Audit Committee had performed the following duties:

- reviewed and commented on the financial report of each of the first quarter, the half-yearly, the third quarter, and the full year of the Group of the financial period under review before submission to the Board for adoption and publication;

- endorsed the policy on the engagement of external auditor for non-audit services;

- met with the auditor to discuss the financial matters of the Group that arose during the course of the audit process, and reviewed the findings, recommendations and representations of the auditor;

- reviewed and approved of the remuneration and the terms of engagement of the auditor for both audit service and non-audit services for the financial period under review; and

- reviewed the Company's statement on internal control.

Based on the reviews and discussions performed by the Audit Committee, the Audit Committee had:

- recommended to the Board for the approval of the unaudited financial statements of the first quarter, the half-yearly and the third quarter of the financial period under review before the announcement of the interim results;

- recommended to the Board for the approval of the audited financial statements of the financial period under review together with the auditor's report there attached, before the announcement of the annual results; and

- recommended to the Board for the proposal for the re-appointment of Deloitte Touche Tohmatsu as the auditor of the Company for the ensuing year in the forthcoming annual general meeting of the Company.

Audit Committee Members:
CHENG Shu Shing Raymond *(committee chairman)*
HUI Ka Wah Ronnie
LO Kwok Hung John

Hong Kong, 17 March 2008

# Directors' Report

The Directors are pleased to present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2007.

## LISTING ON THE MAIN BOARD

The Company was listed on GEM under the stock code of 8122 during the year ended 31 December 2007. On 3 March 2008, the Company's listing was successfully transferred to the Main Board under a new stock code of 510.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the provision of (a) online and traditional brokerage of securities, options, futures, and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products, (b) margin financing, (c) corporate finance, (d) other financial services; and (e) online game services, sales of online game auxiliary products and licensing services. The online game services division was disposed of and was discontinued on 1 June 2007 as mentioned in the sub-paragraph headed "Connected Transactions" in this report below.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 47 of this annual report.

The Board recommends the payment of 2007 final dividend of HK$0.03 per share (2006: HK$0.02 per share) which, together with the interim dividend of HK$0.02 per share paid on 3 September 2007, make a total dividend of HK$0.05 per share for the full year of 2007 (2006: HK$0.05 per share). Subject to the approval of the 2007 final dividend by the Shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on 9 May 2008 to the Shareholders whose names appear on the register of members on 28 April 2008.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 28 April 2008 (Monday) to 30 April 2008 (Wednesday) (both days inclusive). In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Standard Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on 25 April 2008 (Friday).

# Directors' Report

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the audited results and the assets and liabilities of the Group for the last five financial years ended 31 December 2007 is set out on pages 144 to 145 of this annual report.

## PROPERTY AND EQUIPMENT

Details of movements during the year in the property and equipment of the Group are set out in note 16 to the consolidated financial statements.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 43 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

## RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group during the year are set out in the section of "Consolidated Statement of Changes in Equity" in the consolidated financial statements.

As at 31 December 2007, the reserves of the Company available for distribution to shareholders were approximately HK$78,237,000 comprising contributed surplus of HK$52,842,000 and retained profit of HK$25,395,000 and the Company's share premium available for distribution in the form of fully paid bonus shares was HK$319,948,000.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

### (1) Connected transactions

#### (a) Disposal of the Netfield Group to CIGL

As disclosed in the Company's announcement dated 9 January 2007 and the circular dated 4 April 2007, the Company entered into an agreement with CIGL (a wholly-owned subsidiary of CASH), the controlling Shareholder and hence a connected person of the Company within the meaning of the GEM Listing Rules, on 9 January 2007. Pursuant to the agreement, the Company would dispose of the entire issued capital of the Netfield Group to CIGL at a consideration of the higher of HK$120 million or the valuation of the online game business operated by the Netfield Group as at 31 December 2006. The final consideration was fixed at HK$120 million and the Group has received a total of HK$50 million as at the date of completion on 1 June 2007. Interest income received from CASH for amounts receivable on disposal of the Netfield Group in accordance with the terms of the agreement dated 9 January 2007 is disclosed in note 39(h) to the consolidated financial statements. The transaction constituted a connected and discloseable transaction of the Company under the GEM Listing Rules, and was approved by the independent Shareholders at a special general meeting held on 23 April 2007 and was completed on 1 June 2007.

#### (b) Placing agent commission received from CASH

As disclosed in the Company's announcement dated 25 July 2007, Celestial Securities (a wholly-owned subsidiary of the Company) entered into a top up agreement and a green-shoe agreement with CASH and Cash Guardian on 24 July 2007. Pursuant to the above two agreements, Celestial Securities was appointed as the placing agent to procure the placing of 130,300,000 existing shares in CASH held by Cash Guardian to placees at the placing price of HK$2.02 per share. Celestial Securities received placing agent commission of approximately HK$2.6 million, being 1% on the aggregate placing amount received for the placing shares, and such commission is disclosed in note 39(f) to the consolidated financial statements. CASH was the indirect controlling shareholder of the Company, and therefore a connected person of the Company under the GEM Listing Rules. Such appointment of Celestial Securities as the placing agent was a connected transaction of the Company under the GEM Listing Rules. As the amount of commission involved was less than 2.5% of each of the percentage ratios (other than the profits ratio) of the Company, it was only subject to the announcement requirements and was exempted from the independent shareholders' approval requirement pursuant to rule 20.32(1) of the GEM Listing Rules.

### (2) Continuing connected transactions

**Margin Financing Arrangement**

As disclosed in the Company's announcement dated 9 February 2007, the circular dated 1 March 2007 and the listing document dated 30 January 2008, the Company proposed to grant margin financing facilities to Connected Clients. The Connected Clients were all substantial shareholders and/or directors of the Company and/or their respective associates, and hence connected persons of the Company within the meaning of the GEM Listing Rules. The Margin Financing Arrangement was approved by the independent Shareholders at a special general meeting held on 19 March 2007. Pursuant to the Margin Financing Arrangement, the Company entered into written margin financing agreements with each of the Connected Clients, under which the Company extended margin financing facilities to the Connected Clients for trading in securities, at an annual cap of up to HK$4 billion to ARTAR and of up to HK$30 million to each of the other Connected Clients for each of the three financial years ending on 31 December 2009 and are on terms and rates which are the same as those offered by the Company to its other margin financing clients. The margin financing facilities are repayable on demand and secured by listed securities held by the respective Connected Clients. The annual caps of the Margin Financing Arrangement were set after arm's length negotiation between the Group and the Connected Clients with reference to the historical and anticipated trading volume of the Connected Clients.

As disclosed in the Company's announcement dated 9 February 2007, the circular dated 1 March 2007 and the listing document dated 30 January 2008, the Company had also extended margin financing facility to certain Connected Clients, namely Cash Guardian, Mr Wong Kin Yick Kenneth, Kawoo Finance Limited and E-Tailer Holding Limited during the period between 31 March 2004 and 31 December 2006, which had exceeded 2.5% of each of the percentage ratios (other than the profit ratio) under the GEM Listing Rules and HK$10,000,000 and was subject to the reporting, announcement and independent Shareholders' approval requirements of the GEM Listing Rules. All of such previous financial assistance was fully repaid or either fallen below the threshold of HK$1,000,000 on 31 December 2006.

The commission and interest income received from the Connected Clients during the year under review are disclosed in notes 39(a) to (e) to the consolidated financial statements.

Pursuant to rule 20.38 of the GEM Listing Rules and rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the Margin Financing Arrangement. The auditor have reported the factual findings on these procedures to the Board. The INEDs have reviewed the Margin Financing Arrangement and the report of the auditor and confirmed that the Margin Financing Arrangement has been entered into (a) in the ordinary and usual course of business of the Company; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) has not exceeded their respective caps.

The auditor of the Company have also confirmed that the Margin Financing Arrangement (a) has received the approval of the Board; (b) has been entered into in accordance with the relevant agreement governing such transactions; (c) has not exceeded the relevant cap amount for the financial year ended 31 December 2007 as set out in the listing document of the Company dated 30 January 2008; and (d) has been entered into in accordance with the pricing policies of the Company with reference to similar transactions with independent third parties.

Details of the maximum amounts of the margin financing facilities granted to the Connected Clients during the year under review are set out in note 26 to the consolidated financial statements.

### (3) Exempted connected transaction

**Financial advisory fee received from CASH**

As disclosed in the Company's announcement dated 18 May 2007, Celestial Capital (a wholly-owned subsidiary of the Company) was appointed as the financial adviser to CIGL (a wholly-owned subsidiary of CASH) in relation to an unconditional mandatory cash offers by CIGL for all the issued shares in and all outstanding share options of the Company. Celestial Capital received financial advisory fee of HK$300,000 from CASH, which is disclosed in note 39(g) to the consolidated financial statements. CASH was the indirect controlling shareholder of the Company, and therefore a connected person of the Company under the GEM Listing Rules. Such appointment of Celestial Capital as the financial adviser was a connected transaction of the Company under the GEM Listing Rules. As the amount of commission involved was less than 0.1% of each of the percentage ratios (other than the profits ratio) of the Company, it was exempted from all the reporting, announcement and independent shareholders' approval requirement pursuant to rule 20.31(2)(a) of the GEM Listing Rules.

The Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules in relation to the above connected and continuing connected transaction during the year ended 31 December 2007. The above related transactions are also disclosed in note 39 to the consolidated financial statements as related party transactions of the Group.

## RAISING OF FUNDS AND USE OF PROCEEDS

On 2 October 2007, the Company proposed a 5-for-2 rights issue at a subscription price of HK$0.40 per share to raise approximately HK$237,368,000 capital. The rights issue has been completed and 593,420,579 shares of HK$0.10 each of the Company were duly issued and allotted on 21 November 2007. The gross proceeds raised were used to support its expanding share margin financing portfolio and to facilitate correspondingly growth in its securities brokerage business in line with market development and for general working capital purposes.

# Directors' Report

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the Group's turnover attributable to the five largest customers accounted for less than 30% of the Group's total turnover.

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

The Group had no major supplier due to the nature of principal activities of the Group.

## DIRECTORS

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

**Executive Directors:**

Kwan Pak Hoo Bankee
Wong Kin Yick Kenneth
Law Ping Wah Bernard
Cheng Man Pan Ben
Chan Chi Ming Benson (was appointed on 5 October 2007)

**Independent Non-executive Directors:**

Cheng Shu Shing Raymond
Hui Ka Wah Ronnie
Lo Kwok Hung John

The following Directors shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company:

(i) Mr Law Ping Wah Bernard and Mr Cheng Man Pan Ben, being EDs, shall retire at least once in every 3 years at the annual general meeting of the Company in accordance with their terms of office of directorship;

(ii) Mr Chan Chi Ming Benson, being newly appointed ED, shall retire at the annual general meeting of the Company in accordance with the bye-laws of the Company; and

(iii) Mr Cheng Shu Shing Raymond, Dr Hui Ka Wah Ronnie and Mr Lo Kwok Hung John, all being INEDs, shall retire at the annual general meeting of the Company in each year in accordance with their terms of office of directorship.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory obligation.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as the Margin Financing Arrangement, no Director had a material interest in any significant contract to the business of the Group to which the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company was a party during the year.

## RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 38 to the consolidated financial statements.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2007, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

### A. The Company

#### (a) Long positions in the Shares

| Name | Capacity | Number of Shares | | Shareholding |
|---|---|---|---|---|
| | | Personal | Other interest | (%) |
| Kwan Pak Hoo Bankee | Founder of a discretionary trust | 8,400,000 | 996,769,998* | 48.40 |
| Wong Kin Yick Kenneth | Beneficial owner | 22,204,000 | – | 1.07 |
| Law Ping Wah Bernard | Beneficial owner | 32,569,600 | – | 1.57 |
| Cheng Man Pan Ben | Beneficial owner | 1,111,200 | – | 0.05 |
| Cheng Shu Shing Raymond | Beneficial owner | 1,540,000 | – | 0.07 |
| Lo Kwok Hung John | Beneficial owner | 1,011,009 | – | 0.05 |
| | | 66,835,809 | 996,769,998 | 51.21 |

* The Shares were held as to 940,221,198 Shares by CIGL, a wholly-owned subsidiary of CASH, and as to 56,548,800 Shares by Cash Guardian. CASH was owned as to approximately 34.80% by Cash Guardian. Mr Kwan was deemed to be interested in all these Shares as a result of his interests in CASH through Cash Guardian as disclosed in the "Substantial Shareholders" below.

### (b) Long positions in the underlying shares – options under share option schemes

| Name | Date of grant | Exercise period | Exercise price per share (HK$) | Note | Number of options outstanding as at 1 January 2007 | Number of options exercised during the year (Note (2)) | Number of options outstanding as at 31 December 2007 | Percentage to issued shares as at 31 December 2007 (%) |
|---|---|---|---|---|---|---|---|---|
| Kwan Pak Hoo Bankee | 7/7/2006 | 7/7/2006 – 31/7/2008 | 0.296 | (1) | 6,000,000 | (6,000,000) | – | – |
| Wong Kin Yick Kenneth | 7/7/2006 | 7/7/2006 – 31/7/2008 | 0.296 | | 6,000,000 | (6,000,000) | – | – |
| Law Ping Wah Bernard | 7/7/2006 | 7/7/2006 – 31/7/2008 | 0.296 | | 6,000,000 | (6,000,000) | – | – |
| Cheng Man Pan Ben | 7/7/2006 | 7/7/2006 – 31/7/2008 | 0.296 | | 6,000,000 | (6,000,000) | – | – |
| Cheng Shu Shing Raymond | 7/7/2006 | 7/7/2006 – 31/7/2008 | 0.296 | | 1,000,000 | (1,000,000) | – | – |
| Hui Ka Wah Ronnie | 7/7/2006 | 7/7/2006 – 31/7/2008 | 0.296 | | 1,000,000 | (1,000,000) | – | – |
| Lo Kwok Hung John | 7/7/2006 | 7/7/2006 – 31/7/2008 | 0.296 | | 1,000,000 | (1,000,000) | – | – |
| | | | | | 27,000,000 | (27,000,000) | – | – |

Notes:

(1) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.

(2) The options were exercised at an exercise price of HK$0.296 each by the Directors on 3 July 2007, 4 July 2007, 7 August 2007 and 13 August 2007 during the year. The weighted average closing price of the Shares immediately before the respective date of exercise was HK$0.690 per Share, HK$0.640 per Share, HK$0.670 per Share and HK$0.720 per Share respectively.

(3) No option was granted, lapsed or cancelled during the year.

(4) The options are held by the Directors in the capacity of beneficial owners.

### (c) Aggregate long positions in the Shares and the underlying shares

| Name | Number of Shares | Number of underlying shares | Aggregate in number | Percentage to issued shares as at 31 December 2007 (%) |
|---|---|---|---|---|
| Kwan Pak Hoo Bankee | 1,005,169,998 | – | 1,005,169,998 | 48.40 |
| Wong Kin Yick Kenneth | 22,204,000 | – | 22,204,000 | 1.07 |
| Law Ping Wah Bernard | 32,569,600 | – | 32,569,600 | 1.57 |
| Cheng Man Pan Ben | 1,111,200 | – | 1,111,200 | 0.05 |
| Cheng Shu Shing Raymond | 1,540,000 | – | 1,540,000 | 0.07 |
| Lo Kwok Hung John | 1,011,009 | – | 1,011,009 | 0.05 |
| | 1,063,605,807 | – | 1,063,605,807 | 51.21 |

### B. Associated corporations (within the meaning of SFO)

#### CASH

*(a) Long positions in the ordinary shares*

| Name | Capacity | Number of shares: Personal | Number of shares: Other interest | Shareholding |
|---|---|---|---|---|
| | | | | (%) |
| Kwan Pak Hoo Bankee | Founder of a discretionary trust | – | 314,042,564* | 34.80 |
| Law Ping Wah Bernard | Beneficial owner | 27,644,300 | – | 3.06 |
| Cheng Man Pan Ben | Beneficial owner | 63,500 | – | 0.01 |
| | | 27,707,800 | 314,042,564 | 37.87 |

* The shares were held by Cash Guardian. Mr Kwan was deemed to be interested in all these shares as a result of his interests in Cash Guardian as disclosed in the "Substantial Shareholders" below.

*(b) Long positions in the underlying shares – options under share option scheme*

| Name | Date of grant | Exercise period | Exercise price per share | Number of options: outstanding as at 1 January 2007 | Number of options: granted during the year | Number of options: outstanding as at 31 December 2007 | Percentage to issued shares as at 31 December 2007 |
|---|---|---|---|---|---|---|---|
| | | | (HK$) | | | | (%) |
| Kwan Pak Hoo Bankee | 13/11/2006 | 13/11/2006 – 12/11//2008 | 0.323 | 4,000,000 | – | 4,000,000 | 0.44 |
| | 6/6/2007 | 6/6/2007 – 31/5/2009 | 0.490 | – | 2,500,000 | 2,500,000 | 0.28 |
| Wong Kin Yick Kenneth | 13/11/2006 | 13/11/2006 – 12/11//2008 | 0.323 | 4,000,000 | – | 4,000,000 | 0.44 |
| | 6/6/2007 | 6/6/2007 – 31/5/2009 | 0.490 | – | 2,500,000 | 2,500,000 | 0.28 |
| Law Ping Wah Bernard | 13/11/2006 | 13/11/2006 – 12/11//2008 | 0.323 | 4,000,000 | – | 4,000,000 | 0.44 |
| | 6/6/2007 | 6/6/2007 – 31/5/2009 | 0.490 | – | 2,500,000 | 2,500,000 | 0.28 |
| Cheng Man Pan Ben | 6/6/2007 | 6/6/2007 – 31/5/2009 | 0.490 | – | 6,500,000 | 6,500,000 | 0.72 |
| | | | | 12,000,000 | 14,000,000 | 26,000,000 | 2.88 |

Note: The options are held by the Directors in the capacity of beneficial owners.

