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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in ENM Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

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**ENM HOLDINGS LIMITED**

**安寧控股有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock code: 128)**

**MAJOR AND CONNECTED TRANSACTION  
ACQUISITION OF 40% INTEREST IN KENMURE LIMITED**

**Independent Financial Advisor to the Independent Board Committee  
and Independent Shareholders**

**GD 粵海證券有限公司**  
**Guangdong Securities Limited**

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A letter from the independent board committee of ENM Holdings Limited containing its recommendation in respect of the Share Purchase Agreements (as defined in this circular) is set out on pages 12 to 13 of this circular. A letter from Guangdong Securities Limited containing its advice to the independent board committee of ENM Holdings Limited in respect of the Share Purchase Agreements and the transactions contemplated thereunder is set out on pages 14 to 22 of this circular.

A notice convening an extraordinary general meeting of the shareholders of ENM Holdings Limited to be held at the Hilltop Country Club, 10 Hilltop Road, Lo Wai, Tsuen Wan, New Territories, Hong Kong on Wednesday, 30 April 2008 at 11:00 a.m. or immediately after the conclusion of the annual general meeting of the Company to be held on the same day and place at 10:30 a.m. is set out on pages 143 to 144 of this circular. There is a form of proxy for use at the extraordinary general meeting of ENM Holdings Limited accompanying this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy to the registered office of the Company at Suite 1502, 15th Floor, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

14 April 2008

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the meanings set out below unless the context requires otherwise:*

“Apex”	Apex Ocean Investments Limited, a company incorporated in the British Virgin Islands, which holds 30% of the issued share capital of Kenmure
“Apex Agreement”	the Share Purchase Agreement entered into between Apex and e-Media (Asia) dated 21 January 2008
“Apex Acquisition”	the proposed acquisition of the Apex Shares
“Apex Consideration”	the consideration payable by e-Media (Asia) for the purchase of Apex Shares
“Apex Shares”	16,500,000 shares in Kenmure, representing 30% of the entire issued share capital of Kenmure
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Company” or “ENM Holdings”	ENM Holdings Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the Stock Exchange
“Completion”	completion of the Share Purchase Agreement(s)
“Directors”	directors of the Company
“Board”	the board of Directors
“e-Media (Asia)”	e-Media (Asia) Limited, a company incorporated in the Cayman Islands, a wholly owned subsidiary of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve by the Shareholders (or where required, the Independent Shareholders) of the Company, the Share Purchase Agreements
“Enlarged Group”	the Group after Completion
“Group”	ENM Holdings Limited and its subsidiaries
“Guangdong Securities” or “Independent Financial Advisor”	Guangdong Securities Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities); type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Share Purchase Agreements and the transactions contemplated thereunder

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## DEFINITIONS

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“HKFRS”	the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Kosin”	Kosin Limited, a company incorporated in Republic of Liberia, which holds 10% of the issued share capital of Kenmure
“Kosin Agreement”	the Share Purchase Agreement entered into between Kosin and e-Media (Asia) dated 21 January 2008
“Kosin Acquisition”	the proposed acquisition of the Kosin Shares
“Kosin Consideration”	the consideration payable by e-Media (Asia) for the purchase of the Kosin Shares
“Kosin Shares”	5,500,000 shares in Kenmure, representing 10% of the entire issued share capital of Kenmure
“Kenmure”	Kenmure Limited, a company incorporated in Hong Kong with limited liability, a 60% held subsidiary of the Group
“Kenmure Group”	Kenmure Limited and its subsidiaries
“Independent Board Committee”	the independent board committee of the Company, comprising the independent non-executive Directors, Dr. Cecil Sze Tsung Chao, Dr. Jen Chen and Mr. Ian Grant Robinson
“Independent Shareholders”	Shareholders other than Apex and Kosin and their respective associates
“Latest Practicable Date”	11 April 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	the date falling 4 months after the date of the respective Share Purchase Agreement or such other date as the parties to the relevant Share Purchase Agreement may agree in writing
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan for the purpose of this circular
“RMB”	Renminbi, the lawful currency of the PRC

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## DEFINITIONS

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“SFO”	The Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holders of the Shares
“Share Purchase Agreements”	the share transfer agreements entered into (1) between Apex and e-Media (Asia) dated 21 January 2008 relating to the sale and purchase of the Apex Shares, and (2) between Kosin and e-Media (Asia) dated 21 January 2008 relating to the sale and purchase of the Kosin Shares and “Share Purchase Agreement” shall mean either one of them
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“%”	per cent