*(c) Aggregate long positions in the ordinary shares and the underlying shares*

| **Name** | **Number of shares** | **Number of underlying shares** | **Aggregate in number** | **Percentage to issued shares as at 31 December 2007** (%) |
|---|---|---|---|---|
| Kwan Pak Hoo Bankee | 314,042,564 | 6,500,000 | 320,542,564 | 35.52 |
| Wong Kin Yick Kenneth | – | 6,500,000 | 6,500,000 | 0.72 |
| Law Ping Wah Bernard | 27,644,300 | 6,500,000 | 34,144,300 | 3.78 |
| Cheng Man Pan Ben | 63,500 | 6,500,000 | 6,563,500 | 0.73 |
| | 341,750,364 | 26,000,000 | 367,750,364 | 40.75 |

Save as disclosed above, as at 31 December 2007, none of the Directors, chief executive or their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEMES

The Company's share option scheme during the year ended 31 December 2007 was the Option Scheme. Particulars of the terms of the Option Scheme and details of movements in the share options to subscribe for Shares granted under the Option Scheme during the year are set out in note 37(a) to the consolidated financial statements.

Subsequent to the balance sheet date, the Company has adopted the New Option Scheme to replace the Option Scheme due to migration of the Company's listing from GEM to Main Board. The major terms of the New Option Scheme are summarised as follows:

(i) The purpose was to provide incentives to:

- award and retain the participants who have made contributions to CASH Group; or
- attract potential candidates to serve the CASH Group for the benefit of the development of the CASH Group.

(ii) The participants included any employees (whether full time or part time), executives and officers (including executive and non-executive directors) and business consultants, agents and legal and financial advisers of the CASH Group.

(iii) The maximum number of shares in respect of which options might be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by shareholders in general meeting. The maximum number of Shares was 207,697,202 Shares, representing 10% of the issued share capital of the Company, as at the date of this annual report. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.

(iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the New Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.

(v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the Board and provided in the offer of grant of option.

(vi) The exercise period should be any period fixed by the Board upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.

(vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee to the Company.

(viii) The exercise price of an option must be the highest of:

- the closing price of the Shares on the date of grant which day must be a trading day;
- the average closing price of the Shares for the 5 trading days immediately preceding the date of grant; and
- the nominal value of the Share.

(ix) The life of the New Option Scheme is effective for 10 years from the date of adoption until 3 March 2018.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the Shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

| **Name** | **Capacity** | **Number of Shares** | **Shareholding** (%) |
|---|---|---|---|
| Jeffnet Inc (Note (1)) | Trustee of a discretionary trust | 996,769,998 | 48.00 |
| Cash Guardian (Note (1)) | Interest in a controlled corporation | 996,769,998 | 48.00 |
| CASH (Note (1)) | Interest in a controlled corporation | 940,221,198 | 45.27 |
| CIGL (Note (1)) | Beneficial owner | 940,221,198 | 45.27 |
| Mr Al-Rashid, Abdulrahman Saad ("Mr Al-Rashid") (Note (2)) | Interest in a controlled corporation | 290,690,400 | 14.00 |
| ARTAR (Note (2)) | Beneficial owner | 290,690,400 | 14.00 |

Notes:

(1) This refers to the same number of 996,769,998 Shares which were held as to 940,221,198 Shares by CIGL, a wholly-owned subsidiary of CASH, and as to 56,548,800 Shares by Cash Guardian (which was 100% beneficially owned by Jeffnet Inc). CASH was owned as to approximately 34.80% by Cash Guardian. Jeffnet Inc held these shares as trustee of The Jeffnet Unit Trust, units of which were held by a discretionary trust established for the benefit of the family members of Mr Kwan Pak Hoo Bankee. Pursuant to the SFO, Mr Kwan, Jeffnet Inc and Cash Guardian were deemed to be interested in all the Shares held by CIGL through CASH. The above interest has already been disclosed as other interest of Mr Kwan in the section headed "Directors' Interests in Securities" above.

(2) This refers to the same number of 290,690,400 Shares held by ARTAR. ARTAR was a 45% owned controlled corporation of Mr Al-Rashid. Pursuant to the SFO, Mr Al-Rashid was deemed to be interested in all the shares held by ARTAR.

(3) Mr Kwan (a Director whose interests is not shown in the above table) was interested and/or deemed to be interested in a total of 1,005,169,998 Shares (48.40%), which were held as to 940,221,198 Shares by CIGL, as to 56,548,800 Shares by Cash Guardian and as to 8,400,000 Shares in his personal name.

Save as disclosed above, as at 31 December 2007, no other parties were recorded in the register required by the SFO to be kept as having an interest of 5% or more or short positions of the issued share capital of the Company.

## COMPETING INTERESTS

None of the Directors or the management shareholders of the Company (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float of not less than 25% of its shares in the hands of the public in accordance with the Listing Rules as at the latest practicable date prior to the issue of this annual report.

## DONATIONS

During the year, the Group made charitable donations amounted to approximately HK$3.0 million.

## POST BALANCE SHEET EVENTS

Details of significant post balance sheet events of the Group are set out in note 42 to the consolidated financial statements.

## CONFIRMATION OF INDEPENDENCE

The Company has received a written confirmation in respect of independence from each of the INEDs in compliance with rule 5.09 of the GEM Listing Rules, and the Company still considers that each of them to be independent.

## AUDITOR

The financial statements of the Company for the year was audited by Messrs Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
**Bankee P Kwan**
*Chairman*

Hong Kong, 17 March 2008

# Independent Auditor's Report

**Deloitte.**
**德勤**

**TO THE SHAREHOLDERS OF CASH FINANCIAL SERVICES GROUP LIMITED**

*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of CASH Financial Services Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 143, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the consolidated financial statements

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

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

## Opinion

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

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong, 17 March 2008

# Consolidated Income Statement

For the year ended 31 December 2007

| | NOTES | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 6 | **666,378** | 345,977 |
| Other operating income | | **1,859** | 2,178 |
| Salaries, commission and related benefits | 8 | **(247,980)** | (151,449) |
| Depreciation | | **(7,403)** | (7,056) |
| Finance costs | 9 | **(91,844)** | (49,024) |
| Other operating and administrative expenses | | **(133,363)** | (77,657) |
| Net increase in fair value of investments held for trading | | **20,334** | 10,261 |
| Convertible loan note settlement income | | **–** | 291 |
| Share of loss of associate | 23 | **(3,370)** | – |
| Profit before taxation | | **204,611** | 73,521 |
| Taxation charge | 12 | **(28,825)** | (5,796) |
| Profit for the year from continuing operations | | **175,786** | 67,725 |
| **Discontinued operations** | | | |
| Profit (loss) for the year from discontinued operations | 13 | **30,904** | (27,527) |
| Profit for the year | 14 | **206,690** | 40,198 |
| Attributable to: | | | |
| Equity holders of the Company | | **207,779** | 39,944 |
| Minority interests | | | |
| – Continuing operations | | **(617)** | 39 |
| – Discontinued operations | | **(472)** | 215 |
| | | **206,690** | 40,198 |
| Dividend: | | | |
| Proposed final dividend (31 December 2007: HK$0.03 per ordinary share based on 2,076,972,027 shares; 31 December 2006: HK$0.02 per ordinary share based on 1,382,051,448 shares) | | **62,309** | 27,641 |
| Dividends recognised as distribution during the year (31 December 2007: payment of 2006 final dividend of HK$0.02 per ordinary share and payment of 2007 interim dividend of HK$0.02 per ordinary share; 31 December 2006: payment of 2006 interim dividend of HK$0.03 per ordinary share) | | **57,333** | 41,462 |
| Earnings (loss) per share | 15 | | |
| From continuing and discontinued operations: | | | |
| – Basic | | **12.3 HK cents** | 2.5 HK cents |
| – Diluted | | **12.1 HK cents** | 2.5 HK cents |
| From continuing operations: | | | |
| – Basic | | **10.4 HK cents** | 4.3 HK cents |
| – Diluted | | **10.3 HK cents** | 4.2 HK cents |
| From discontinued operations: | | | |
| – Basic | | **1.9 HK cents** | (1.7) HK cents |
| – Diluted | | **1.8 HK cents** | (1.7) HK cents |

# Consolidated Balance Sheet

At 31 December 2007

| | NOTES | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property and equipment | 16 | **24,787** | 45,720 |
| Investment property | 17 | **5,000** | 5,000 |
| Goodwill | 18 | **4,933** | 114,878 |
| Intangible assets | 19 | **12,392** | 32,042 |
| Other assets | 21 | **9,136** | 16,241 |
| Loan receivables | 22 | **176** | 103 |
| Interests in associates | 23 | **65,778** | – |
| Loan to an associate | 23 | **10,296** | – |
| Amounts receivable on disposal of subsidiaries | 25 | **162,703** | – |
| Deferred tax assets | 12 | **–** | 2,346 |
| | | **295,201** | 216,330 |
| Current assets | | | |
| Inventories | 24 | **–** | 674 |
| Accounts receivable | 26 | **931,595** | 781,721 |
| Loan receivables | 22 | **28,867** | 19,227 |
| Prepayments, deposits and other receivables | | **28,218** | 23,764 |
| Amount due from an associate | 25 | **260** | 373 |
| Amounts due from fellow subsidiaries | 25 | **447** | 3,463 |
| Investments held for trading | 27 | **59,271** | 54,317 |
| Deposit with brokers | 25 | **69,188** | – |
| Bank deposits under conditions | 28 | **28,675** | 27,813 |
| Bank balances – trust and segregated accounts | 25 | **928,527** | 574,577 |
| Bank balances (general accounts) and cash | 25 | **256,668** | 73,226 |
| | | **2,331,716** | 1,559,155 |
| Current liabilities | | | |
| Accounts payable | 29 | **1,379,521** | 931,865 |
| Accrued liabilities and other payables | | **68,534** | 64,860 |
| Deferred revenue | | **–** | 8,027 |
| Taxation payable | | **20,993** | 4,428 |
| Obligations under finance leases – amount due within one year | 30 | **–** | 215 |
| Bank borrowings – amount due within one year | 31 | **231,066** | 278,521 |
| Loan from a minority shareholder | 25 | **27,437** | – |
| | | **1,727,551** | 1,287,916 |
| Net current assets | | **604,165** | 271,239 |
| | | **899,366** | 487,569 |

# Consolidated Balance Sheet

At 31 December 2007

| | NOTES | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 32 | **207,697** | 138,205 |
| Reserves | | **690,668** | 341,626 |
| Equity attributable to equity holders of the Company | | **898,365** | 479,831 |
| Minority interests | | **1,001** | 3,761 |
| Total equity | | **899,366** | 483,592 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 12 | **–** | 2,615 |
| Obligations under finance leases – amount due after one year | 30 | **–** | 115 |
| Bank borrowings – amount due after one year | 31 | **–** | 1,247 |
| | | **–** | 3,977 |
| | | **899,366** | 487,569 |

The consolidated financial statements on pages 47 to 143 were approved and authorised for issue by the board of directors on 17 March 2008 and are signed on its behalf by:

**KWAN PAK HOO BANKEE**
*DIRECTOR*

**LAW PING WAH BERNARD**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 (Note g) | Convertible loan note equity reserve HK$'000 | Share-based payment reserve HK$'000 | Translation reserve HK$'000 | (Accumulated losses) retained earnings HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| At 1 January 2006 | 104,488 | 130,794 | 173,550 | 581 | 883 | – | (53,678) | 356,618 | 1,471 | 358,089 |
| Exchange difference arising from translation of foreign operations representing net expense recognised directly in equity | – | – | – | – | – | (288) | – | (288) | – | (288) |
| Profit for the year | – | – | – | – | – | – | 39,944 | 39,944 | 254 | 40,198 |
| Total recognised income and expense for the year | – | – | – | – | – | (288) | 39,944 | 39,656 | 254 | 39,910 |
| Recognition of employee share option benefits | – | – | – | – | 1,613 | – | – | 1,613 | – | 1,613 |
| Arising from conversion of convertible loan note (Note c(ii)) | 6,000 | 10,200 | – | (308) | – | – | 173 | 16,065 | – | 16,065 |
| Arising from early repayment of convertible loan note (Note a) | – | – | – | (273) | – | – | (79) | (352) | – | (352) |
| Issue of new shares (Notes c(i), (iii) and (iv)) | 27,717 | 82,976 | – | – | – | – | – | 110,693 | – | 110,693 |
| 2006 interim dividend paid | – | – | – | – | – | – | (41,462) | (41,462) | – | (41,462) |
| Transaction costs attributable to issue of new shares | – | (3,000) | – | – | – | – | – | (3,000) | – | (3,000) |
| Arising from acquisition of subsidiaries | – | – | – | – | – | – | – | – | 2,389 | 2,389 |
| Dividend paid to minority interests | – | – | – | – | – | – | – | – | (353) | (353) |
| Amount transferred to set off accumulated losses (Note b(i)) | – | – | (45,000) | – | – | – | 45,000 | – | – | – |
| At 31 December 2006 and 1 January 2007 | 138,205 | 220,970 | 128,550 | – | 2,496 | (288) | (10,102) | 479,831 | 3,761 | 483,592 |
| Profit for the year | – | – | – | – | – | – | 207,779 | 207,779 | (1,089) | 206,690 |
| Share of translation reserve of associate | – | – | – | – | – | 855 | – | 855 | 460 | 1,315 |
| Total recognised income and expense for the year | – | – | – | – | – | 855 | 207,779 | 208,634 | (629) | 208,005 |
| Issue of new shares (Note d) | 10,150 | 21,419 | – | – | (1,525) | – | – | 30,044 | – | 30,044 |
| Issue of new shares due to rights issue (Note e) | 59,342 | 178,026 | – | – | – | – | – | 237,368 | – | 237,368 |
| Transaction costs attributable to issue of new shares | – | (467) | – | – | – | – | – | (467) | – | (467) |
| Amount transferred to retained earnings as a result of expiration of share option | – | – | – | – | (883) | – | 883 | – | – | – |
| Release on disposal of subsidiaries | – | – | – | – | – | 288 | – | 288 | (2,131) | (1,843) |
| 2006 final dividend paid | – | – | – | – | – | – | (27,661) | (27,661) | – | (27,661) |
| 2007 interim dividend paid | – | – | – | – | – | – | (29,672) | (29,672) | – | (29,672) |
| Amount transferred from share premium to contributed surplus (Note f) | – | (100,000) | 100,000 | – | – | – | – | – | – | – |
| Amount transferred to set off accumulated losses (Notes b(ii) and (iii)) | – | – | (58,000) | – | – | – | 58,000 | – | – | – |
| **At 31 December 2007** | **207,697** | **319,948** | **170,550** | **–** | **88** | **855** | **199,227** | **898,365** | **1,001** | **899,366** |

Notes:

(a) During the year ended 31 December 2006, the Group made full repayment of the convertible loan note issued on 1 September 2004 that remained outstanding in June 2006 amounting to HK$8,000,000 and HK$6,300,000 on 1 June 2006 and 28 June 2006 respectively. The consideration of HK$14,300,000 was allocated into liability component and equity component. An equity component of approximately HK$273,000 was released from the convertible loan note equity reserve.

(b) (i) Pursuant to a board of directors' meeting held on 6 November 2006, an amount of HK$45,000,000 was transferred from the contributed surplus account to set off against the accumulated losses of the Company for payment of 2006 interim dividend of HK$41,462,000.

(ii) Pursuant to a board of directors' meeting held on 8 June 2007, an amount of HK$28,000,000 was transferred from the contributed surplus account to set off against the accumulated losses of the Company for the payment of 2006 final dividend of HK$27,661,000.

(iii) Pursuant to a minutes of a board of directors' meeting held on 3 September 2007, an amount of HK$30,000,000 was transferred from the contributed surplus account to set off against the accumulated losses of the Company for the payment of 2007 interim dividend of HK$29,672,000.

(c) (i) On 10 January 2006, 155,000,000 placing shares of HK$0.10 each were issued at a placing price of HK$0.40 each to independent third parties. On the same date, 120,000,000 subscription shares of HK$0.10 each were issued to Celestial Investment Group Limited ("CIGL") at a price of HK$0.40 each. The gross proceeds of the two transactions of HK$62,000,000 and HK$48,000,000 respectively were raised to settle part of the consideration of the acquisition of an online game business as mentioned in note 35(a)(i). These shares rank pari passu in all respects with other shares in issue.

(ii) On 18 January 2006, convertible loan note amounting to HK$16,200,000 was converted into 60,000,000 ordinary shares of the Company at a conversion price of HK$0.27 each.

(iii) In January 2006, 520,000 share options and 650,000 share options respectively were exercised at an exercise price of HK$0.34 per share, resulting in the issue of 520,000 shares and 650,000 shares of HK$0.10 each on 25 January 2006 and 26 January 2006 respectively for a total consideration (before expenses) of HK$400,000. These shares rank pari passu in all respects with other shares in issue. These shares rank pari passu in all respect with other shares in issue.

(iv) In November 2006, 1,000,000 share options were exercised at an exercise price of HK$0.296 each, resulting in the issue of 1,000,000 shares of HK$0.10 each on 14 November 2006 for a total consideration (before expenses) of HK$296,000.

(d) (i) In April 2007, 1,000,000 share options were exercised at an exercise price of HK$0.296 per share, resulting in the issue of 1,000,000 shares of HK$0.10 each on 23 April 2007 for a total consideration (before expenses) HK$296,000. These shares rank pari passu in all respect with other shares in issue.

(ii) In July 2007, 8,600,000 share options, 40,100,000 share options, 5,000,000 share options and 9,000,000 share options respectively were exercised at an exercise price of HK$0.296 per share, resulting in the issue of 8,600,000 shares, 40,100,000 shares, 5,000,000 shares and 9,000,000 shares of HK$0.10 each on 3 July 2007, 4 July 2007, 9 July 2007 and 27 July 2007 respectively for a total consideration (before expenses) of HK$18,559,200. These shares rank pari passu in all respects with other shares in issue.

(iii) In August 2007, 2,600,000 share options and 35,200,000 share options respectively were exercised at an exercise price of HK$0.296 per share, resulting in the issue of 2,600,000 shares and 35,200,000 shares of HK$0.10 each on 7 August 2007 and 13 August 2007 respectively for a total consideration (before expenses) of HK$11,188,800. These shares rank pari passu in all respects with other shares in issue.