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LETTER FROM THE BOARD

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**ENM HOLDINGS LIMITED**

**安寧控股有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock code: 128)**

***Executive Directors:***

Mr. Joseph Wing Kong LEUNG (*Chairman*)

Mr. James C. NG (*Chief Executive Officer*)

Mr. Derek Wai Choi LEUNG

Mr. Wing Tung YEUNG

***Registered Office:***

Suite 1502, 15th Floor,  
Chinachem Golden Plaza,  
77 Mody Road,  
Tsimshatsui East,  
Kowloon, Hong Kong

***Non-executive Director:***

Mr. Raymond Wai Pun LAU

***Independent non-executive Directors:***

Dr. Cecil Sze Tsung CHAO

Dr. Jen CHEN

Mr. Ian Grant ROBINSON

14 April 2008

*To the Shareholders*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION  
ACQUISITION OF 40% INTEREST IN KENMURE LIMITED**

**INTRODUCTION**

On 22 January 2008, the Directors announced that e-Media (Asia), a wholly owned subsidiary of the Company, after trading hours on 21 January 2008, had entered into (i) the Apex Agreement with Apex and (ii) the Kosin Agreement with Kosin respectively to acquire from Apex and Kosin 30% and 10% of the shareholding in Kenmure respectively.

Each of the Share Purchase Agreements and the transactions contemplated thereunder constitutes a connected transaction for the Company under the Listing Rules and will be subject to, amongst other things, the approval of the Independent Shareholders. The Apex Agreement and the Kosin Agreement (in aggregate) constitute a major transaction under the Listing Rules. The Independent Board

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## LETTER FROM THE BOARD

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Committee has been constituted to advise the Independent Shareholders on the Share Purchase Agreements and the transactions contemplated thereunder. Guangdong Securities has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with further information regarding the Share Purchase Agreements and the transactions contemplated thereunder, to set out the advice of the Independent Board Committee on the terms of the Share Purchase Agreements and the transactions contemplated thereunder and the advice letter of Guangdong Securities to the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreements and the transactions contemplated thereunder as well as to give you notice of the EGM.

### THE SHARE PURCHASE AGREEMENTS

**Date :**

21 January 2008

**Parties :**

Vendors: (1) In respect of the Apex Acquisition:

Apex, a company incorporated in the British Virgin Islands. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Apex is an investment holding company.

(2) In respect of the Kosin Acquisition:

Kosin, a company incorporated in Republic of Liberia. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Kosin is an investment holding company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, neither Apex, Kosin nor any of their respective associates has any shareholding interest in the Company.

Purchaser: e-Media (Asia), a wholly owned subsidiary of the Company.

There was no previous transaction(s) between the Company, the Purchaser and each of the Vendors which may require aggregation under Rule 14A.25 of the Listing Rules.

### Assets to be acquired

In respect of the Apex Acquisition:

Pursuant to the Apex Agreement, Apex agrees to sell and e-Media (Asia) agrees to purchase 16,500,000 shares of, representing 30% of the shareholding in, Kenmure.

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## LETTER FROM THE BOARD

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In respect of the Kosin Acquisition:

Pursuant to the Kosin Agreement, Kosin agrees to sell and e-Media (Asia) agrees to purchase 5,500,000 shares of, representing 10% of the shareholding in, Kenmure.

### Consideration

In respect of the Apex Acquisition:

The Apex Consideration shall be HK\$16,500,000 which is payable in cash in the following manner:

- (i) a deposit of HK\$1,650,000, being 10% of the Apex Consideration, has been paid by e-Media (Asia) to Apex's solicitors as escrow agent upon signing of the Apex Agreement; and
- (ii) HK\$14,850,000, being the balance of the Apex Consideration, shall be paid to Apex upon Completion.

In respect of the Kosin Acquisition:

The Kosin Consideration shall be HK\$5,500,000 which is payable in cash in the following manner:

- (i) a deposit of HK\$550,000, being 10% of the Kosin Consideration, has been paid by e-Media (Asia) to Kosin's solicitors as escrow agent upon signing of the Kosin Agreement; and
- (ii) HK\$4,950,000, being the balance of the Kosin Consideration, shall be paid to Kosin upon Completion.