(e) On 21 November 2007, 593,420,579 shares of HK$0.10 each were issued by way of rights issue at a subscription price of HK$0.40 per share. The gross proceeds before expenses were approximately HK$237,368,000.

(f) Pursuant to a minute of an annual general meeting held on 1 June 2007, an amount of HK$100,000,000 was transferred from the share premium account to contributed surplus account where it may be utilised in accordance with the bye-laws of the Company and all the applicable laws.

(g) The contributed surplus of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate of the nominal amount of the issued share capital and the reserves of CASH on-line Limited, the then holding company of the Group prior to the group reorganisation, pursuant to the group reorganisation after deducting the expenses in connection with the listing of the Company's shares and the acquisition of subsidiaries, and the net amount arising from the capital reduction, reduction of share premium account and amounts transferred to eliminate accumulated losses.

# Consolidated Cash Flow Statement

For the year ended 31 December 2007

| | NOTES | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Operating activities | | | |
| Profit before taxation | | **235,515** | 46,137 |
| Adjustments for: | | | |
| Convertible loan note settlement income | | **–** | (291) |
| Advertising and telecommunication services expenses | 34(a) | **2,233** | 4,933 |
| Allowance for bad and doubtful debts | | **1,339** | 100 |
| Bad debt on accounts and loan receivables written off directly | | **227** | 80 |
| Amortisation of intangible assets | | **1,731** | 4,131 |
| Depreciation of property and equipment | | **9,809** | 8,173 |
| Interest expense | | **91,928** | 49,027 |
| Employee share option benefits | | **–** | 1,613 |
| Gain on disposal of subsidiaries | 36 | **(41,701)** | – |
| Gain on disposal of intangible asset | | **(9)** | – |
| Loss on disposal of property and equipment | | **–** | 98 |
| Net decrease in fair value of derivative financial instrument | | **–** | 16 |
| Impairment loss on amount due from an associate | | **4,075** | – |
| Share of loss of associates | | **3,370** | – |
| Operating cash inflows before movements in working capital | | **308,517** | 114,017 |
| Increase in inventories | | **(676)** | (349) |
| Increase in accounts receivable | | **(151,142)** | (306,408) |
| (Increase) decrease in loan receivables | | **(10,011)** | 19,016 |
| Increase in prepayments, deposits and other receivables | | **(34,645)** | (2,563) |
| Increase in deposit with brokers | | **(69,188)** | – |
| Increase in amount due from an associate | | **(4,519)** | (373) |
| Decrease (increase) in amounts due from fellow subsidiaries | | **3,016** | (2,491) |
| Increase in investments held for trading | | **(4,954)** | (11,845) |
| Increase in bank balances – trust and segregated accounts | | **(353,950)** | (221,675) |
| Increase in accounts payable | | **447,656** | 364,024 |
| Increase in accrued liabilities and other payables | | **62,980** | 4,053 |
| Increase in deferred revenue | | **9,942** | 8,027 |
| Cash from (used in) operations | | **203,026** | (36,567) |
| Income taxes paid | | **(10,685)** | (845) |
| Net cash from (used in) operating activities | | **192,341** | (37,412) |

# Consolidated Cash Flow Statement

For the year ended 31 December 2007

| | NOTES | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Investing activities | | | |
| Investment in an associate | | **(67,833)** | – |
| Increase in loan to an associate | | **(10,296)** | – |
| Disposal of subsidiaries | 36 | **(35,976)** | – |
| Acquisition of business | 35(a) | **–** | (64,407) |
| Acquisition of assets and liabilities | 35(b) | **37** | (736) |
| Increase in bank deposits under conditions | | **(862)** | (10,688) |
| Statutory and other deposits refunded (paid) | | **7,105** | (8,677) |
| Purchase of intangible assets | | **–** | (171) |
| Purchases of property and equipment | | **(10,728)** | (20,306) |
| Proceeds on disposal of property and equipment | | **–** | 5 |
| Proceeds on disposal of intangible assets | | **1,769** | – |
| Receipt on amounts receivable on disposal of subsidiaries | | **9,855** | – |
| Net cash used in investing activities | | **(106,929)** | (104,980) |
| Financing activities | | | |
| Increase in loan from a minority shareholder | | **27,437** | – |
| (Decrease) increase in bank overdrafts | | **(87,281)** | 59,610 |
| Increase in bank loans | | **40,520** | 48,421 |
| Repayment of loans | | **–** | (12,105) |
| Proceeds on issue of shares | | **267,412** | 110,693 |
| Share issue expenses | | **(467)** | (3,000) |
| Dividend paid | | **(57,333)** | (41,462) |
| Dividend paid to minority interests | | **–** | (353) |
| Interest paid on bank borrowings | | **(91,923)** | (48,739) |
| Interest paid on obligations under finance leases | | **(5)** | (14) |
| Interest paid on convertible loan note | | **–** | (212) |
| Repayment of obligations under finance leases | | **(330)** | (149) |
| Repayment of convertible loan note | | **–** | (14,300) |
| Net cash from financing activities | | **98,030** | 98,390 |
| Net increase (decrease) in cash and cash equivalents | | **183,442** | (44,002) |
| Cash and cash equivalents at beginning of year | | **73,226** | 117,516 |
| Effect of change in foreign exchange rate | | **–** | (288) |
| Cash and cash equivalents at end of year | | **256,668** | 73,226 |
| Bank balances (general accounts) and cash | | **256,668** | 73,226 |

## 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Its immediate holding company is Celestial Investment Group Limited ("CIGL"), a limited company incorporated in British Virgin Islands. Its ultimate holding company is Celestial Asia Securities Holdings Limited ("CASH"), a company incorporated in Bermuda with its shares being listed on the Main Board of the Stock Exchange. The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda, while the address of the principal place of business of the Company is 21/F, The Center, 99 Queen's Road Central, Hong Kong.

In 2008, the Company voluntarily withdrew its listing status on the GEM board and became listed on the Main Board by introduction. Dealing of the Company's shares on Main Board commenced on 3 March 2008.

The principal activity of the Company is investment holding. The principal activities of the Group were the provision of (a) online and traditional brokerage of securities, futures, options and leverage foreign exchange contracts as well as mutual funds and insurance-linked investment products, (b) margin financing and money lending, (c) corporate finance and (d) online game services, sales of online game auxiliary products and licensing services. During the year, the operations of online game and related services was discontinued (see note 13).

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

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2007.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures |
| HKFRS 7 | Financial instruments: Disclosures |
| HK(IFRIC) – INT 7 | Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies |
| HK(IFRIC) – INT 8 | Scope of HKFRS 2 |
| HK(IFRIC) – INT 9 | Reassessment of embedded derivatives |
| HK(IFRIC) – INT 10 | Interim financial reporting and impairment |

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior years under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards and interpretations will have no material impact on the financial position and financial results of the Group.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of financial statements [1] |
| HKAS 23 (Revised) | Borrowing costs [1] |
| HKFRS 8 | Operating segments [1] |
| HK(IFRIC) – INT 11 | HKFRS 2 – Group and treasury share transactions [2] |
| HK(IFRIC) – INT 12 | Service concession arrangements [3] |
| HK(IFRIC) – INT 13 | Customer loyalty programmes [4] |
| HK(IFRIC) – INT 14 | HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [3] |

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 March 2007.
3 Effective for annual periods beginning on or after 1 January 2008.
4 Effective for annual periods beginning on or after 1 July 2008.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments and investment property, which are measured at fair values as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

### Basis of consolidation

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business combinations" are recognised at their fair values at the acquisition date, except for non-current assets that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations", which are recognised and measured at fair value less costs to sell.

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

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

### Goodwill

**Goodwill arising on acquisitions prior to 1 January 2005**

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiaries at the date of acquisition.

Such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill (continued)

**Goodwill arising on acquisitions on or after 1 January 2005**

Goodwill arising on acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair values of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiaries at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on acquisition of a business is presented separately in the consolidated balance sheet.

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

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment in an associate

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

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

### Revenue recognition

Revenue arising from financial services are recognised on the following basis:

- The net increase or decrease in fair value of trading investments are recognised directly in net profit or loss;

- Commission income for broking business is recorded as income on a trade date basis;

- Underwriting commission income, sub-underwriting income, placing commission and sub-placing commission are recognised as income in accordance with the terms of the underlying agreement or deal mandate when relevant significant act has been completed;

- Advisory and other fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered; and

- Interest income from clients are recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition (continued)**

Revenue arising from the online game services are recognised on the following basis:

- Online game income is recognised when the in-game premium features is consumed or points for in-game premium features is expired. Payments received from the sales of points for in-game premium features that have not been consumed are recorded as deferred revenue;

- Sales of online game auxiliary products are recognised when products are delivered and title has passed; and

- Licensing fee income is recognised on a straight-line basis over the licensing period.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**Property and equipment**

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment property

Investment property is property held to earn rentals and/or for capital appreciation.

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

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

### Leasing

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

**The Group as lessee**

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

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

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

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

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

### Retirement benefits costs

Payments to defined contribution retirement benefits plan/state-managed retirement benefits schemes/the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

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

### Taxation

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets

**Intangible assets acquired separately**

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

**Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

**Research and development expenditures**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets (continued)

**Impairment**

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

### Inventories

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

### Financial instruments

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

**Financial assets**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

**Financial assets (continued)**

*Effective interest method*

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

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if:

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

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

*Loans and receivables*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as loan receivables and accounts receivable arising from the business of dealing in securities and equity options with margin clients, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Impairment of financial assets (continued)**

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

**Financial liabilities and equity**

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

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

*Effective interest method*

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

Convertible loan note

Convertible loan note issued by the Company that contain early redemption option, financial liability and equity components are classified separately into respective early redemption option derivative, liability and equity components on initial recognition. On initial recognition, the early redemption option derivative, liability and equity component are recognised at fair value. The carrying amount of the equity component is determined by deducting the fair values of the financial liability and early redemption option derivative from the fair value of the compound financial instrument as a whole. Issue costs are apportioned between the components of the convertible loan note based on their relative fair value at the date of issue. The issue costs relating to the equity component are charged directly to equity. The issue costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan note using the effective interest method. The portion relating to the derivative is charged directly to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

**Financial liabilities and equity (continued)**

*Effective interest method (continued)*

Convertible loan note (continued)

In subsequent periods, the embedded derivative component is carried at fair value, with changes in fair value being recognised in profit or loss directly. The liability component of the convertible loan note is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan note equity reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Other financial liabilities

Other financial liabilities (including accounts payable, other payables, amount due to a fellow subsidiary, bank borrowings and loan from a minority shareholder) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

**Financial liabilities and equity (continued)**

*Effective interest method (continued)*

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

**Derecognition**

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Equity-settled share-based payment transactions (share options granted to employees of the Group for their services to the Group)**

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expenses in full at the grant date when share options granted vested immediately, with a corresponding increase in equity (share-based payment reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of change in estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share-based payment reserve.

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to accumulated losses/retained earnings.

**Impairment losses (other than goodwill and intangible assets with indefinite useful lives)**

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

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, the management has made various estimates based on past experience, expectations of the future and other information. The key source of estimation uncertainty that may significantly affect the amounts recognised in the consolidated financial statements within the next financial year is disclosed below.

### Allowance for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each client. If the financial conditions of client of the Group and their ability to make payments improved, reversal of allowances may be required.

## 5. FINANCIAL INSTRUMENTS

### Significant accounting policies

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

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 31, and equity attributable to equity holders of the Company, comprising issued share capital disclosed in note 32, reserves and retained earnings as disclosed in consolidated statements of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

## 5. FINANCIAL INSTRUMENTS (continued)

### Capital risk management (continued)

Certain group entities are regulated by the Securities and Futures Commission ("SFC") and are required to comply with certain minimum capital requirements according to the Securities and Futures Ordinance. Management monitors, on a daily basis, the entities' liquid capital to ensure they meet the minimum liquid capital requirement in accordance with the Securities and Futures (Financial Resources) Rules.

The Group covenant to maintain deposits of not less than HK$15,000,000 with a bank as a condition precedent to an overdraft facility granted by the bank.

### Categories of financial instruments

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Financial assets | | |
| Fair value through profit or loss | **59,271** | 54,317 |
| Loans and receivables (including cash and cash equivalents) | **2,426,222** | 1,492,052 |
| Financial liabilities | | |
| Amortised cost | **1,644,066** | 1,229,561 |

## 5. FINANCIAL INSTRUMENTS (continued)

### Financial risk management objectives and policies

The Group's major financial instruments include equity investments, statutory and other deposits, bank balances, bank borrowings, accounts receivable and accounts payable. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments 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.

**Market risk**

*Equity price risk*

The Group is exposed to equity price risk through its investments in equity securities. The directors of the Company manage the exposure by closely monitoring the portfolio of equity investments.

*Equity price sensitivity*

The sensitivity analysis below have been determined based on the exposure to equity price risks at the reporting date. A 10 percent change is used when reporting equity price risk internally to key management personnel and represents management's assessment of the reasonably possible change in equity price.

For the year ended 31 December 2007, if the market bid prices of the listed investments had been 10 percent higher/lower, the Group's profit would increase/decrease by HK$5,927,000 (2006: HK$5,432,000). This is mainly attributable to the changes in fair values of the listed investments held for trading.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent equity price risk as the year end exposure does not reflect the exposure during the year. During the year, the portfolio of the equity investments fluctuated.

## 5. FINANCIAL INSTRUMENTS (continued)

### Financial risk management objectives and policies (continued)

**Market risk (continued)**

*Cash flow interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings, loans receivable, loans to margin clients and bank balances. The Group currently does not have a cash flow interest rate hedging policy. However, management closely monitors its exposure to future cash flow risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arises. A 100 basis point change is used when reporting cash flow interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Prime Rate and HIBOR arising from the Group's variable interest rate instruments.

For the year ended 31 December 2007, if the interest rate of bank borrowings, loans receivable, loans to margin clients and bank balances had been 100 basis point higher/lower, the Group's profit would increase/decrease by HK$5,994,000 (2006: HK$3,257,000). This is mainly attributable to the bank interest expenses under finance costs or interest income under revenue.

*Foreign currency risk*

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rate relating to receivables from foreign brokers and foreign currency deposits with banks. The management monitors foreign exchange exposure and will consider hedging significant foreign exposure should the need arises.

More than 99% of financial assets and financial liabilities of the Group are denominated in US$ or HK$. As US$ is pegged to HK$, the Group does not expect any significant movements in the US$/HK$ exchange rates. No foreign currency sensitivity is disclosed as in the opinion of directors, the foreign currency sensitivity does not give additional value in view of insignificant movement in the US$/HK$ exchange rates and insignificant exposure of other foreign currencies as at the balance sheet date.

## 5. FINANCIAL INSTRUMENTS (continued)

### Financial risk management objectives and policies (continued)

**Credit risk**

The maximum exposure of the Group to credit risk in the event of the counterparties' failure to perform their obligations as at the balance sheet dates in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

In order to minimise the credit risk on brokerage, financing and corporate finance operations, the Credit and Risk Management Committee is set up to compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. With regard to provision of online game services, the Group has delegated a team responsible for determination of credit limits and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on amounts receivable on disposal of subsidiaries which are payable by CIGL, the Group does not have any other significant concentration of credit risk as the exposure spread over a number of counterparties and customers. CIGL, a wholly owned subsidiary of CASH, is financially supported by CASH. Accordingly, the directors of the Company consider the credit risk is minimal in the view of financial background of CASH.

Bank balances and deposit with brokers are placed in various authorised institutions and the directors of the Company consider the credit risk of such authorised institutions is low.

## 5. FINANCIAL INSTRUMENTS (continued)

**Financial risk management objectives and policies (continued)**

**Liquidity risk**

As part of ordinary broking activities, the Group is exposed to liquidity risk arising from timing difference between settlement with clearing houses or brokers and clients. To address the risk, treasury team works closely with the settlement division on monitoring the liquidity gap. In addition, for contingency purposes, clean loan facilities are put in place.

*Liquidity and interest risk tables*

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. The difference between the "Total undiscounted cash flows" column and the "Carrying amount at balance sheet date" column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the consolidated balance sheet.

| | Weighted average effective interest rate | Less than 1 month | Between 1 to 3 months | Between 3 months to 1 year | Between 1 to 2 years | Total undiscounted cash flows | Carrying amount at balance sheet date |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2007** | | | | | | | |
| Non-interest bearing | – | 1,413,000 | – | – | – | 1,413,000 | 1,413,000 |
| Variable interest rate instruments | HIBOR plus spread (Note) | 1 | 106 | 239,621 | – | 239,728 | 231,066 |
| | | 1,413,001 | 106 | 239,621 | – | 1,652,728 | 1,644,066 |
| **At 31 December 2006** | | | | | | | |
| Non-interest bearing | – | 949,463 | – | – | – | 949,463 | 949,463 |
| Obligations under finance leases | 1.4 – 6% | 224 | – | – | 124 | 348 | 330 |
| Variable interest rate instruments | HIBOR plus spread (Note) | 21,297 | 140,509 | 122,148 | 1,409 | 285,363 | 279,768 |
| | | 970,984 | 140,509 | 122,148 | 1,533 | 1,235,174 | 1,229,561 |

Note: The prevailing market rate at the balance sheet date is used in the maturity analysis.

## 5. FINANCIAL INSTRUMENTS (continued)

### Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

*Liquidity and interest risk tables (continued)*

The following table details the Group's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period. The difference between the "Total undiscounted cash flows" column and the "Carrying amount at balance sheet date" column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial asset on the consolidated balance sheet.

| | Weighted average effective interest rate | Repayable on demand | Less than 1 month | Between 1 to 3 months | Between 3 month to 1 year | Between 1 to 2 years | Over 2 years | Undated | Total undiscounted cash flows | Carrying amount at balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 (Note 2) | HK$'000 | HK$'000 |
| **At 31 December 2007** | | | | | | | | | | |
| Non-interest bearing | – | – | 529,459 | – | – | – | – | 10,296 | 539,755 | 539,755 |
| Variable interest rate instruments | Prime Rate plus spread (Note 1) | 452,624 | 503,080 | – | 24 | 179,231 | 69 | – | 1,135,028 | 1,112,844 |
| Fixed interest rate instrument | 3.5% | – | 1,157 | 803,025 | 28,896 | 103 | – | – | 833,181 | 832,894 |
| | | 452,624 | 1,033,696 | 803,025 | 28,920 | 179,334 | 69 | 10,296 | 2,507,964 | 2,485,493 |
| **At 31 December 2006** | | | | | | | | | | |
| Non-interest bearing | – | – | 393,799 | – | – | – | – | – | 393,799 | 393,799 |
| Variable interest rate instruments | Prime Rate plus spread (Note 1) | 447,312 | 195,683 | – | 22 | 26 | 102 | – | 643,145 | 638,913 |
| Fixed interest rate instruments | 3.3% | – | – | 495,865 | 27,889 | – | – | – | 523,754 | 513,657 |
| | | 447,312 | 589,482 | 495,865 | 27,911 | 26 | 102 | – | 1,560,698 | 1,546,369 |

Notes:

(1) The prevailing market rate at the balance sheet is used in the maturity analysis.

(2) The loan to the associate has no fixed repayment terms and is expected to be recovered after 1 year.

## 5. FINANCIAL INSTRUMENTS (continued)

**Fair values**

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

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;

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

- the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, the fair values of a non-option derivatives are estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Black-Scholes pricing model).

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 6. REVENUE

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| **Continuing operations:** | | |
| Fees and commission income | **511,881** | 263,032 |
| Interest income | **154,497** | 82,945 |
| | **666,378** | 345,977 |
| **Discontinued operations:** | | |
| Online game income | **23,309** | 25,316 |
| Sales of online game auxiliary products | **9,738** | 9,459 |
| Licensing income | **2,064** | 2,476 |
| | **35,111** | 37,251 |

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group is organised into four main operating divisions, namely, broking, financing, corporate finance and online game services. The online game services division arose from acquisition of online game business on 10 January 2006 as mentioned in note 35(a)(i) and was disposed of and discontinued on 1 June 2007 as mentioned in notes 13 and 36. The following four divisions are the basis on which the Group reports its primary segment information.

Principal activities for the year are as follows:

| | | |
|---|---|---|
| Broking | – | Broking of securities, options, futures and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products and their trading |
| Financing | – | Provision of margin financing and money lending services |
| Corporate finance | – | Provision of corporate finance services |
| Online game services | – | Provision of online game services, sales of online game auxiliary products and licensing services |

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

The Group's operation by business segment is as follows:

**Consolidated income statement for the year ended 31 December 2007**

| | Continuing operations | | | | Discontinued operations | |
|---|---|---|---|---|---|---|
| | Broking | Financing | Corporate finance | Total | Online game services | Consolidated |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | 502,039 | 154,497 | 9,842 | 666,378 | 35,111 | 701,489 |
| RESULT | | | | | | |
| Segment profit (loss) | 184,973 | 36,227 | (1,861) | 219,339 | (7,528) | 211,811 |
| Other operating income | | | | 1,859 | 336 | 2,195 |
| Gain on disposal of subsidiaries | | | | – | 41,701 | 41,701 |
| Share of loss of an associate | | | | (3,370) | – | (3,370) |
| Unallocated corporate expenses | | | | (13,217) | (3,605) | (16,822) |
| Profit before taxation | | | | 204,611 | 30,904 | 235,515 |
| Taxation charge | | | | (28,825) | – | (28,825) |
| Profit for the year | | | | 175,786 | 30,904 | 206,690 |

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

**Consolidated balance sheet as at 31 December 2007**

| | Continuing operations | | | | Discontinued operations | |
|---|---|---|---|---|---|---|
| | Broking | Financing | Corporate finance | Total | Online game services | Consolidated |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| ASSETS | | | | | | |
| Segment assets | 1,495,624 | 780,602 | 12,197 | 2,288,423 | – | 2,288,423 |
| Unallocated corporate assets | | | | | | 338,494 |
| Consolidated total assets | | | | | | 2,626,917 |
| LIABILITIES | | | | | | |
| Segment liabilities | 1,164,302 | 489,678 | 409 | 1,654,389 | – | 1,654,389 |
| Unallocated corporate liabilities | | | | | | 73,162 |
| Consolidated total liabilities | | | | | | 1,727,551 |

**Other information for the year ended 31 December 2007**

| | Continuing operations | | | | | Discontinued operations | |
|---|---|---|---|---|---|---|---|
| | Broking | Financing | Corporate finance | Unallocated | Total | Online game services | Consolidated |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Additions to property and equipment | 39 | – | – | 5,006 | 5,045 | 5,683 | 10,728 |
| Allowance for bad and doubtful debts | 1,041 | 298 | – | – | 1,339 | – | 1,339 |
| Depreciation of property and equipment | 59 | – | – | 7,344 | 7,403 | 2,406 | 9,809 |
| Amortisation of intangible assets | – | – | – | – | – | 1,731 | 1,731 |

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

**Consolidated income statement for the year ended 31 December 2006**

| | Continuing operations | | | | Discontinued operations | |
|---|---|---|---|---|---|---|
| | Broking | Financing | Corporate finance | Total | Online game services | Consolidated |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | 247,547 | 85,054 | 13,376 | 345,977 | 37,251 | 383,228 |
| RESULT | | | | | | |
| Segment profit (loss) | 64,917 | 15,277 | 2,219 | 82,413 | (18,884) | 63,529 |
| Other operating income | | | | 2,178 | 219 | 2,397 |
| Unallocated corporate expenses | | | | (11,070) | (8,719) | (19,789) |
| Profit (loss) before taxation | | | | 73,521 | (27,384) | 46,137 |
| Taxation charge | | | | (5,796) | (143) | (5,939) |
| Profit (loss) for the year | | | | 67,725 | (27,527) | 40,198 |

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

**Consolidated balance sheet as at 31 December 2006**

| | Continuing operations | | | | Discontinued operations | |
|---|---|---|---|---|---|---|
| | Broking | Financing | Corporate finance | Total | Online game services | Consolidated |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| ASSETS | | | | | | |
| Segment assets | 984,705 | 540,658 | 12,542 | 1,537,905 | 182,249 | 1,720,154 |
| Unallocated corporate assets | | | | | | 55,331 |
| Consolidated total assets | | | | | | 1,775,485 |
| LIABILITIES | | | | | | |
| Segment liabilities | 846,541 | 383,479 | 358 | 1,230,378 | 38,932 | 1,269,310 |
| Unallocated corporate liabilities | | | | | | 22,583 |
| Consolidated total liabilities | | | | | | 1,291,893 |

**Other information for the year ended 31 December 2006**

| | Continuing operations | | | | | Discontinued operations | |
|---|---|---|---|---|---|---|---|
| | Broking | Financing | Corporate finance | Unallocated | Total | Online game services | Consolidated |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Additions to property and equipment | – | – | – | 9,416 | 9,416 | 10,890 | 20,306 |
| Allowance for bad and doubtful debts | – | – | 100 | – | 100 | – | 100 |
| Depreciation of property and equipment | 125 | – | 1 | 6,930 | 7,056 | 1,117 | 8,173 |
| Loss on disposal of property and equipment | – | – | – | – | – | 98 | 98 |
| Amortisation of intangible assets | – | – | – | – | – | 4,131 | 4,131 |

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Geographical segments

The Group's operations are located in Hong Kong, the People's Republic of China ("PRC") and Taiwan. For the activities of broking, financing and corporate finance, they are based in Hong Kong and the revenue of these activities for the year ended 31 December 2007 are derived from Hong Kong. The online game services are mainly based in the PRC and Taiwan and the relevant revenue for the year ended 31 December 2007 are derived mainly from the PRC and Taiwan.

The Group's segment revenue from external customers cannot be allocated based on geographic location of its customers. The following table provides an analysis of the Group's revenue by geographical market based on location of operations:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Continuing operations: | | |
| Hong Kong | **666,378** | 345,977 |
| Discontinued operations: | | |
| PRC | **27,781** | 25,525 |
| Taiwan | **7,330** | 11,726 |
| | **35,111** | 37,251 |
| | **701,489** | 383,228 |

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Geographical segments (continued)

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

**Carrying amount of segment assets**

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Continuing operations: | | |
| Hong Kong | **2,288,423** | 1,537,905 |
| Discontinued operations: | | |
| PRC | **–** | 143,023 |
| Taiwan | **–** | 39,226 |
| | **–** | 182,249 |
| | **2,288,423** | 1,720,154 |

**Additions to property and equipment**

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Continuing operations: | | |
| Hong Kong | **5,045** | 9,416 |
| Discontinued operations: | | |
| PRC | **1,824** | 10,290 |
| Taiwan | **3,859** | 600 |
| | **5,683** | 10,890 |
| | **10,728** | 20,306 |

## 8. SALARIES, COMMISSION AND RELATED BENEFITS

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Salaries, allowances and commission represent the amounts paid and payable to the directors of the Company and employees and account executives and comprise: | | |
| **Continuing operations:** | | |
| Salaries, allowances and commission | **245,220** | 147,575 |
| Contributions to retirement benefits schemes | **2,760** | 2,261 |
| Share-based payment | **–** | 1,613 |
| | **247,980** | 151,449 |
| **Discontinued operations:** | | |
| Salaries, allowances and commission | **10,027** | 10,842 |
| Contributions to retirement benefits schemes | **638** | 1,174 |
| | **10,665** | 12,016 |

## 9. FINANCE COSTS

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| **Continuing operations:** | | |
| Interest on: | | |
| Bank overdrafts and borrowings wholly repayable within five years | **91,839** | 48,736 |
| Finance leases | **5** | 14 |
| Effective interest expense on convertible loan note | **–** | 274 |
| | **91,844** | 49,024 |
| **Discontinued operations:** | | |
| Interest on bank overdrafts and borrowings wholly repayable within five years | **84** | 3 |

## 10. DIRECTORS' REMUNERATION

The remuneration paid or payable to each of the directors during the year were as follows:

| | Kwan Pak Hoo Bankee HK$'000 | Wong Kin Yick Kenneth HK$'000 | Law Ping Wah Bernard HK$'000 | Cheng Man Pan Ben HK$'000 | Chan Chi Ming Benson HK$'000 | Cheng Shu Shing Raymond HK$'000 | Hui Ka Wah Ronnie HK$'000 | Lo Kwok Hung John HK$'000 | 2007 Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Fees: | | | | | | | | | |
| Executive directors | – | – | – | – | – | – | – | – | – |
| Independent non-executive directors | – | – | – | – | – | 100 | 100 | 100 | 300 |
| Other remuneration paid to executive directors: | | | | | | | | | |
| Salaries, allowances and benefits in kind | 420 | 1,850 | 990 | 958 | 431 | – | – | – | 4,649 |
| Discretionary bonus (Note) | – | – | – | 430 | – | – | – | – | 430 |
| Contributions to retirement benefit scheme | 17 | 77 | 44 | 47 | 21 | – | – | – | 206 |
| Total remuneration | 437 | 1,927 | 1,034 | 1,435 | 452 | 100 | 100 | 100 | 5,585 |

| | Kwan Pak Hoo Bankee HK$'000 | Wong Kin Yick Kenneth HK$'000 | Law Ping Wah Bernard HK$'000 | Cheng Man Pan Ben HK$'000 | Kwok Oi Kuen Joan Elmond HK$'000 | Cheng Shu Shing Raymond HK$'000 | Hui Ka Wah Ronnie HK$'000 | Lo Kwok Hung John HK$'000 | 2006 Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Fees: | | | | | | | | | |
| Executive directors | – | – | – | – | – | – | – | – | – |
| Independent non-executive directors | – | – | – | – | – | 100 | 100 | 100 | 300 |
| Other remuneration paid to executive directors: | | | | | | | | | |
| Salaries, allowances and benefits in kind | 120 | 1,290 | 600 | 734 | – | – | – | – | 2,744 |
| Discretionary bonus (Note) | – | 1,000 | – | – | – | – | – | – | 1,000 |
| Share-based payment | 90 | 90 | 90 | 90 | – | 15 | 15 | 15 | 405 |
| Contributions to retirement benefit scheme | 6 | 66 | 30 | 30 | – | – | – | – | 132 |
| Total remuneration | 216 | 2,446 | 720 | 854 | – | 115 | 115 | 115 | 4,581 |

Note: The discretionary bonus is determined by reference to the individual performance of directors and approved by Remuneration Committee Meeting.

## 10. DIRECTORS' REMUNERATION (continued)

During the year ended 31 December 2007, Mr Chan Chi Ming Benson was appointed as an executive director.

During the year ended 31 December 2006, Ms Kwok Oi Kuen Joan Elmond resigned as an executive director.

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during the year.

## 11. EMPLOYEES' REMUNERATION

One of the five individuals with the highest emoluments in the Group (2006: one) is a director of the Company for the year ended 31 December 2007, details of whose emolument are included in the disclosures in note 10 above. The emoluments of the remaining four (2006: four) individuals were as follows:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **3,325** | 3,400 |
| Contributions to retirement benefit scheme | **176** | 180 |
| Performance related incentive payments | **14,144** | 4,747 |
| Discretionary bonus | **902** | 260 |
| Employee share option benefits | **–** | 75 |
| | **18,547** | 8,662 |

## 11. EMPLOYEES' REMUNERATION (continued)

Their remuneration of the five highest paid individuals (other than directors) were within the following bands:

| | Number of employees | |
|---|---|---|
| | **2007** | 2006 |
| HK$1,000,001 to HK$1,500,000 | **–** | 1 |
| HK$1,500,001 to HK$2,000,000 | **1** | 2 |
| HK$2,000,001 to HK$2,500,000 | **1** | – |
| HK$2,500,001 to HK$3,000,000 | **–** | 1 |
| HK$6,500,001 to HK$7,000,000 | **1** | – |
| HK$7,500,001 to HK$8,000,000 | **1** | – |

During the year, no remuneration was paid by the Group to the five individuals with the highest emoluments in the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

## 12. TAXATION CHARGE

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Continuing operations:** | | |
| Current tax: | | |
| – Hong Kong | **(27,635)** | (4,140) |
| Overprovision in prior years | **385** | 94 |
| Deferred taxation | **(1,575)** | (1,750) |
| | **(28,825)** | (5,796) |
| **Discontinued operations:** | | |
| Current tax: | | |
| – PRC | **–** | (143) |
| | **(28,825)** | (5,939) |

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both years.

## 12. TAXATION CHARGE (continued)

Certain subsidiaries of the Company are operating in the PRC. These subsidiaries, which were disposed of by the Group during the year, as disclosed in note 13, are subject to tax with rate of 15% because they were registered in 張江高科技園區 (translated as Shanghai Zhang Jiang High Technological Zone). No provision for the PRC income tax has been made as they have incurred tax losses for both years.

No provision for taxation has been made for subsidiary located in Taiwan as no assessable profit is arisen for both years.

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

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Profit before taxation: | | |
| Continuing operations | **204,611** | 73,521 |
| Discontinued operations | **30,904** | (27,384) |
| | **235,515** | 46,137 |
| Taxation at income tax rate of 17.5% | **(41,215)** | (8,074) |
| Tax effect of share of loss of associate | **(590)** | – |
| Overprovision in respect of prior years | **385** | 94 |
| Tax effect of expenses not deductible for tax purpose | **(2,775)** | (3,319) |
| Tax effect of income not taxable for tax purpose | **9,300** | 3,008 |
| Tax effect of utilisation of estimated tax losses previously not recognised | **10,736** | 5,708 |
| Tax effect of estimated tax losses not recognised | **(2,707)** | (2,685) |
| Effect of different tax rate of subsidiaries operating in other jurisdictions | **(230)** | (587) |
| Overprovision of deferred tax assets | **(1,575)** | – |
| Other differences | **(154)** | (84) |
| Taxation for the year | **(28,825)** | (5,939) |

## 12. TAXATION CHARGE (continued)

The following are the major deferred tax assets and liabilities recognised and the movements thereon during the current and the prior reporting years:

| | **Accelerated tax depreciation** HK$'000 | **Estimated tax losses** HK$'000 | **Intangible asset** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 January 2006 | (776) | 4,716 | – | 3,940 |
| Deferred tax liability on intangible asset arising from acquisition of subsidiaries (note 35(a)(i)) | – | – | (2,459) | (2,459) |
| Credit (charge) to consolidated income statement | 5 | (2,370) | 615 | (1,750) |
| At 31 December 2006 and 1 January 2007 | (771) | 2,346 | (1,844) | (269) |
| Eliminated on disposal of subsidiaries (note 36) | – | – | 1,844 | 1,844 |
| Credit (charge) to consolidated income statement | 771 | (2,346) | – | (1,575) |
| **At 31 December 2007** | **–** | **–** | **–** | **–** |

As at 31 December 2007, the Group had unused estimated tax losses of HK$262,333,000 (2006: HK$321,618,000) available for offset against future profits. Deferred tax asset has been recognised in respect of nil (2006: HK$13,405,000) of such losses. No deferred tax asset has been recognised in respect of remaining HK$262,333,000 (2006: HK$308,213,000) due to the unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely.

## 13. DISCONTINUED OPERATIONS

On 9 January 2007, the Group entered into a sale and purchase agreement with CASH to dispose of Netfield Technology Limited and its subsidiaries ("Netfield Group"), which carried out the Group's online game services operations. The disposal was approved by independent shareholders of the Company at a special general meeting held on 23 April 2007 and was completed on 1 June 2007, on which date control of Netfield Group has been passed to CASH.