If e-Media (Asia) defaults in completion of a Share Purchase Agreement, the relevant deposit and all interests accrued thereon will be liable to be forfeited by Apex, or as the case may be, Kosin. On the other hand, if Apex or Kosin shall default in completion of the relevant Share Purchase Agreement, e-Media (Asia) shall have the option to require specific performance or to rescind the relevant Share Purchase Agreement in which event the relevant deposit and all interests accrued thereon shall be refunded to e-Media (Asia) and without prejudice to its right to claim further damages against the defaulting party.

Both the Apex Consideration and the Kosin Consideration were agreed between the respective parties based on arm's length negotiations and by reference to the audited net asset value of Kenmure of HK\$90,106,000 as at 31 December 2006 and the unaudited net asset value of Kenmure of HK\$85,257,000 as at 30 June 2007 prepared in accordance with HKFRS and the Hong Kong Companies Ordinance.

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## LETTER FROM THE BOARD

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Both the Apex Consideration and the Kosin Consideration will be paid out of the internal resources of the Group.

### Conditions of the Share Purchase Agreements

Each of the Share Purchase Agreements is conditional upon, inter alia:

- (i) the delivery by vendor to e-Media (Asia) of a legal opinion issued by a law firm of its place of incorporation acceptable to the e-Media (Asia) confirming that (i) it has been duly incorporated and is in good standing ; and (ii) the Share Purchase Agreement has been duly executed by the vendor and is valid, binding and enforceable against it in accordance with the terms thereof, such legal opinion to be in form and substance to the satisfaction of e-Media (Asia);
- (ii) approval by the shareholders (or independent shareholders, if required) of the Company of the acquisition of the Apex Shares and the Kosin Shares by e-Media (Asia) and all other transactions contemplated under the respective Share Purchase Agreements, (if required) at a general meeting of the Company, in compliance with the requirements of the Listing Rules; and
- (iii) the compliance of any other requirements under the Listing Rules or otherwise of the Stock Exchange or other regulatory authorities which requires compliance at any time prior to Completion in relation to the transactions contemplated under the respective Share Purchase Agreements.

e-Media (Asia) may at its absolute discretion waive in writing the condition (i) mentioned above. If any of the above conditions (i) to (iii) shall not have been fulfilled in full (or, where applicable, waived by e-Media (Asia) in writing) on or before the Long Stop Date, then the rights and obligations of the parties under the relevant Share Purchase Agreements shall lapse and be of no further effect except for antecedent breach and the deposits paid and all interests accrued thereon shall be refunded to e-Media (Asia). As at the Latest Practicable Date, none of the above conditions has been fulfilled.

### INFORMATION ON KENMURE

Kenmure is a company incorporated in Hong Kong and a subsidiary of the Group in which e-Media (Asia) holds a 60% shareholding and Kenmure's accounts have already been consolidated into the Company's accounts. The balance of the shareholding is held as to 30% by Apex and 10% by Kosin.

Kenmure is an investment holding company, holding the entire issued share capital of The Swank Shop Limited and Christabel Trading Co. Limited, which carry out the business of the retail and wholesale of fashion wear and accessories.

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## LETTER FROM THE BOARD

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The audited results of Kenmure for the three years ended 31 December 2005, 31 December 2006 and 31 December 2007 and its net asset value as at 31 December 2005, 31 December 2006 and 31 December 2007, were as follows:

	<b>Year ended 31 Dec 2005</b>	<b>Year ended 31 Dec 2006</b>	<b>Year ended 31 Dec 2007</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Net Profit/(Loss)	10,184,000	(11,589,000)	7,187,000
	<b>As at 31 Dec 2005</b>	<b>As at 31 Dec 2006</b>	<b>As at 31 Dec 2007</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Net assets value	100,018,000	90,106,000	97,293,000

### REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The principal activities of the Company are investment holding and securities trading. The principal activities of its subsidiaries comprise the wholesale and retail of fashion wear and accessories, telecommunications operations, resort and recreational club operations, investment holding and securities trading.

The Company currently holds 60% of Kenmure. Upon Completion, the Company will hold 100% of Kenmure and the Kenmure's accounts will be fully consolidated into the Company's accounts. This will facilitate business strategies and further capitalisation of Kenmure if and when required.

The Directors (other than the independent non-executive Directors) are of the view that the terms of the Share Purchase Agreements are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Completion of the Apex Acquisition and the Kosin Acquisition is not inter-conditional with each other. Upon completion of both the Apex Agreement and the Kosin Agreement, Kenmure will become an indirect wholly-owned subsidiary of the Company.

### POSSIBLE FINANCIAL EFFECTS OF THE ACQUISITION

The acquisition does not have any material effect on the earnings and assets and liabilities of the Company.

### INFORMATION ON THE COMPANY

The principal activities of the Company are investment holding and securities trading. The principal activities of its subsidiaries comprise the wholesale and retail of fashion wear and accessories, telecommunications operations, resort and recreational club operations, investment holding and securities trading.

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## LETTER FROM THE BOARD

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### GENERAL

Apex, by virtue of it being a 30% shareholder of Kenmure, is a connected person of the Company and the Apex Agreement is therefore a connected transaction under Chapter 14A of the Listing Rules which is subject to the approval of the Independent Shareholders.

Kosin, by virtue of it being a 10% shareholder of Kenmure, is a connected person of the Company and the Kosin Agreement is therefore a connected transaction under Chapter 14A of the Listing Rules which is subject to the approval of the Independent Shareholders.

The Apex Agreement and the Kosin Agreement (in aggregate) constitute a major transaction under Chapter 14 of the Listing Rules.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Share Purchase Agreements. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Share Purchase Agreements.

### EXTRAORDINARY GENERAL MEETING

Set out on pages 143 to 144 of this document is a notice convening the EGM to be held at the Hilltop Country Club, 10 Hilltop Road, Lo Wai, Tsuen Wan, New Territories, Hong Kong on Wednesday, 30 April 2008 at 11:00 a.m. or immediately after the conclusion of the annual general meeting of the Company to be held on the same day and place at 10:30 a.m. at which resolutions will be proposed to the Shareholders to approve the Share Purchase Agreements and the transactions contemplated thereunder.

Apex and its associates shall abstain from voting on the resolution to approve the Apex Agreement. Kosin and its associates shall abstain from voting on the resolution to approve the Kosin Agreement. To the best knowledge of the Directors after reasonable enquiry, save for the aforesaid, there are no shareholders who have material interests in the Share Purchase Agreements and shall abstain from voting on the resolutions to approve the Apex Agreement and the Kosin Agreement.

A form of proxy for use by the Shareholders at the EGM is enclosed. If you are not able to attend the EGM in person, you are strongly urged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon, and to lodge it with the registered office of the Company at Suite 1502, 15th Floor, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

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## LETTER FROM THE BOARD

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### PROCEDURES ON DEMANDING A POLL

Pursuant to Article 73 of the articles of association of the Company, a resolution put to the vote of a meeting of the Company shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right; or
- (e) if required by the Listing Rules, by any Director(s) who, individually or collectively, hold proxies in respect of Shares representing five per cent. or more of the total voting rights at the meeting.

### RECOMMENDATION

The Directors consider the terms of the Share Purchase Agreements and the transactions contemplated thereunder are fair and reasonable and the entering into of the Share Purchase Agreements and the transactions contemplated thereunder are in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Share Purchase Agreements and the transactions contemplated thereunder. Your attention is also drawn to the text of a letter of advice from Guangdong Securities containing its recommendation and the principal factors they have taken into account in arriving at their recommendation set out on pages 14 to 22 of this circular. You are advised to read the letter from the Independent Board Committee and the letter from Guangdong Securities before deciding how to vote at the EGM.

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**LETTER FROM THE BOARD**

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**FURTHER INFORMATION**

Your attention is also drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,  
For and on behalf of the Board  
**ENM HOLDINGS LIMITED**  
**Joseph Wing Kong LEUNG**  
*Chairman*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**ENM HOLDINGS LIMITED**

**安寧控股有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock code: 128)**

14 April 2008

*To the Independent Shareholders*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION  
ACQUISITION OF 40% INTEREST IN KENMURE LIMITED**

We refer to the circular of the Company dated 14 April 2008 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Share Purchase Agreements and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as in the interests of the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

Guangdong Securities has been appointed as the independent financial adviser to advise us and you regarding the terms of the Share Purchase Agreements and the transactions contemplated thereunder. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out in its letter on pages 14 to 22 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 4 to 11 of the Circular and the additional information set out in the Appendices to the Circular.