## 13. DISCONTINUED OPERATIONS (continued)

The profit (loss) for the year from the discontinued operations is analysed as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Gain on disposal of Netfield Group | **41,701** | – |
| Loss for the year on online game services operations | **(10,797)** | (27,527) |
| | **30,904** | (27,527) |

The results of Netfield Group for the period from 1 January 2007 to 31 May 2007 and for the period from 10 January 2006 (date of acquisition) to 31 December 2006, which have been included in the consolidated income statement, were as follows:

| | **For the five months ended 31 May 2007 HK$'000** | For the period from 10 January 2006 to 31 December 2006 HK$'000 |
|---|---|---|
| Revenue | **35,111** | 37,251 |
| Other operating income | **336** | 219 |
| Salaries, commission and related benefits | **(10,665)** | (12,016) |
| Depreciation and amortisation | **(4,137)** | (5,248) |
| Other operating and administrative expenses | **(31,358)** | (47,489) |
| Finance costs | **(84)** | (3) |
| Loss on disposal of property and equipment | **–** | (98) |
| Loss before taxation | **(10,797)** | (27,384) |
| Taxation | **–** | (143) |
| Loss for the period | **(10,797)** | (27,527) |
| Attributable to: | | |
| The Group | **(10,325)** | (27,742) |
| Minority interests | **(472)** | 215 |
| | **(10,797)** | (27,527) |

## 13. DISCONTINUED OPERATIONS (continued)

The cash flows of Netfield Group for the period are as follows:

| | **For the five months ended 31 May 2007 HK$'000** | For the period from 10 January 2006 to 31 December 2006 HK$'000 |
|---|---|---|
| Net cash from (used in) operating activities | **33,375** | (31,614) |
| Net cash used in investing activities | **(5,683)** | (17,379) |
| Net cash from financing activities | **48,367** | 56,123 |

The carrying amounts of the assets and liabilities of Netfield Group at the date of disposal are disclosed in note 36.

## 14. PROFIT FOR THE YEAR

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| **Continuing operations:** | | |
| Auditor's remuneration | **1,770** | 1,391 |
| Depreciation of property and equipment | | |
| Owned assets | **7,310** | 6,963 |
| Leased assets | **93** | 93 |
| | **7,403** | 7,056 |
| Advertising and promotion expenses | **10,198** | 12,102 |
| Operating lease rentals in respect of land and buildings | **12,407** | 10,197 |
| Gain on disposal of intangible asset | **(9)** | – |
| Net foreign exchange gain | **(2,498)** | (131) |
| Dividends from investments held for trading | **(704)** | (471) |
| Allowance for bad and doubtful accounts receivable | **1,041** | 100 |
| Allowance for bad and doubtful loan receivables (net) | **298** | – |
| Bad debt on accounts and loan receivables written off directly | **227** | 80 |
| Impairment loss on amount due from an associate | **4,075** | – |
| **Discontinued operations:** | | |
| Auditor's remuneration | **223** | 409 |
| Amortisation of intangible assets | **1,731** | 4,131 |
| Depreciation of property and equipment | | |
| Owned assets | **2,406** | 1,114 |
| Leased assets | **–** | 3 |
| | **2,406** | 1,117 |
| Advertising and promotion expenses | **22,429** | 12,865 |
| Operating lease rentals in respect of land and buildings | **1,330** | 2,902 |
| Loss on disposal of property and equipment | **–** | 98 |

## 15. EARNINGS (LOSS) PER SHARE

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

### For continuing and discontinued operations

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Profit** | | |
| Profit for the purpose of basic earnings per share | **207,779** | 39,944 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible loan note | **–** | 274 |
| Profit for the purpose of diluted earnings per share | **207,779** | 40,218 |

### From continuing operations

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Profit** | | |
| Profit for the purpose of basic earnings per share | **176,403** | 67,686 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible loan note | **–** | 274 |
| Profit for the purpose of diluted earnings per share | **176,403** | 67,960 |

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

**From discontinued operations**

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit (loss) for the purpose of basic and diluted earnings (loss) per share | **31,376** | (27,742) |

| | **2007** | 2006 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | **1,695,238,970** | 1,589,792,062 |
| Effect of dilutive potential ordinary shares assumed conversion of convertible loan note | **–** | 25,229,374 |
| Effect of dilutive potential ordinary shares assumed exercise of share options | **20,306,550** | 4,760,596 |
| Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share | **1,715,545,520** | 1,619,782,032 |

The weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share has been adjusted for the rights issue on 21 November 2007.

## 16. PROPERTY AND EQUIPMENT

| | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Computer and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 January 2006 | 34,488 | 21,735 | 27,001 | 1,839 | 85,063 |
| Additions | 7,526 | 133 | 12,647 | – | 20,306 |
| Arising on acquisition of subsidiaries (see note 35) | 8,561 | 79 | 12,662 | 170 | 21,472 |
| Disposals/written off | (154) | (507) | (5,437) | – | (6,098) |
| At 31 December 2006 | 50,421 | 21,440 | 46,873 | 2,009 | 120,743 |
| Additions | 1,465 | 558 | 8,705 | – | 10,728 |
| Arising on disposal of subsidiaries (see note 36) | (3,783) | (497) | (21,115) | (170) | (25,565) |
| Arising on acquisition of subsidiaries (see note 35(b)(i)) | 137 | 110 | – | – | 247 |
| Disposal/written off | – | (6,628) | – | – | (6,628) |
| At 31 December 2007 | 48,240 | 14,983 | 34,463 | 1,839 | 99,525 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | |
| At 1 January 2006 | 26,854 | 20,735 | 23,876 | 1,380 | 72,845 |
| Provided for the year | 4,841 | 572 | 2,594 | 166 | 8,173 |
| Eliminated on disposals/ written off | (56) | (507) | (5,432) | – | (5,995) |
| At 31 December 2006 | 31,639 | 20,800 | 21,038 | 1,546 | 75,023 |
| Provided for the year | 5,375 | 322 | 4,008 | 104 | 9,809 |
| Eliminated on disposals of subsidiaries (see note 36) | (1,141) | (80) | (2,232) | (13) | (3,466) |
| Eliminated on disposal/ written off | – | (6,628) | – | – | (6,628) |
| At 31 December 2007 | 35,873 | 14,414 | 22,814 | 1,637 | 74,738 |
| CARRYING VALUES | | | | | |
| At 31 December 2007 | 12,367 | 569 | 11,649 | 202 | 24,787 |
| At 31 December 2006 | 18,782 | 640 | 25,835 | 463 | 45,720 |

## 16. PROPERTY AND EQUIPMENT (continued)

At 31 December 2007, no carrying value of motor vehicles was held under finance leases (2006: HK$463,000).

The carrying values of property and equipment included fully depreciated property and equipment with cost amounting to HK$69,088,000 (2006: HK$48,771,000).

The above property and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Leasehold improvements | The shorter of the lease terms and 5 years |
| Furniture and fixtures | 5 years |
| Computer and equipment | 3 to 5 years |
| Motor vehicles | 3 years |

## 17. INVESTMENT PROPERTY

| | HK$'000 |
|---|---|
| FAIR VALUE | |
| At 1 January 2006 | – |
| Acquired on acquisition of a subsidiary (see note 35(b)(ii)) | 5,000 |
| At 31 December 2006 and 31 December 2007 | 5,000 |

The Group's property interest held under operating lease to earn rentals or for capital appreciation purpose is measured using the fair value model and is classified and accounted for as investment property.

## 17. INVESTMENT PROPERTY (continued)

The fair value of the Group's investment property at 31 December 2007 was arrived at on the basis of a valuation carried out at that date by Knight Frank Petty Limited, independent qualified professional valuer not connected with the Group. Knight Frank Petty Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Valuation Standards on Properties, was arrived at by reference to market evidence of transaction prices for similar properties.

The investment property shown above comprises land in Hong Kong with medium-term lease.

## 18. GOODWILL

| | HK$'000 |
|---|---|
| COST AND CARRYING VALUES | |
| At 1 January 2006 | 4,933 |
| Arising on acquisition of subsidiaries (see note 35(a)(i)&(ii)) | 109,945 |
| At 31 December 2006 | 114,878 |
| Arising on disposal of subsidiaries (see note 36) | (109,945) |
| At 31 December 2007 | 4,933 |

Particulars regarding impairment testing on goodwill are disclosed in note 20.

## 19. INTANGIBLE ASSETS

| | Trading rights HK$'000 | Club membership HK$'000 | Online game and related intellectual property HK$'000 | Domain name HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 January 2006 | 9,092 | 1,970 | – | – | 11,062 |
| Arising on acquisition of subsidiaries (see note 35(a)(i),(ii) & (b)(ii)) | – | 3,090 | 16,390 | 5,460 | 24,940 |
| Additions | – | – | 171 | – | 171 |
| At 31 December 2006 | 9,092 | 5,060 | 16,561 | 5,460 | 36,173 |
| Disposals | – | (1,760) | – | – | (1,760) |
| Arising on disposal of subsidiaries (see note 36) | – | – | (16,561) | (5,460) | (22,021) |
| At 31 December 2007 | 9,092 | 3,300 | – | – | 12,392 |
| AMORTISATION | | | | | |
| At 1 January 2006 | – | – | – | – | – |
| Charge for the year | – | – | 4,131 | – | 4,131 |
| At 31 December 2006 | – | – | 4,131 | – | 4,131 |
| Charge for the year | – | – | 1,731 | – | 1,731 |
| Elimination on disposal of subsidiaries (see note 36) | – | – | (5,862) | – | (5,862) |
| At 31 December 2007 | – | – | – | – | – |
| CARRYING VALUES | | | | | |
| At 31 December 2007 | 9,092 | 3,300 | – | – | 12,392 |
| At 31 December 2006 | 9,092 | 5,060 | 12,430 | 5,460 | 32,042 |

At 31 December 2007, intangible assets amounting to HK$9,092,000 (2006: HK$9,092,000) represent trading rights that confer eligibility of the Group to trade on the Stock Exchange and the Hong Kong Futures Exchange. Particulars regarding impairment testing on the trading rights are disclosed in note 20.

## 19. INTANGIBLE ASSETS (continued)

At 31 December 2007, intangible assets amounting to HK$3,300,000 (2006: HK$5,060,000) represent club memberships. For the purpose of impairment testing on club memberships, the recoverable amount has been determined based on fair value less costs to sell. The fair value less costs to sell is the second-hand market price less cost of disposal. During the year ended 31 December 2007, management of the Group determines that there was no impairment of the club membership since the recoverable amount of the club memberships exceeds its carrying amount.

At 31 December 2006, intangible assets of online game related intellectual property with carrying value of HK$138,000 represent internally generated online game development cost. This intangible asset has definite useful life and is amortised on a straight-line basis over three years.

At 31 December 2006, intangible assets of online game related intellectual property amounting to HK$12,292,000 represent online game development cost and licensing fee, website development cost and software technology copyrights arising from acquisition of online game business in the PRC as mentioned in note 35(a)(i). These intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over four years.

For the purpose of impairment testing on online game related intellectual property, the recoverable amount has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a four-year period, and discount rate of 15%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted active concurrence user, peak concurrence user and payment subscribers. Such estimation is based on the past performance and management's expectations for the market development. The value in use at 31 December 2006 has been supported by valuation carried out at that date by B. I. Appraisals Limited, an independent qualified professional valuer not connected with the Group. Based on the valuation report, there is no impairment of online game related intellectual property since the recoverable amount exceeds its carrying value.

At 31 December 2006, intangible assets amounting to HK$5,460,000 represent domain name. It is purchased from acquisitions of subsidiaries as disclosed in note 35(a)(ii). It represents the legal and beneficial ownership of domain name "www.shanghai.com" and has indefinite useful life.

## 19. INTANGIBLE ASSETS (continued)

The domain name is considered by the management of the Group as having an indefinite useful life because it is expected to be used indefinitely. The domain name will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

For the purpose of impairment testing on domain name, the recoverable amount has been determined based on fair value less costs to sell. The fair value less costs to sell is arrived at by market approach, which is to determine the desirability of the domain name through recent sales or offering of similar domain name currently on the market in order to arrive at an indication of the most probable selling price for the domain name. The fair value less costs to sell at 31 December 2006 has been supported by valuation carried out at that date by B.I. Appraisals Limited, an independent qualified professional valuer not connected with the Group. Based on the valuation report, there is no impairment of domain name since the recoverable amount of the domain name exceeds its carrying value.

## 20. IMPAIRMENT TESTING ON GOODWILL AND TRADING RIGHTS

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill and trading rights set out in notes 18 and 19 respectively have been allocated to three individual cash generating units (CGUs) respectively, including two subsidiaries in broking and one subsidiary in corporate finance. The carrying amounts of goodwill and trading rights at the balance sheet date allocated to these units are as follows:

| | **Goodwill** | | **Trading rights** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Broking – Broking of securities | **–** | – | **9,092** | 9,092 |
| Broking – Mutual funds and insurance-linked investment product | **2,272** | 2,272 | **–** | – |
| Corporate finance | **2,661** | 2,661 | **–** | – |
| Online game services | **–** | 109,945 | **–** | – |
| | **4,933** | 114,878 | **9,092** | 9,092 |

## 20. IMPAIRMENT TESTING ON GOODWILL AND TRADING RIGHTS (continued)

During the year ended 31 December 2007, management of the Group determines that there is no impairment of any of its CGUs containing goodwill or trading rights.

The recoverable amounts of the CGUs of broking and corporate finance have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a three-year period, and discount rate of 6%. A key assumption for the value in use calculations is the budgeted growth rate, which is determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of the assumption would not cause the aggregate carrying amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs.

## 21. OTHER ASSETS

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Statutory and other deposits | **9,136** | 16,241 |

Statutory and other deposits represent deposits with various exchanges and clearing houses.

## 22. LOAN RECEIVABLES

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Variable-rate loan receivables denominated in Hong Kong dollar | **33,399** | 45,900 |
| Fixed-rate loan receivables denominated in Hong Kong dollar | **1,361** | – |
| Less: Allowance for bad and doubtful debts | **(5,717)** | (26,570) |
| | **29,043** | 19,330 |
| Carrying amount analysed for reporting purposes: | | |
| Current assets (receivable within 12 months from the balance sheet date) | **28,867** | 19,227 |
| Non-current assets (receivable after 12 months from the balance sheet date) | **176** | 103 |
| | **29,043** | 19,330 |

Interest rates underlying the variable-rate loan receivables are Hong Kong Prime Rate plus a spread for both years. Interest rates underlying the fixed-rate loan receivables are ranging from 5% to 32.6% (2006: nil).

## 22. LOAN RECEIVABLES (continued)

The Group has policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and aging analysis of accounts and on management's judgment, including the current creditworthiness, collaterals and the past collection history of each client.

Movement in the allowance for bad and doubtful debts is as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Balance at the beginning of the year | **26,570** | 38,136 |
| Amounts written off during the year | **(21,151)** | (11,566) |
| Increase (decrease) during the year | | |
| Charge for the year | **1,997** | – |
| Reversal for the year | **(1,699)** | – |
| Balance at the end of the year | **5,717** | 26,570 |

In determining the recoverability of the loan receivables, the Group considers any change in the credit quality of the loan receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the Group's loan receivables are debtors, with a carrying amount of HK$28,720,000 (2006: HK$14,540,000) which are past due at the reporting date for which the directors of the Company considered them as recoverable since the amounts are either fully secured by marketable securities pledged by the debtors or subsequently settled and thus no provision is considered necessary.

## 22. LOAN RECEIVABLES (continued)

In respect of loan receivables which are past due but not impaired at the respective balance sheet date, the aged analysis (from due date) is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **4,267** | 4,268 |
| 31 – 60 days | **23,312** | – |
| 61 – 90 days | **–** | – |
| Over 90 days | **1,141** | 10,272 |
| | **28,720** | 14,540 |

The loan receivables with a carrying amount of HK$323,000 (2006: HK$4,790,000) which are neither past due nor impaired at the reporting date for which the Group believes that the amounts are considered recoverable.

Loan receivables with an aggregate carrying value of approximately HK$4,267,000 (2006: HK$4,968,000) are secured by pledged marketable securities at fair values of HK$11,934,000 (2006: HK$9,776,000).

The variable-rate loan receivables have contractual maturity dates as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **27,602** | 19,227 |
| In more than one year but not more than two years | **25** | 23 |
| In more than two years but not more than three years | **27** | 25 |
| In more than three years but not more than four years | **28** | 27 |
| In more than four years but not more than five years | **–** | 28 |
| | **27,682** | 19,330 |

## 22. LOAN RECEIVABLES (continued)

The fixed-rate loan receivables have contractual maturity dates as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **1,265** | – |
| In more than one year but not more than two years | **96** | – |
| | **1,361** | – |

The effective interest rates (which are equal to contractual interest rate) on the Group's loan receivables are prime rate plus a spread. Interest rate is fixed at the time when entering into loan agreement.

## 23. INTERESTS IN ASSOCIATES

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cost of investments in an associate | | |
| Unlisted shares | **67,833** | – |
| Share of post-acquisition reserve | **1,315** | – |
| Share of post-acquisition loss | **(3,370)** | – |
| | **65,778** | – |
| Loan to an associate (Note) | **10,296** | – |

Note: Pursuant to the shareholder agreement entered into between a subsidiary, Marvel Champ Investments Limited, and other shareholders of the associate on 27 June 2007, the loan to the associate is unsecured, non-interest bearing and has no fixed repayment terms. In the opinion of the directors, the loan will not be repaid within the next twelve months from 31 December 2007.