Having considered the terms of the Share Purchase Agreements and the advice of Guangdong Securities and the other principal factors contained in the letter from the Board, we are of the opinion that the terms of the Share Purchase Agreements and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Company and the Independent

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Share Purchase Agreements and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
the Independent Board Committee

**Dr. Cecil Sze Tsung CHAO**

*Independent  
non-executive Director*

**Dr. Jen CHEN**

*Independent  
non-executive Director*

**Mr. Ian Grant ROBINSON**

*Independent  
non-executive Director*

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## LETTER FROM GUANGDONG SECURITIES

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*Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Apex Acquisition and the Kosin Acquisition for the purpose of inclusion in this circular.*



Unit 2505-06, 25/F.  
Low Block of Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

14 April 2008

*To: The independent board committee and the independent shareholders  
of ENM Holdings Limited*

Dear Sirs,

### **MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF 40% INTEREST IN KENMURE LIMITED**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Apex Acquisition and the Kosin Acquisition (collectively, the "Acquisitions"), details of which are set out in the letter from the Board (the "Board Letter") contained in the circular dated 14 April 2008 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced on 22 January 2008 that on 21 January 2008, e-Media (Asia), being a wholly-owned subsidiary of the Company, entered into (i) the Apex Agreement with Apex; and (ii) the Kosin Agreement with Kosin to acquire from Apex and Kosin 30% and 10% of the equity interests in Kenmure at considerations of HK\$16.5 million and HK\$5.5 million (altogether, the "Considerations") respectively by cash.

Kenmure is a non wholly-owned subsidiary of the Company. Apex, by virtue of it being a 30% shareholder of Kenmure, is a connected person of the Company. The Apex Agreement is therefore a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to approval of the Independent Shareholders at the EGM. Kosin, by virtue of it being a 10% shareholder of Kenmure, is a connected person of the Company. The Kosin Agreement is therefore also a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to approval of the Independent Shareholders at the EGM. In addition, based on the applicable percentage ratios as set out in Chapter 14 of the Listing Rules, the Acquisitions constitute major transactions for the Company under Chapter 14 of the Listing Rules.

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## LETTER FROM GUANGDONG SECURITIES

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An Independent Board Committee comprising Dr. Cecil Sze Tsung Chao, Dr. Jen Chen and Mr. Ian Grant Robinson (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Share Purchase Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Acquisitions are in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Share Purchase Agreements and the transactions contemplated therein at the EGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date hereof. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Apex and Kosin, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisitions. In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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## LETTER FROM GUANGDONG SECURITIES

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Acquisitions, we have taken into consideration the following principal factors and reasons:

#### (1) Background of and reasons for the Acquisitions

##### *Business overview of the Group*

The Company is principally engaged in investment holding and securities trading. The principal activities of its subsidiaries comprise the wholesale and retail of fashion wear and accessories, telecommunications operations, resort and recreational club operations, investment holding and securities trading.

Set out below are the operating results (by principal activity) of the Group for the three years ended 31 December 2007 as extracted from the Company's audited annual reports for the years ended 31 December 2007 (the "2007 Annual Report") and 31 December 2006 respectively:

	<b>For the year ended 31 December 2007</b>	<b>For the year ended 31 December 2006</b>	<b>For the year ended 31 December 2005</b>	<b>% change from 2006 to 2007</b>
<i>HK\$'000</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	
<b>Turnover</b>				
- Wholesale and retail of fashion wear and accessories	214,168	174,710	195,467	22.58
- Telecommunications operations	3,535	2,985	4,630	18.43
- Resort and recreational club operations	17,134	19,268	19,127	(11.08)
- Dividend income from listed investments	5,122	4,765	4,182	7.49
- Interest income	<u>26,068</u>	<u>25,478</u>	<u>19,130</u>	<u>2.32</u>
<b>Total</b>	<u><u>266,027</u></u>	<u><u>227,206</u></u>	<u><u>242,536</u></u>	<u><u>17.09</u></u>
<b>Profit for the year</b>	<u><u>55,255</u></u>	<u><u>7,482</u></u>	<u><u>14,993</u></u>	<u><u>638.51</u></u>

From the above table, we note that the audited total turnover of the Group for the year ended 31 December 2007 increased significantly by approximately 17.09% as compared to the prior year. The wholesale and retail of fashion wear and accessories segment (the "Fashion Segment") was the largest revenue source of the Group during the years under review above. As confirmed by the Directors, the Fashion Segment had been generating less revenue to the Group for the year ended 31 December 2006

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due to the reason that a number of the Group's fashion shops were closed down in the first quarter of 2006 upon the expiration of their leases and were reopened in new locations in the third quarter of 2006. Nevertheless, the Group's revenue from the Fashion Segment bounced back for the year ended 31 December 2007 given the success of the Group's revamped marketing strategy in the Fashion Segment by focusing both of its advertising and promotion activities on further enhancing the shop and brand images. Further description on the business performance of the Fashion Segment is set forth under the paragraph headed "Information on Kenmure" of this letter.