## 23. INTERESTS IN ASSOCIATES (continued)

As at 31 December 2007, the Group had interest in the following associates:

| Name of entity | Form of business structure | Country of incorporation/ date of incorporation | Principal place of operation | Class of share held | Proportion of nominal value of issued capital held by the Group Directly % | Indirectly % | Proportion of voting power held % | Principal activity |
|---|---|---|---|---|---|---|---|---|
| China Able Limited | Incorporated | British Virgin Islands ("BVI") 23 May 2007 | PRC | Ordinary | 33.33 | – | 33.33 | Investment holding |
| Shanghai Property (No. 1) Holding SRL | Incorporated | Barbados 11 August 2006 | PRC | Ordinary | – | 33.33 | 33.33 | Investment holding |
| 昌裕(上海)房地產經營有限公司 | Incorporated | PRC 11 December 2006 | PRC | Ordinary | – | 33.33 | 33.33 | Property investment |

As at 31 December 2006, the Group had interest in the following associates:

| Name of entity | Form of business structure | Country of incorporation/ date of incorporation | Principal place of operation | Class of share held | Proportion of nominal value of issued capital held by the Group Directly % | Indirectly % | Proportion of voting power held % | Principal activity |
|---|---|---|---|---|---|---|---|---|
| RACCA Capital Inc. | Incorporated | BVI 24 April 2006 | Hong Kong | Ordinary | 33.33 | – | 33.33 | Inactive |
| RACCA Capital Limited | Incorporated | Hong Kong 17 May 2006 | Hong Kong | Ordinary | – | 33.33 | 33.33 | Introducing agent |

## 23. INTERESTS IN ASSOCIATES (continued)

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

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Total assets | 327,781 | 1,776 |
| Total liabilities | (130,446) | (3,318) |
| Net assets (liabilities) | 197,335 | (1,542) |
| Group's share of net assets of associates | 65,778 | – |

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Revenue | – | 600 |
| Loss for the year | (10,111) | (1,542) |
| Group's share of loss of associates for the year | (3,370) | – |

As at 31 December 2006, the Group has discontinued recognition of its share of losses of certain associates. The amount of unrecognised share of losses of those associates, extracted from the relevant management accounts of associates, both for the year and cumulatively, is HK$509,000 as at 31 December 2006. During the year ended 31 December 2007, the Group acquired the remaining interests in those associates as disclosed in note 35(b)(i).

Pursuant to the shareholder agreement entered into between a subsidiary, Marvel Champ investments Limited, and the other shareholders of the associate on 27 June 2007, the Group is required to make capital contribution to the associate amounting to HK$153,200,000. During the year, the associate has obtained banking facilities to finance its operations. Accordingly, the outstanding capital contribution from the Group and other shareholders were reduced. The outstanding capital contribution of the Group commitment was reduced from HK$153,200,000 to HK$84,388,000. During the year, the Group has made payments of HK$67,833,000 and HK$10,296,000 in the form of capital injection and shareholders' loan respectively to the associate. At 31 December 2007, the remaining capital contribution of the Group amounted to HK$6,259,000.

## 24. INVENTORIES

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Consumables: | | |
| Online game auxiliary products (at cost) | **–** | 674 |

## 25. OTHER FINANCIAL ASSETS AND LIABILITIES

### Amounts receivable on disposal of subsidiaries

The amount represents partial consideration receivable from the purchaser with respect to the disposal of subsidiaries and the amount due from Netfield Group on 31 May 2007.

Pursuant to the sale and purchase agreement entered into between the subsidiary of the Company, Vantage Giant Limited and CIGL, immediate holding company of the Company, on 9 January 2007, the amount is repayable on 1 June 2009, carries interest at Hong Kong Prime Rate and unsecured. CIGL has the right to repay early part or all of the amount at any time prior to 1 June 2009.

### Amounts due from an associate and fellow subsidiaries

The amounts are non-interest bearing, unsecured and are repayable on demand.

### Deposit with brokers

The amount represents deposit with brokers for trading in securities. The amount is unsecured, repayable on demand and bears interest at 3.2%.

### Bank balances – trust and segregated accounts

The Group receives and holds money deposited by clients and other institutions in the course of the conduct of the regulated activities of its ordinary business. These clients' monies are maintained in one or more segregated bank accounts. The Group has recognised the corresponding accounts payable to respective clients and other institutions. However, the Group does not have a currently enforceable right to offset those payables with the deposits placed.

## 25. OTHER FINANCIAL ASSETS AND LIABILITIES (continued)

### Bank balances (general accounts) and cash

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates with an original maturity of three months or less.

### Loan from a minority shareholder

The amount is non-interest bearing, unsecured and is repayable on demand.

## 26. ACCOUNTS RECEIVABLE

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Accounts receivable arising from the business of dealing in securities and equity options: | | |
| Clearing houses, brokers and dealers | **216,343** | 125,450 |
| Cash clients | **166,310** | 112,334 |
| Margin clients | **449,162** | 443,524 |
| Accounts receivable arising from the business of dealing in futures and options: | | |
| Clients | **68** | – |
| Clearing houses, brokers and dealers | **93,032** | 83,847 |
| Commission receivable from brokerage of mutual funds and insurance-linked investment plans and products | **5,238** | 3,479 |
| Accounts receivable arising from the business of provision of corporate finance services | **1,442** | 372 |
| Accounts receivable arising from the business of provision of online game services | **–** | 12,715 |
| | **931,595** | 781,721 |

The settlement terms of accounts receivable arising from the business of dealing in securities and equity options are two days after trade date, and accounts receivable arising from the business of dealing in futures and options are one day after trade date.

## 26. ACCOUNTS RECEIVABLE (continued)

In respect of the commission receivables from brokerage of mutual funds and insurance-linked investment plans and products as well as accounts receivable arising from the business of corporate finance services and online game services, the Group allows a credit period of 30 days. The aged analysis is as follows:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| 0 – 30 days | **4,173** | 10,849 |
| 31 – 60 days | **619** | 2,387 |
| 61 – 90 days | **697** | 1,690 |
| Over 90 days | **1,191** | 1,640 |
| | **6,680** | 16,566 |

Loans to margin clients are secured by clients' pledged securities at fair values of HK$1,827,557,000 (2006: HK$731,854,000). The loans are repayable on demand and bear interest at commercial rates. No aged analysis is disclosed as in the opinion of directors of the Company, the aged analysis does not give additional value in view of the nature of business of share margin financing.

Accounts receivable are netted off by allowance for bad and doubtful debts of HK$9,330,000 (2006: HK$20,086,000).

The Group has policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and age analysis of accounts and on management's judgement including the current creditworthness, collaterals and the past collection history of each client.

Movement in the allowance for bad and doubtful debts:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Balance at the beginning of the year | **20,086** | 27,872 |
| Amounts written off during the year | **(11,797)** | (7,886) |
| Charge for the year | **1,041** | 100 |
| Balance at the end of the year | **9,330** | 20,086 |

## 26. ACCOUNTS RECEIVABLE (continued)

In addition to the individually assessed allowance for bad and doubtful debt, the Group has also provided, on a collective basis, loan impairment allowance for account receivables arising from the business of dealing in securities and equity options with margin client that are individually insignificant or accounts receivable where no impairment has been identified individually. Objective evidence of collective impairment could include Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

In determining the recoverability of the accounts receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for bad and doubtful debts.

Included in the Group's accounts receivable are debtors, with a carrying amount of HK$24,278,000 (2006: HK$30,666,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality. And the Group believes that the amounts are still considered recoverable since more than 96% of the carrying amount are subsequently settled.

In respect of accounts receivable which are past due but not impaired at the respective balance sheet date, the aged analysis is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **21,771** | 24,949 |
| 31 – 60 days | **619** | 2,387 |
| 61 – 90 days | **697** | 1,690 |
| Over 90 days | **1,191** | 1,640 |
| | **24,278** | 30,666 |

The accounts receivable with a carrying amount of HK$907,317,000 (2006: HK$751,055,000) are neither past due nor impaired at the reporting date for which the Group believes that the amounts are considered recoverable.

## 26. ACCOUNTS RECEIVABLE (continued)

Included in accounts receivable from margin clients arising from the business of dealing in securities are amounts due from certain related parties, the details of which are as follows:

| Name | Balance at 1 January | Balance at 31 December | Maximum amount outstanding during the year | Market value of pledged securities at fair value at 31 December |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Directors of both the Company and CASH** | | | | |
| Mr Wong Kin Yick Kenneth and associates (Note) | | | | |
| 2006 | 1,087 | 648 | 1,720 | 7,119 |
| 2007 | 648 | 1,678 | 28,842 | 3,941 |
| Mr Law Ping Wah Bernard and associates | | | | |
| 2006 | – | – | 345 | – |
| 2007 | – | – | 29,489 | 19,914 |
| **Director of the Company** | | | | |
| Mr Cheng Man Pan Ben and associates | | | | |
| 2006 | – | – | 274 | – |
| 2007 | – | – | 23,349 | 1,945 |
| **Director of CASH** | | | | |
| Mr Lin Che Chu George and associates | | | | |
| 2006 | – | – | – | – |
| 2007 | – | – | 29,703 | 12,900 |
| **Subsidiaries of CASH** | | | | |
| Kawoo Finance Limited | | | | |
| 2006 | – | – | 31,014 | – |
| 2007 | – | – | 29,146 | 978 |
| E-Tailer Holding Limited | | | | |
| 2006 | – | – | 27 | – |
| 2007 | – | – | – | – |

## 26. ACCOUNTS RECEIVABLE (continued)

| Name | Balance at 1 January HK$'000 | Balance at 31 December HK$'000 | Maximum amount outstanding during the year HK$'000 | Market value of pledged securities at fair value at 31 December HK$'000 |
|---|---|---|---|---|
| **Substantial shareholder of CASH** | | | | |
| Cash Guardian Limited | | | | |
| 2006 | 11,569 | – | 12,720 | 16,983 |
| 2007 | – | – | – | 930 |
| Mr Kwan Pak Hoo Bankee and associates | | | | |
| 2006 | – | – | – | – |
| 2007 | – | – | 29,021 | 10,161 |
| **Substantial shareholder of the Company** | | | | |
| Abdulrahman Saad Al-Rashid & Sons Company Limited ("ARTAR") and associates | | | | |
| 2006 | – | – | – | – |
| 2007 | – | – | 2,060,400 | 218,735 |

Note: Associates are defined in accordance with the Rules Governing the Listing of Securities on the Stock Exchange.

The above balances are repayable on demand and bear interest at commercial rates which are similar to the rates offered to other margin clients.

## 27. INVESTMENTS HELD FOR TRADING

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Equity securities listed in Hong Kong | **57,613** | 54,317 |
| Investment funds | **1,658** | – |
| | **59,271** | 54,317 |

The fair values of the listed investments held for trading are determined based on the quoted market bid prices available on the relevant exchanges.

The fair value of the investment funds is determined based on the price quoted in an active market.

## 28. BANK DEPOSITS UNDER CONDITIONS

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Other bank deposits (Note (a)) | **17,105** | 16,685 |
| Pledged bank deposits (Notes (b) and (c)) | **11,570** | 11,128 |
| | **28,675** | 27,813 |

The bank deposits under conditions carry average floating interest rate at prevailing market rate per annum. The effective interest rates on the Group's bank deposits under conditions are also equal to contracted interest rates.

Notes:

(a) Pursuant to a letter of undertaking given by the Group to a bank, the Group covenant to maintain deposits of not less than HK$15,000,000 with a bank as a condition precedent to an overdraft facility granted by the bank. The bank deposits will mature within one year or at an earlier date when the overdraft facility is expired.

(b) The Group's bank deposits of HK$10,574,000 (2006: HK$10,211,000) were pledged to secure the general banking facilities granted by a bank. At 31 December 2007, the banking facilities were not utilised.

(c) The Group's bank deposits of HK$996,000 (2006: HK$917,000) were pledged for bank guarantee of rental deposit. The bank deposits will mature when the bank guarantee is expired.

## 29. ACCOUNTS PAYABLE

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Accounts payable arising from the business of dealing in securities and equity options: | | |
| Cash clients | **963,379** | 679,498 |
| Margin clients | **255,425** | 106,132 |
| Accounts payable to clients arising from the business of dealing in futures and options | **151,097** | 142,500 |
| Accounts payable to clients arising from the business of dealing in leveraged foreign exchange contracts | **9,620** | 2,798 |
| Accounts payable arising from the online game services | **–** | 937 |
| | **1,379,521** | 931,865 |

The settlement terms of accounts payable arising from the business of dealing in securities are two days after trade date. Except for the amounts payable to margin clients, the age of these balances is within 30 days.

Amounts due to margin clients are repayable on demand. No aged analysis is disclosed as in the opinion of directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

Accounts payable to clients arising from the business of dealing in futures and options and leveraged foreign exchange contracts are margin deposits received from clients for their trading of these contracts. The required margin deposits are repayable upon the closure of the corresponding futures and options and leveraged foreign contracts position. The excesses of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. No aged analysis is disclosed as in the opinion of directors of the Company, the aged analysis does not give additional value in view of the nature of these businesses.

The accounts payable amounting to HK$928,527,000 (2006: HK$574,577,000) were payable to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

Accounts payable arising from the online game services were payable for production of online game auxiliary products. The whole accounts payable were aged within 30 days.

## 30. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its furniture and fixtures, and motor vehicles under finance leases. The average lease term is 2 to 4 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 1.4% to 6%. No arrangements have been entered into for contingent rental payments.

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amount payable under finance leases | | | | |
| Within one year | **–** | 243 | **–** | 215 |
| In more than one year but not more than two years | **–** | 119 | **–** | 115 |
| | **–** | 362 | **–** | 330 |
| Less: future finance charges | **–** | (32) | **–** | – |
| Present value of lease obligations | **–** | 330 | **–** | 330 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | **–** | (215) |
| Amount due for settlement after 12 months | | | **–** | 115 |

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## 31. BANK BORROWINGS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Bank overdrafts, secured | **2,066** | 89,347 |
| Bank loans, secured | **229,000** | 190,421 |
| | **231,066** | 279,768 |

The maturity profile of the above loans and overdrafts is as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Within one year | **231,066** | 278,521 |
| More than one year but not exceeding two years | **–** | 1,247 |
| | **231,066** | 279,768 |
| Less: Amount due within one year shown under current liabilities | **(231,066)** | (278,521) |
| Amount due after one year under non-current liabilities | – | 1,247 |

The Group's bank borrowings of HK$231,066,000 (2006: HK$277,347,000) used to finance the financing business of the Group were secured by:

(a) corporate guarantees from the Company; and

(b) marketable securities of the Group's clients of carrying value of HK$502,840,000 (2006: HK$634,548,000) (with client's consent).

The bank loan amounting to HK$2,421,000 as at 31 December 2006 was secured by personal guarantee from 鍾明晃 (translated as Chung Ming Fong) a director of a subsidiary disposed of in 2007, namely 富格曼科技股份有限公司 (translated as Fugleman Entertainment Company).

In addition, pursuant to a letter of undertaking given by the Group to a bank, the Group covenant to maintain deposits of not less than HK$15,000,000 with a bank as a condition precedent to an overdraft facility granted by the bank (see note 28).

Bank overdrafts amounting to HK$2,066,000 (2006: HK$89,347,000) carried interest at HIBOR plus a spread. Bank borrowings amounting to HK$229,000,000 (2006: HK$188,000,000) were at variable-rate borrowings which carry interest at HIBOR plus a spread. In addition, at 31 December 2006, bank loan amounting to HK$2,421,000 was at fixed rate of 6%.

## 31. BANK BORROWINGS (continued)

The effective interest rates on the Group's borrowings are also equal to contracted interest rates.

The Group had undrawn borrowing facility amounting to HK$1,050,936,000 (2006: HK$1,642,653,000) with floating rate and expiring within one year.

## 32. SHARE CAPITAL

| | Notes | **Number of shares** '000 | **Amount** HK$'000 |
|---|---|---|---|
| Ordinary shares of HK$0.10 each | | | |
| Authorised: | | | |
| At 31 December 2006 and 31 December 2007 | | 3,000,000 | 300,000 |
| Issued and fully paid: | | | |
| At 1 January 2006 | | 1,044,881 | 104,488 |
| Issue of placing shares | (a) | 155,000 | 15,500 |
| Issue of subscription shares | (a) | 120,000 | 12,000 |
| Issue of conversion shares | (d) | 60,000 | 6,000 |
| Exercise of share options | (c) | 2,170 | 217 |
| At 31 December 2006 and 1 January 2007 | | 1,382,051 | 138,205 |
| Exercise of share options | (c) | 101,500 | 10,150 |
| Issue of shares due to rights issue | (b) | 593,421 | 59,342 |
| At 31 December 2007 | | 2,076,972 | 207,697 |

## 32. SHARE CAPITAL (continued)

Notes:

(a) Issue of new shares

On 10 January 2006, 155,000,000 placing shares of HK$0.10 each were issued at a placing price of HK$0.40 each to independent third parties. On the same date, 120,000,000 subscription shares of HK$0.10 each were issued to CIGL at a price of HK$0.40 per share. The gross proceeds of the two transactions of HK$62,000,000 and HK$48,000,000 respectively were raised to settle part of the consideration of the acquisition of an online game business as mentioned in note 35(a)(i). These shares rank pari passu in all respects with other shares in issue.

(b) Rights issue

On 21 November 2007, 593,420,579 shares of HK$0.10 each were issued by way of rights issue at a subscription price of HK$0.40 per share. The gross proceeds of approximately HK$237,368,000 were used to support its expanding share margin financing portfolio and to facilitate corresponding growth in its securities brokerage business in line with market development and for general working capital purposes. These shares rank pari passu in all respects with other shares in issue.

(c) Exercise of share options

The particulars of options exercised during the year ended 31 December 2007 and 31 December 2006 are set out below:

| Date of issue of shares | Number of options exercised and resulting number of shares in issue | Exercise price per share | Total consideration (before expenses) |
|---|---|---|---|
| | | HK$ | HK$ |
| **2007** | | | |
| 23 April 2007 | 1,000,000 | 0.296 | 296,000 |
| 3 July 2007 | 8,600,000 | 0.296 | 2,545,600 |
| 4 July 2007 | 40,100,000 | 0.296 | 11,869,600 |
| 9 July 2007 | 5,000,000 | 0.296 | 1,480,000 |
| 27 July 2007 | 9,000,000 | 0.296 | 2,664,000 |
| 7 August 2007 | 2,600,000 | 0.296 | 769,600 |
| 13 August 2007 | 35,200,000 | 0.296 | 10,419,200 |
| | 101,500,000 | | 30,044,000 |
| **2006** | | | |
| 25 January 2006 | 520,000 | 0.340 | 176,800 |
| 26 January 2006 | 650,000 | 0.340 | 221,000 |
| 14 November 2006 | 1,000,000 | 0.296 | 296,000 |
| | 2,170,000 | | 693,800 |

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

(d) Conversion of convertible loan note (Note 33)

On 18 January 2006, convertible loan note amounting to HK$16,200,000 was converted into 60,000,000 ordinary shares of the Company at a conversion price of HK$0.27 per share. These shares rank pari passu in all respects with other shares in issue.

## 33. CONVERTIBLE LOAN NOTE

The Company issued convertible loan note amounting to HK$40,500,000 to ARTAR, an independent third party, on 1 September 2004. It bore interest at a rate of 3% per annum and would mature on 31 December 2006 or any other date mutually agreed between the Company and ARTAR. The holder of the note did not have the right to demand for repayment of any principal amount of the note prior to its maturity and the accrued interest of the note prior to the interest payment date, and was not entitled to vote at general meetings of the Company. The Company had the right to repay early part or all of the amount and the accrued interest of the note at any time prior to the maturity date. The note was transferable to persons who were not a connected person of the Company with the consent of the Company while such consent was not required for transfer of note to the wholly-owned subsidiaries of ARTAR.

The convertible loan note contains three components, embedded derivative for early redemption right, liability and equity elements. The directors of the Company had assessed the fair value of the early redemption right and considered the fair value is insignificant. The equity element is presented in equity heading "convertible loan note equity reserve". The effective interest rate of the liability component is HIBOR plus a spread determined at date of initial recognition.

During the year ended 31 December 2005, the Company had made partial repayment of the convertible loan note in a total amount of HK$10,000,000. On 18 January 2006, ARTAR had partially converted the convertible loan note in the sum of HK$16,200,000 at the conversion price of HK$0.27 per share for a total of 60,000,000 shares of HK$0.10 each in the Company. On 1 June 2006 and 28 June 2006, the Company has made partial repayments of convertible loan note in an amount of HK$8,000,000 and HK$6,300,000 respectively. As at 28 June 2006, the convertible loan note was fully repaid.

The movement of the liability component of the convertible loan note is set out below:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Liability component at the beginning of the year | **–** | 30,242 |
| Interest paid | **–** | 59 |
| Conversion to ordinary shares | **–** | (16,062) |
| Early partial repayment | **–** | (14,239) |
| Liability at the end of the year | **–** | – |

## 33. CONVERTIBLE LOAN NOTE (continued)

The partial repayment was allocated to the fair value of the liability component as at the date of early redemption determined on the same basis as initial recognition. The difference between the amount of partial repayment allocated to the liability component and the carrying amount of the liability component at that point in time is recognised directly in the income statement. During the year ended 31 December 2006, a partial repayment of HK$14,300,000 was made and a corresponding settlement income of HK$291,000 was recognised in the consolidated income statement directly.

## 34. MAJOR NON-CASH TRANSACTIONS

In addition to the deferred consideration on disposal of subsidiaries as disclosed in note 36, the Company had the following non-cash transactions:

(a) Pursuant to the agreement entered into between CASH and a third party, the third party agreed to procure its group companies to provide advertising and telecommunication services to CASH and its subsidiaries and associate, including the Group. The fee for these services will be used to offset the prepayments for advertising and telecommunication services which the Group paid. During the year, the Group utilised advertising and telecommunication services amounting to approximately HK$2,233,000 (2006: HK$4,933,000).

(b) During the year ended 31 December 2006, the principal amount of convertible loan note of HK$16,200,000 was converted into 60,000,000 ordinary shares of HK$0.10 each at a conversion price of HK$0.27 each.

## 35. ACQUISITION OF SUBSIDIARIES

### (a) Acquisition of business

#### (i) Netfield Group

On 10 January 2006, the Group acquired 100% of the equity interest of Netfield Technology Limited from an independent third party for an aggregate consideration of HK$110,000,000 and related cost of acquisition of approximately HK$6,484,000. This acquisition was accounted for using the purchase method. The amounts of goodwill and intangible assets arising as a result of the acquisition were HK$102,491,000 and HK$16,390,000 respectively.

| | **Acquiree's carrying amount before combination** | **Fair value adjustment** | **Fair value** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Net liabilities acquired: | | | |
| Property and equipment | 2,615 | – | 2,615 |
| Prepayments, deposits and other receivables | 1,496 | – | 1,496 |
| Bank balances and cash | 2,300 | – | 2,300 |
| Accrued liabilities and other payables | (6,349) | – | (6,349) |
| Amount due to a shareholder | (24,694) | – | (24,694) |
| Intangible assets in relation to online game related intellectual property | – | 16,390 | 16,390 |
| Deferred tax liabilities | – | (2,459) | (2,459) |
| | (24,632) | 13,931 | (10,701) |
| Amount due to a shareholder assigned to the Group | | | 24,694 |
| Goodwill | | | 102,491 |
| Cash consideration | | | 116,484 |
| Total consideration satisfied by: | | | |
| Deposit paid | | | 56,095 |
| Cash consideration and related costs of the acquisition paid | | | 60,389 |
| | | | 116,484 |
| Net cash outflow arising on acquisition: | | | |
| Cash payment during the year | | | (60,389) |
| Bank balances and cash acquired | | | 2,300 |
| | | | (58,089) |

## 35. ACQUISITION OF SUBSIDIARIES (continued)

### (a) Acquisition of business (continued)

#### (i) Netfield Group (continued)

The goodwill arising on acquisition is attributable to the anticipated profitability of the Group in the new business of online game services.

The Netfield Group was acquired on 10 January 2006 and contributed approximately HK$25,525,000 to the Group's revenue, and HK$23,633,000 loss to the Group's profit for the period since acquisition to 31 December 2006.

#### (ii) New Dragon Investments Limited and its subsidiary ("New Dragon Group")

On 31 July 2006, the Group signed a sale and purchase agreement to acquire 100% of the issued share capital of New Dragon Investments Limited with an independent third party. This acquisition was completed on 15 November 2006 and was accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$7,454,000.

| | **Acquiree's carrying amount and fair value before combination** HK$'000 |
|---|---|
| Net assets acquired: | |
| Property and equipment | 6,554 |
| Domain name | 5,460 |
| Inventories | 325 |
| Trade receivables | 5,763 |
| Other receivables, deposits and prepayments | 6,975 |
| Bank balances and cash | 5,182 |
| Trade payables | (12,276) |
| Other payables and accruals | (11,376) |
| Obligations under finance leases | (172) |
| Amount due to shareholder | (5,014) |
| | 1,421 |
| Minority interests | (2,389) |
| Amount due to shareholder assigned to the Group | 5,014 |
| Goodwill | 7,454 |
| Cash payment (include related costs of the acquisition) | 11,500 |
| Total consideration satisfied by: | |
| Cash consideration paid | 9,000 |
| Related costs of the acquisition | 2,500 |
| | 11,500 |
| Net cash outflow arising on acquisition: | |
| Total cash payment | (11,500) |
| Bank balances and cash acquired | 5,182 |
| | (6,318) |

## 35. ACQUISITION OF SUBSIDIARIES (continued)

### (a) Acquisition of business (continued)

#### (ii) New Dragon Investments Limited and its subsidiary ("New Dragon Group") (continued)

The goodwill arising on acquisition is attributable to the anticipated profitability of the Group in the new market development of online game services in Taiwan.

Acquisition of New Dragon Group contributed approximately HK$11,726,000 to the Group's revenue and HK$61,000 to the Group's profit for the period since acquisition to 31 December 2006.

If the acquisition discussed in (i) and (ii) above had been completed on 1 January 2006, the Group's total revenue for the year would have been approximately HK$398,704,000, and profit for the year would have been approximately HK$35,320,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

## 35. ACQUISITION OF SUBSIDIARIES (continued)

### (b) Acquisition of assets and liabilities

#### (i) RACCA Capital Inc. and its subsidiary

On 31 October 2007, the Group, through the acquisition of the remaining equity interests of 66.67% in RACCA Capital Inc. from the other shareholders of RACCA Capital Inc., had in substance, acquired the following assets and related liabilities, at a total consideration of US$2.

| | HK$'000 |
|---|---|
| Property and equipment | 247 |
| Deposits | 273 |
| Payable to the Group | (4,632) |
| Bank balance | 38 |
| Bank overdraft | (1) |
| Net liabilities assumed | (4,075) |
| Impairment loss on amount due from an associate | 4,075 |
| Cash consideration (US$2) | – |
| Net cash outflow arising on acquisition: | |
| Cash consideration (US$2) | – |
| Bank balance acquired | 38 |
| Bank overdraft acquired | (1) |
| Net cash inflow arising on acquisition of assets and related liabilities | 37 |

## 35. ACQUISITION OF SUBSIDIARIES (continued)

### (b) Acquisition of assets and liabilities (continued)

#### (ii) Subsidiaries of CASH

During the year ended 31 December 2006, through the acquisition of equity interest of three subsidiaries of CASH, the Group had, in substance, acquired the following assets and related liabilities, at a total consideration of HK$852,000.

| | HK$'000 |
|---|---|
| Property and equipment | 12,303 |
| Club memberships | 3,090 |
| Investment property | 5,000 |
| Prepayments | 1,589 |
| Bank balances and cash | 116 |
| Accounts payable and accruals | (9,141) |
| Loan payable | (12,105) |
| Net assets acquired | 852 |
| Cash consideration | 852 |
| Net cash outflow arising on acquisition: | |
| Cash consideration | (852) |
| Bank balances and cash | 116 |
| Net cash outflow arising on acquisition of assets and related liabilities | (736) |

## 36. DISPOSAL OF SUBSIDIARIES

As referred to in note 13, on 1 June 2007, the Group discontinued its online game services operations at the time of disposal of Netfield Group. At the same time, the Group disposed of the debt due from Netfield Group to CASH at its carrying amount of HK$102,558,000, details of these disposals were as follows:

| | **At 31 May 2007** |
|---|---|
| | HK$'000 |
| Net liabilities disposed of: | |
| Property and equipment | 22,099 |
| Intangible assets in relation to online game related intellectual property | 10,699 |
| Domain name | 5,460 |
| Inventories | 1,350 |
| Prepayments, deposits and other receivables | 28,231 |
| Bank balances and cash | 84,939 |
| Accrued liabilities and other payables | (59,306) |
| Amount due to the Company | (102,558) |
| Deferred revenue | (17,969) |
| Bank borrowings | (1,941) |
| Deferred tax liabilities | (1,844) |
| | (30,840) |
| Minority interest | (2,131) |
| Attributable goodwill | 109,945 |
| Release of translation reserve | 288 |
| | 77,262 |
| Gain on disposal | 41,701 |
| Debt from Netfield Group disposed | 102,558 |
| Total consideration | 221,521 |
| Satisfied by: | |
| Cash consideration received | 50,000 |
| Deferred consideration | 172,558 |
| Related costs of disposal | (1,037) |
| | 221,521 |
| Net cash outflow arising on disposal: | |
| Cash consideration, net of related costs | 48,963 |
| Bank balances and cash disposed of | (84,939) |
| | (35,976) |

## 36. DISPOSAL OF SUBSIDIARIES (continued)

The deferred consideration will be settled in cash by the purchaser on or before 1 June 2009.

The impact of Netfield Group on the Group's results and cash flows in the current and prior periods is disclosed in note 13.

## 37. SHARE OPTION SCHEMES

### (a) Share option scheme of the Company

The Company's share option scheme ("Option Scheme") was adopted pursuant to an ordinary resolution passed at the special general meeting of the Company held on 19 February 2002. The major terms of the Option Scheme are summarised as follows:

(i) The purpose was to provide incentives to:

- award and retain the participants who have made contributions to CASH and its subsidiaries and associate, including the Group ("CASH Group"); or

- attract potential candidates to serve the CASH Group for the benefit of the development of the CASH Group.

(ii) The participants included any employee, director, consultant, adviser or agent of any member of the CASH Group.

(iii) The maximum number of shares in respect of which options might be granted under the Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the Option Scheme and such limit might be refreshed by shareholders in general meeting. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.

## 37. SHARE OPTION SCHEMES (continued)

### (a) Share option scheme of the Company (continued)

(iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.

(v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of directors of the Company and provided in the offer of grant of option.

(vi) The exercise period should be any period fixed by the board of directors of the Company upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.

(vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee to the Company.

(viii) The exercise price of an option must be the highest of:

- the closing price of the shares on the date of grant which day must be a trading day;
- the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
- the nominal value of the share.

(ix) The life of the Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

## 37. SHARE OPTION SCHEMES (continued)

### (a) Share option scheme of the Company (continued)

The following table discloses details of the Company's share options held by the directors and the employees of the Group and movements in such holdings:

| | | | | | Number of options | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name of scheme | Date of grant | Exercise price per share | Exercise period | Notes | outstanding as at 1.1.2006 | granted in 2006 | exercised in 2006 | lapsed in 2006 | outstanding as at 31.12.2006 | exercised in 2007 | adjusted on 30.10.2007 | outstanding as at 31.12.2007 |
| | | HK$ | | | | (Note 4) | (Note 3) | (Note 6) | | (Note 3) | (Note 5) | |
| **Directors** | | | | | | | | | | | | |
| Option Scheme | 2.12.2003 | 0.340 | 1.6.2004-31.5.2006 | (1) | 650,000 | – | – | (650,000) | – | – | – | – |
| | 6.10.2005 | 0.380 | 6.10.2005-31.10.2006 | | 42,000,000 | – | – | (42,000,000) | – | – | – | – |
| | 7.7.2006 | 0.296 | 7.7.2006-31.7.2008 | (4) | – | 27,000,000 | – | – | 27,000,000 | (27,000,000) | – | – |
| | | | | | 42,650,000 | 27,000,000 | – | (42,650,000) | 27,000,000 | (27,000,000) | – | – |
| **Employees** | | | | | | | | | | | | |
| Option Scheme | 2.12.2003 | 0.340 | 1.6.2004-31.5.2006 | (1) | 4,420,000 | – | (1,170,000) | (3,250,000) | – | – | – | – |
| | 6.10.2005 | 0.380 | 6.10.2005-31.10.2006 | | 33,000,000 | – | – | (33,000,000) | – | – | – | – |
| | 7.7.2006 | 0.296 | 7.7.2006-31.7.2008 | (4) | – | 74,300,000 | (1,000,000) | – | 73,300,000 | (73,300,000) | – | – |
| | 7.7.2006 | 0.262 | 7.7.2006-31.7.2010 | (2),(4)&(5) | – | 6,000,000 | – | – | 6,000,000 | (1,200,000) | 624,341 | 5,424,341 |
| | | | | | 37,420,000 | 80,300,000 | (2,170,000) | (36,250,000) | 79,300,000 | (74,500,000) | 624,341 | 5,424,341 |
| | | | | | 80,070,000 | 107,300,000 | (2,170,000) | (78,900,000) | 106,300,000 | (101,500,000) | 624,341 | 5,424,341 |

Notes:

(1) The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 12 months from the commencement of the exercise period.

(2) The options are vested in 4 tranches as to (i) 25% exercisable from the commencement of the exercise period; (ii) 25% exercisable from the expiry of 12 months from the commencement of the exercise period; (iii) 25% exercisable from the expiry of 24 months from the commencement of the exercise period; and (iv) 25% exercisable from the expiry of 36 months from the commencement of the exercise period.

## 37. SHARE OPTION SCHEMES (continued)

### (a) Share option scheme of the Company (continued)

Notes (continued):

(3) The number of options exercised during the year together with the exercise price and the weighted average preceding closing price are set out as follows:

| Date of exercise | Number of options exercised | Exercise price per share HK$ | Weighted average preceding closing price HK$ (Note) |
|---|---|---|---|
| 25 January 2006 | 520,000 | 0.340 | 0.410 |
| 26 January 2006 | 650,000 | 0.340 | 0.420 |
| 14 November 2006 | 1,000,000 | 0.296 | 0.340 |
| 23 April 2007 | 1,000,000 | 0.296 | 0.355 |
| 3 July 2007 | 8,600,000 | 0.296 | 0.690 |
| 4 July 2007 | 40,100,000 | 0.296 | 0.640 |
| 9 July 2007 | 5,000,000 | 0.296 | 0.690 |
| 17 July 2007 | 9,000,000 | 0.296 | 0.770 |
| 7 August 2007 | 2,600,000 | 0.296 | 0.670 |
| 13 August 2007 | 35,200,000 | 0.296 | 0.720 |

Note:

This represents the weighted average closing price of the Company's shares immediately before the date of exercise.

(4) The closing price of the share immediately before the date of grant on 7 July 2006 was HK$0.290.

(5) The number and the exercise price of options which remained outstanding have been adjusted due to rights issue of shares in the Company with effect from 30 October 2007. The exercise prices per share were adjusted from HK$0.296 to HK$0.262.

(6) The lapsed options were due to expiry or cessation of employment of participants with the Group.

(7) No option was cancelled during the year.

## 37. SHARE OPTION SCHEMES (continued)

### (a) Share option scheme of the Company (continued)

During the year ended 31 December 2006, options were granted on 7 July 2006. The estimated fair values of the options granted on that date are HK$1,613,000.

These fair values are calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

| | **Share option grant date 7 July 2006** |
|---|---|
| Weighted average share price | HK$0.29 |
| Exercise price | HK$0.30 |
| Expected volatility | 74% |
| Expected life | 2 years |
| Risk-free rate | 4.59% |
| Expected dividend yield | 3.125% |

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 256 trading days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expenses of HK$1,613,000 for the year ended 31 December 2006 in relation to share options granted by the Company. No such expense was charged to consolidated income statement for the year ended 31 December 2007.

## 37. SHARE OPTION SCHEMES (continued)

### (b) Share option scheme of CASH

Pursuant to an ordinary resolution passed at the special general meeting of CASH held on 19 February 2002, CASH adopted a share option scheme ("CASH Option Scheme"). The major terms of the CASH Option Scheme are summarised as follows:

(i) The purpose was to provide incentives to:

- award and retain the participants who have made contributions to the CASH Group; or
- attract potential candidates to serve the CASH Group for the benefit of the development of the CASH Group.

(ii) The participants included any employee, director, consultant, adviser or agent of any member of the CASH Group.

(iii) The maximum number of shares in respect of which options might be granted under the CASH Option Scheme must not exceeded 10% of the issued share capital of CASH as at the date of approval of the CASH Option Scheme and such limit might be refreshed by shareholders in general meeting. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the CASH Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.

(iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the CASH Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.

(v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of directors of CASH and provided in the offer of grant of option.

(vi) The exercise period should be any period fixed by the board of directors of CASH upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.