### *Information on Kenmure*

With reference to the Board Letter, Kenmure is an investment holding company which holds the entire issued share capital of both of The Swank Shop Limited ("Swank") and Christabel Trading Co. Limited ("Christabel"). We also note from the Board Letter that Swank is the retailer of fashion wear and accessories while Christabel is the wholesaler of those products.

From the information provided by the Directors, we understand that the Group acquired 60% of the equity interest in Kenmure through one of its wholly-owned subsidiaries in October 2003. Upon Completion, the total equity interest of the Company in Kenmure will be increased from 60% to 100% and Kenmure will become an indirectly wholly-owned subsidiary of the Company. As also confirmed by the Directors, Kenmure shall continue to be accounted for as a subsidiary of the Company and the financial results of Kenmure will be fully consolidated into the financial statements of the Group.

The following table summarises the audited financial information of Kenmure for the three years ended 31 December 2007 as extracted from Appendix II to the Circular:

	<b>For the year ended 31 December 2007</b>	<b>For the year ended 31 December 2006</b>	<b>For the year ended 31 December 2005</b>	<b>% change from 2006 to 2007</b>
<i>HK\$'000</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	
Revenue	214,168	174,710	195,467	22.58
Net Profit/(Loss)	7,187	(11,589)	10,184	N/A
Net assets value ("NAV")	97,293	90,106	100,018	7.98

Based on the above table and the table under the paragraph headed "Business overview of the Group" of this letter, we note that Kenmure was the sole revenue source of the Group within the Fashion Segment. As mentioned in the foregoing, since a number of the fashion shops of the Group were closed down in the first quarter of 2006 and were reopened in new locations in the third quarter of 2006, Kenmure suffered from a reduction in revenue as well as a net loss of approximately HK\$11.59 million for the year ended 31 December 2006. We have further enquired into the Directors regarding the relocation of the Group's fashion shops and were advised by the Directors that certain of the non performing retail shops of Swank had been strategically closed down and new stores have

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been subsequently opened at prime locations, such as the International Finance Centre Mall at Central and Harbour City at Tsim Sha Tsui, in order to generate more future sales. Besides that, Swank is revamping its marketing strategy by focusing both of its advertising and promotion activities on further enhancing the shop and brand images. Partly benefited from such change, Kenmure's revenue for the year ended 31 December 2007 was improved significantly by approximately 22.58% and Kenmure was able to make a turnaround in its net loss position and recorded a net profit of approximately HK\$7.19 million during the same year. The Directors also confirmed that the Company intends to capitalise on the resources of Kenmure to strengthen its position at the top tier of the fashion market for improving the Group's future profitability.

### *Reasons for the Acquisitions*

As mentioned under the paragraph headed "Information on Kenmure" of this letter, the Group's total equity interest in Kenmure will be increased from 60% to 100% upon Completion. Accordingly, the Directors are of the view that the Acquisitions enable the Group to better execute its development strategy on the Fashion Segment and to exercise its control over Kenmure more effectively.

Currently, Kenmure possesses a solid business development foundation comprising 10 fashion retail shops/outlets as well as department store counters in Hong Kong. The Directors further confirmed that in addition to maintaining business operations in Hong Kong, Kenmure also plans to tap into the luxurious fashion market in the PRC to improve its earning performance. According to the Census and Statistics Department of Hong Kong (the "C&SD"), the volume of retail sales of apparel in Hong Kong for the five years ended 31 December 2007 were approximately HK\$18.0 billion, HK\$21.2 billion, HK\$23.5 billion, HK\$24.9 billion, HK\$28.8 billion, respectively, showing a significant cumulative increase of approximately 60.06% from 2003 to 2007 and a considerable jump of approximately 15.84% from 2006 to 2007. Based also on a press release from C&SD on 31 January 2008, a government spokesman also pointed out that the total retail sales continued to grow strongly in December 2007, reflecting the prevailing strength in local consumer spending as well as the sustainable rapid expansion of inbound tourists to Hong Kong. According to the Hong Kong Trade Development Council, the rapid enlargement of the PRC's economy has attracted strong interest of Hong Kong companies to explore the apparel market in the PRC. Today, the PRC's apparel market is the world's third largest. Going hand-in-hand with the market expansion, Chinese consumers are becoming more fashionable and brand-conscious. With this in mind, the Directors are confident that Kenmure shall be able to enjoy sustainable business growth in the near future and hence is valuable to the future business development of the Group.