## 37. SHARE OPTION SCHEMES (continued)

### (b) Share option scheme of CASH (continued)

(vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee to CASH.

(viii) The exercise price of an option must be the highest of:

- the closing price of the shares on the date of grant which day must be a trading day;
- the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
- the nominal value of the share.

(ix) The life of the CASH Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

The following table discloses details of the share options granted by CASH and held by the directors and employees of the Group and movements in such holdings:

| | | | | Number of options | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name of scheme | Date of grant | Exercise price per share | Exercise period | outstanding as at 1.1.2006 | granted in 2006 | outstanding as at 31.12.2006 | granted in 2007 | exercised in 2007 | outstanding as at 31.12.2007 |
| | | HK$ | | | | | | | |
| **Directors** | | | | | | | | | |
| CASH Option Scheme | 13.11.2006 | 0.323 | 13.11.2006-12.11.2008 | – | 12,000,000 | 12,000,000 | – | – | 12,000,000 |
| | 6.6.2007 | 0.490 | 6.6.2007-31.5.2009 | – | – | – | 14,000,000 | – | 14,000,000 |
| | | | | – | 12,000,000 | 12,000,000 | 14,000,000 | – | 26,000,000 |
| **Employees** | | | | | | | | | |
| CASH Option Scheme | 13.11.2006 | 0.323 | 13.11.2006-12.11.2008 | – | 20,000,000 | 20,000,000 | – | (12,000,000) | 8,000,000 |
| | 30.5.2007 | 0.480 | 30.5.2007-31.5.2009 | – | – | – | 11,700,000 | (4,000,000) | 7,700,000 |
| | 6.6.2007 | 0.490 | 6.6.2007-31.5.2009 | – | – | – | 28,300,000 | – | 28,300,000 |
| | | | | – | 20,000,000 | 20,000,000 | 40,000,000 | (16,000,000) | 44,000,000 |
| | | | | – | 32,000,000 | 32,000,000 | 54,000,000 | (16,000,000) | 70,000,000 |

Note: No equity-settled share-based payments were recognised by the Group as the options were granted by CASH to these directors and employees of the Group for their services rendered to CASH.

## 38. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong and terminated the defined contribution pension scheme ("Old Scheme") on 1 December 2000. All the employees of the Group in Hong Kong are required to join the MPF Scheme. In respect of those employees who leave the Group prior to completion of qualifying service period for the employer's voluntary contributions (represents contributions in excess of the mandatory requirements under the Mandatory Provident Fund Schemes Ordinance plus all the assets transferred from the Old Scheme) become fully vested, the relevant portion of the voluntary contributions forfeited will be reverted to the Group. Contributions are made based on a percentage of the employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

For the year ended 31 December 2007, no forfeited voluntary contributions to the retirement benefits scheme was credited to the consolidated income statement (2006: HK$93,000).

The subsidiary in Taiwan operates pension plan under the Labor Pension Act (the "Act"). The Act provides for a defined contribution benefit plan. Under the Act, the subsidiary make monthly contributions at 6% of basic salaries (i.e. net of bonuses and benefits) to the employees' individual pension accounts.

The Group operates various benefits schemes for its full-time employees in the PRC in accordance with the relevant the PRC regulations and rules, including provision of housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury insurance and pregnancy insurance. Pursuant to the existing schemes, the Group contributes 7%, 5%, 17%, 2%, 0.5% and 0.5% of the basic salary of its employees to the housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury and pregnancy insurance respectively.

## 39. RELATED PARTY TRANSACTIONS

Other than as disclosed in note 36, where the Group disposed of its subsidiaries, Netfield Group, to CASH, the Group had the following transactions with related parties:

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Commission and interest income received | | | |
| from the following wholly-owned subsidiaries of CASH | (a) | | |
| Kawoo Finance Limited | | **2,473** | 195 |
| E-Tailor Holding Limited | | **–** | 5 |
| | | **2,473** | 200 |
| Commission and interest income received | | | |
| from the following substantial shareholders of CASH | (b) | | |
| Cash Guardian | | **263** | 1,200 |
| Mr Kwan Pak Hoo Bankee and associates | | **421** | – |
| | | **684** | 1,200 |
| Commission and interest income received | | | |
| from substantial shareholder | (c) | **16,570** | – |
| Commission and interest income received | | | |
| from the following directors of the Company | (d) | | |
| Mr Wong Kin Yick Kenneth and associates | | **542** | 112 |
| Mr Law Ping Wah Bernard and associates | | **477** | 21 |
| Mr Cheng Man Pan Ben and associates | | **222** | 9 |
| Mr Chan Chi Ming Benson and associates | | **3** | – |
| | | **1,244** | 142 |
| Commission and interest income received | | | |
| from director of CASH | (e) | | |
| Mr Lin Che Chu George and associates | | **386** | 2 |
| Placing agent commission received from CASH | (f) | **2,632** | – |
| Financial advisory service fee received from CASH | (g) | **300** | – |
| Interest income received from CASH | | | |
| for amounts receivable on disposal of subsidiaries | (h) | **7,567** | – |
| Underwriting fee received from CASH | (i) | **–** | 705 |
| Introducing fee paid to an associate | (j) | **–** | 600 |

## 39. RELATED PARTY TRANSACTIONS (continued)

Notes:

(a) During the year ended 31 December 2007, the Group received commission and interest from margin financing of approximately HK$2,473,000 (2006: HK$200,000) from certain wholly-owned subsidiaries of CASH.

(b) During the year ended 31 December 2007, the Group received commission and interest income from margin financing of approximately HK$684,000 (2006: HK$1,200,000) from substantial shareholders of CASH.

(c) During the year ended 31 December 2007, the Group received commission and interest from margin financing of approximately HK$16,570,000 from a substantial shareholder of the Company.

(d) During the year ended 31 December 2007, the Group received commission and interest from margin financing of approximately HK$1,244,000 (2006: HK$142,000) from certain directors of the Company.

(e) During the year ended 31 December 2007, the Group received commission and interest from margin financing of approximately HK$386,000 (2006; HK$2,000) from a director of CASH.

(f) During the year ended 31 December 2007, the Group received placing agent commission fee of approximately HK$2,632,000 from CASH. The fee was calculated at 1% on the total proceeds from the placement received by CASH.

(g) During the year ended 31 December 2007, the Group received financial advisory service fee of approximately HK$300,000 from CASH.

(h) During the year ended 31 December 2007, the Group received interest income of HK$7,567,000 from CASH for the amounts receivable on disposal of subsidiaries. The interest was calculated at Hong Kong Prime Rate.

(i) During the year ended 31 December 2006, the Group received underwriting fee of approximately HK$705,000 from CASH. The fee was calculated at 2.5% on the total proceeds from the placement received by CASH.

(j) During the year ended 31 December 2006, the Group paid introducing fee to an associate amounting to HK$600,000.

## 39. RELATED PARTY TRANSACTIONS (continued)

### Compensation of key management personnel

The compensation of key management personal represents the director's remuneration as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Short-term employee benefits | 5,379 | 4,044 |
| Post-employment benefits | 206 | 132 |
| Share-based payments | – | 405 |
| | 5,585 | 4,581 |

The remuneration of directors is determined by the performance of individuals and market trends.

## 40. CAPITAL COMMITMENT

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property and equipment | 11,560 | – |

## 41. OPERATING LEASE COMMITMENTS

At each of the balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Within one year | 23,620 | 8,590 |
| In the second to fifth year inclusive | 21,029 | 918 |
| | 44,649 | 9,508 |

Operating lease payments represent rentals payable by the Group for its office premises. Leases are mainly negotiated for an average term of three years and rentals are fixed for an average of three years.

## 42. POST BALANCE SHEET EVENTS

(1) The Company voluntarily withdrew its listing status on the GEM board and became listed on the Main Board by introduction. Dealing of the Company's shares on Main Board commenced on 3 March 2008.

(2) The New Option Scheme was adopted pursuant to an ordinary resolution passed at the special general meeting of the Company held on 22 February 2008 to replace the Option Scheme due to migration of the Company's listing from the GEM board to the Main Board of the Stock Exchange.

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

| Name | Place of incorporation | Paid up issued share capital | Proportion of nominal value of issued share capital held by the Company 2007 % | 2006 % | Principal activities |
|---|---|---|---|---|---|
| CASH Asset Management Limited | Hong Kong | Ordinary HK$200,000 | **100** | 100 | Provision of asset management services |
| CASH E-Trade Limited | Hong Kong | Ordinary HK$4,000,000 | **100** | 100 | Provision of management services for group companies |
| CASH Payment Services Limited | Hong Kong | Ordinary HK$2 | **100** | 100 | Provision of payment gateway services |
| Celestial Capital Limited | Hong Kong | Ordinary HK$27,000,000 | **100** | 100 | Provision of corporate finance, investment and financial advisory services |
| Celestial Commodities Limited | Hong Kong | Ordinary HK$10,000,000 | **100** | 100 | Futures and options broking and trading |
| Celestial Investments (HK) Limited | Hong Kong | Ordinary HK$10,000,000 | **100** | 100 | Money lending |

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name | Place of incorporation | Paid up issued share capital | Proportion of nominal value of issued share capital held by the Company 2007 % | 2006 % | Principal activities |
|---|---|---|---|---|---|
| Celestial Securities Limited | Hong Kong | Ordinary HK$140,000,000 | **100** | 100 | Securities, equity options broking and trading, leveraged foreign exchange contracts |
| icoupon Limited | British Virgin Islands | Ordinary US$1 | **100** | 100 | Investment holding and trading |
| Linkup Assets Management Limited | British Virgin Islands | Ordinary US$1 | **100** | 100 | Investment holding and trading |
| CASH Frederick Taylor Limited | Hong Kong | Ordinary HK$1,000,000 | **70** | 70 | Financial advisory consultancy |

CASH E-Trade Limited and icoupon Limited are directly held by the Company. All other subsidiaries shown above are indirectly held by the Company.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 44. SUMMARISED BALANCE SHEET OF THE COMPANY

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Assets | | |
| Investments in subsidiaries | **472,277** | 470,800 |
| Amounts receivable on disposal of subsidiaries | **162,703** | – |
| Amounts due from subsidiaries | **300,203** | 235,861 |
| Bank balances (general accounts) | **543** | 72 |
| | **935,726** | 706,733 |
| Liabilities | | |
| Accrued liabilities and other payables | **6,483** | 1,920 |
| Amounts due to subsidiaries | **323,273** | 323,273 |
| | **329,756** | 325,193 |
| Net asset | **605,970** | 381,540 |
| Capital and reserves | | |
| Share capital | **207,697** | 138,205 |
| Reserves | **398,273** | 243,335 |
| Total equity | **605,970** | 381,540 |

# Five-Year Financial Summary

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Continuing operations** | | | | | |
| Revenue | **666,378** | 345,977 | 213,557 | 239,972 | 191,102 |
| Profit before taxation | **204,611** | 73,521 | 23,847 | 21,162 | 10,169 |
| Taxation (charge) credit | **(28,825)** | (5,796) | 3,440 | (350) | (134) |
| Profit for the year from continuing operations | **175,786** | 67,725 | 27,287 | 20,812 | 10,035 |
| **Discontinued operations** | | | | | |
| Profit (loss) for the year from discontinued operations | **30,904** | (27,527) | – | – | – |
| | **206,690** | 40,198 | 27,287 | 20,812 | 10,035 |
| Attributable to: | | | | | |
| Equity holders of the Company | **207,779** | 39,944 | 26,626 | 20,388 | 9,798 |
| Minority interests | **(1,089)** | 254 | 661 | 424 | 237 |
| | **206,690** | 40,198 | 27,287 | 20,812 | 10,035 |

# Five-Year Financial Summary

## ASSETS, LIABILITIES AND MINORITY INTERESTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Property and equipment | **24,787** | 45,720 | 12,218 | 20,725 | 29,501 |
| Goodwill | **4,933** | 114,878 | 4,933 | 4,933 | 5,903 |
| Intangible assets | **12,392** | 32,042 | 11,062 | 9,092 | 10,922 |
| Other non-current assets | **253,089** | 23,690 | 67,721 | 30,087 | 12,187 |
| Current assets | **2,331,716** | 1,559,155 | 1,055,031 | 963,338 | 990,098 |
| Total assets | **2,626,917** | 1,775,485 | 1,150,965 | 1,028,175 | 1,048,611 |
| Current liabilities | **1,727,551** | 1,287,916 | 792,717 | 748,027 | 805,193 |
| Non-current convertible loan notes | **–** | – | – | 39,834 | 124,065 |
| Other non-current liabilities | **–** | 3,977 | 159 | – | 56 |
| Total liabilities | **1,727,551** | 1,291,893 | 792,876 | 787,861 | 929,314 |
| Net assets | **899,366** | 483,592 | 358,089 | 240,314 | 119,297 |
| Minority interests | **1,001** | 3,761 | 1,471 | 810 | 386 |

Notes:

(i) During the year ended 31 December 2005, the Group has adopted the new HKFRSs which resulted in changes in accounting policies for 2005 and prior accounting years. The financial summary for prior years has been adjusted to take up the retrospective effects on HKFRS 2 Share-based Payment and HKAS 32 Financial Instruments: Disclosure and Presentation.

(ii) During the year ended 31 December 2007, the Group entered into a sale and purchase agreement with CASH to dispose of Netfield Group, which carried out the Group's game service and operations. Accordingly, the disposed group is regarded as discontinued operations and its results in prior year are separately shown.

# Definitions

In this annual report, the following expressions have the following meanings unless the context requires otherwise:

| | |
|---|---|
| "ARTAR" | Abdulrahman Saad Al-Rashid & Sons Company Limited, a substantial shareholder of the Company |
| "Audit Committee" | the audit committee of the Company established pursuant to the CG Code of the Listing Rules |
| "Board" | the board of Directors |
| "CASH" | Celestial Asia Securities Holdings Limited (stock code: 1049), the indirect controlling shareholder of the Company, a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board |
| "CASH Group" | CASH and its subsidiaries and associates, including the Group |
| "Cash Guardian" | Cash Guardian Limited, a company incorporated in the British Virgin Islands; a substantial shareholder of CASH and an associate of Mr Kwan Pak Hoo Bankee |
| "Celestial Capital" | Celestial Capital Limited, a wholly-owned subsidiary of the Company and a licensed corporation under the SFO which is engaged in types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities |
| "Celestial Commodities" | Celestial Commodities Limited, a company incorporated with limited liability in Hong Kong and is a wholly-owned subsidiary of the Company, and a licensed corporation under the SFO which is engaged in type 2 (dealing in futures contracts) regulated activity |
| "Celestial Securities" | Celestial Securities Limited, a company incorporated with limited liability in Hong Kong and is a wholly-owned subsidiary of the Company, and a licensed corporation under the SFO which is engaged in type 1 (dealing in securities) regulated activity |
| "CEO" | the chief executive officer of the Company |
| "CFO" | the chief financial officer of the Company |
| "CG Code" | the Code on Corporate Governance Practices as contained in the Listing Rules |

# Definitions

| | |
|---|---|
| "CG Period" | the period covering the financial period ended 31 December 2007 and up to the date of this annual report to which the CG Report is inscribed |
| "CG Report" | the corporate governance report of the Company covering the CG period as required to be included in this annual report under the Listing Rules |
| "CIGL" | Celestial Investment Group Limited, a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of CASH; is a controlling shareholder of the Company |
| "Company" or "CFSG" | CASH Financial Services Group Limited (stock code on Main Board: 510), a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board with effect from on 3 March 2008; the Company's shares were listed on GEM prior to the listing of shares on the Main Board (stock code on GEM: 8122) |
| "Connected Clients" | Mr Kwan Pak Hoo Bankee, Mr Law Ping Wah Bernard and Mr Wong Kin Yick Kenneth (the executive directors of each of the Company and CASH), Mr Cheng Man Pan Ben (an executive Director of the Company) and Mr Lin Che Chu George (an executive director of CASH), Cash Guardian (a substantial shareholder of CASH), and ARTAR (a substantial shareholder of the Company), and Kawoo Finance Limited and E-Tailer Holding Limited (wholly-owned subsidiaries of CASH), all of which are connected persons of the Company (as defined under the Listing Rules) |
| "COO" | the chief operating officer of the Company |
| "Directors" | the directors of the Company |
| "ED(s)" | the executive Director(s) of the Company |
| "GEM" | the Growth Enterprise Market of the Stock Exchange |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on GEM |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" or "HKSAR" | the Hong Kong Special Administrative Region of the PRC |
| "INED(s)" | the independent non-executive Director(s) of the Company |

# Definitions

| | |
|---|---|
| "Listing Rules" | The Rules Governing the Listing of Securities on the Stock Exchange or the GEM Listing Rules (as the case may be), which the Company was required to comply in accordance with the listing status of the Company on Main Board or GEM |
| "Main Board" | the main board of the Stock Exchange, which excludes GEM |
| "Margin Financing Arrangement" | the grant of margin financing facilities by the Company to the Connected Clients, details of which are disclosed in the sub-section headed "Continuing Connected Transactions" in the Directors' report |
| "Model Code" | the required standards of dealings regarding securities transactions by Directors or the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Listing Rules |
| "NED(s)" | the non-executive Director(s) of the Company |
| "Netfield Group" | Netfield Technology Limited and its subsidiaries, which operate and develop online games in the PRC and Taiwan |
| "New Option Scheme" | a new share option scheme adopted by the Company to replace the Option Scheme pursuant to an ordinary resolution passed at the special general meeting of the Company held on 22 February 2008, which took effect on 3 March 2008 |
| "Option Scheme" | the share option scheme adopted by the Company pursuant to an ordinary resolution passed by the shareholders on 19 February 2002 and was terminated on 3 March 2008 |
| "PRC" | the People's Republic of China |
| "Principles" | a set of corporate governance principles adopted by the Board |
| "Remuneration Committee" | the remuneration committee of the Company established pursuant to the CG Code of the Listing Rules |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | ordinary shares of HK$0.10 each in the share capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "HK$" | Hong Kong dollar(s), the lawful currency of Hong Kong |

CASH
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