In light of (i) the importance of Kenmure on the Group's overall business as concluded under the paragraph headed "Information on Kenmure" of this letter; and (ii) the Acquisitions will allow the Group to strengthen its control over Kenmure and thereby facilitating the Group in executing its development strategy on the Fashion Segment more effectively, we consider that the Acquisitions are in the ordinary and usual course of business of the Company. In addition, given the probable positive future business prospects of Kenmure leveraging on the revamped marketing strategy of Swank and the growing trend of the apparel markets in Hong Kong and the PRC, we concur with the Directors that the Acquisitions are in the interests of the Company and the Shareholders as a whole.

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### (2) Principal terms of the Share Purchase Agreements

Pursuant to the Apex Agreement, Apex agreed to sell to e-Media (Asia) the Apex Shares, being 16,500,000 shares of Kenmure, at the Apex Consideration of HK\$16.5 million which is payable in cash. The Apex Shares represent 30% of the total issued share capital of Kenmure.

Pursuant to the Kosin Agreement, Kosin agreed to sell to e-Media (Asia) the Kosin Shares, being 5,500,000 shares of Kenmure, at the Kosin Consideration of HK\$5.5 million which is payable in cash. The Kosin Shares represent 10% of the total issued share capital of Kenmure.

The Directors confirmed that the Group shall finance the Considerations of HK\$22 million in cash by its internal resources.

#### *Basis of the Considerations*

As referred to in the Board Letter, the Considerations were determined based on arm's length negotiations and by reference to the audited NAV of Kenmure of approximately HK\$90.11 million as at 31 December 2006 and the unaudited NAV of Kenmure of approximately HK\$85.26 million as at 30 June 2007 prepared in accordance with the HKFRS. We note that the Considerations represent discounts of approximately 35.49% and 43.47% to "40% of the unaudited NAV of Kenmure as at 30 June 2007" and "40% of the audited NAV of Kenmure as at 31 December 2007" respectively.

#### *Trading multiples analysis*

In order to further assess the fairness and reasonableness of the Considerations, we have performed a trading multiples analysis which includes the price to book ratio ("PBR") and the price to earnings ratio ("PER"). We have searched for companies listed on the Stock Exchange which are in similar lines of business to Kenmure, i.e. the retail and wholesale of fashion wear and accessories (the "Market Comparables"). To the best of our knowledge and endeavor, we found 10 companies which met the said criteria. Set out below are the PBRs and PERs of the Market Comparables based on their closing prices as at 21 January 2008, being the date of the Share Purchase Agreements, and their latest published financial information:

<b>Company name (Stock code)</b>	<b>Principal business</b>	<b>Year end date</b>	<b>PBR</b>	<b>PER</b>
Dickson Concepts (International) Limited (113)	Trading of luxury goods.	31/3/2007	1.31 <i>(Note 1)</i>	9.88
Moiselle International Holdings Limited (130)	Design, develop, manufacture, retail and wholesale distinctive lines of contemporary women's apparel.	31/3/2007	1.41 <i>(Note 1)</i>	6.07

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<b>Company name (Stock code)</b>	<b>Principal business</b>	<b>Year end date</b>	<b>PBR</b>	<b>PER</b>
LeRoi Holdings Limited (221)	Design, distribution and sales of lady apparel under the group's brandname, LeRoi, to the PRC market.	31/3/2007	3.30 <i>(Note 1)</i>	N/A <i>(Note 2)</i>
Esprit Holdings Limited (330)	Design, licensing, sourcing, manufacturing, wholesale and retail distribution of high quality apparel and related products under the ESPRIT brand name, and Red Earth cosmetics, skin and general body care products.	30/6/2007	8.06 <i>(Note 1)</i>	20.81
Glorious Sun Enterprises Limited (393)	Retailing, export and production of casual wear.	31/12/2006	2.56 <i>(Note 1)</i>	17.25
Hang Ten Group Holdings Limited (448)	Designing, marketing, retail and wholesale of apparel and trademark licensing.	31/3/2007	0.92 <i>(Note 1)</i>	4.88
Bauhaus International (Holdings) Limited (483)	Design, manufacture, wholesale and retail sales of apparel, bags and sacs and accessories.	31/3/2007	1.84 <i>(Note 1)</i>	10.15
Joyce Boutique Holdings Limited (647)	Engaged in sales of designer fashion garments, cosmetics, homeware and accessories.	31/3/2007	0.92 <i>(Note 1)</i>	8.13
I.T Limited (999)	Sales of fashion wears and accessories.	28/2/2007	2.91 <i>(Note 1)</i>	19.17
Veeko International Holdings Limited (1173)	Manufacture and sale of ladies fashion and sale of cosmetics.	31/3/2007	1.07 <i>(Note 1)</i>	9.45
<b>Maximum</b>			<b>8.06</b>	<b>20.81</b>
<b>Minimum</b>			<b>0.92</b>	<b>4.88</b>
<b>Average</b>			<b>2.43</b>	<b>11.75</b>
<b>The Acquisitions</b>			<b>0.57</b>	<b>7.65</b>

*Notes:*

1. The PBR for the selected companies were calculated based on their latest published interim reports.
2. Net loss was made by the selected company during the financial year as stated in its published annual report.

*Source: the Stock Exchange web-site (www.hkex.com.hk)*

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From the above table, we notice that the average PBR as represented by the Market Comparables was approximately 2.43 times with a range from approximately 0.92 times to 8.06 times.

Given that the audited NAV of Kenmure as at 31 December 2007 was approximately HK\$97.29 million, the PBR of the Acquisitions is approximately 0.57 times “40% of the audited NAV of Kenmure as at 31 December 2007”, which is lower than the minimum PBR of the Market Comparables.

We also notice that the average PER as represented by the Market Comparables was approximately 11.75 times with a range from approximately 4.88 times to 20.81 times.

Given that the audited net profit of Kenmure for the year ended 31 December 2007 was approximately HK\$7.19 million, the PER of the Acquisitions is approximately 7.65 times “40% of the audited net profit of Kenmure for the year ended 31 December 2007”, which is lower than the average PER and falls within the PER range of the Market Comparables

Kenmure had not declared any dividends to its shareholders during the year ended 31 December 2006. Consequently, there is no basis to assess the Considerations based on the historical dividend yield of Kenmure. Thus, the price to dividend analysis would not be applicable.

After taking into consideration that the PBR of the Acquisitions of approximately 0.57 times is lower than the minimum PBR of the Market Comparables and that the PER of the Acquisitions of approximately 7.65 times is lower than the average PER and falls within the PER range of the Market Comparables, we are of the opinion that the Considerations are in the interests of the Company and the Shareholders as a whole.

We have also reviewed the other terms of the Share Purchase Agreements and are not aware of any terms which are uncommon to normal market practice. Based on the above, we consider that the terms of the Share Purchase Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

### **(3) Financial effects of the Acquisitions**

#### *Effect on NAV*

As extracted from the 2007 Annual Report, the audited consolidated NAV attributable to equity holders of the Company was approximately HK\$959.94 million as at 31 December 2007. Upon Completion, the NAV attributable to equity holders of the Company will be increased to approximately HK\$966.52 million based on the unaudited pro-forma financial information of the Enlarged Group as set forth in Appendix III to the Circular.

#### *Effect on earnings*

In light of (i) the probable positive future business prospects of Kenmure; and (ii) that Kenmure shall be owned as to 100% indirectly by the Company upon Completion in which case the Company shall be able to fully consolidate the financial results of Kenmure into the Group’s consolidated financial statements, the Directors expected that the Acquisitions would likely to have a positive impact on the future earnings of the Group.

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## LETTER FROM GUANGDONG SECURITIES

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### *Effect on gearing*

As at 31 December 2007, the Group's gearing level (being calculated as total borrowings over total equity attributable to equity holders of the Company) was approximately 1.70%. From the unaudited pro-forma financial information of the Enlarged Group as set forth in Appendix III to the Circular, the total borrowings of the Group and the total equity attributable to equity holders of the Company would become approximately HK\$16.31 million and HK\$966.52 million respectively upon Completion. The gearing level of the Group would hence be slightly decreased to approximately 1.69%.

### *Effect on working capital*

As aforementioned, the Directors confirmed that the Group shall finance the Considerations of HK\$22 million in total by its internal resources. The Acquisitions would therefore lead to a reduction in the Group's working capital by the sum of the Considerations and the transaction cost of the Acquisitions of approximately HK\$1.10 million which includes professional fee for accountants, lawyer, independent financial adviser, etc.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company will be upon Completion.

## RECOMMENDATION

Having considered the above factors and reasons, we are of the opinion that (i) the terms of the Share Purchase Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisitions are in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the EGM to approve the Share Purchase Agreements and the transactions contemplated therein and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**Guangdong Securities Limited**  
**Doris Sing**  
*Responsible Officer*

## 1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

A summary of the audited consolidated financial information of the Group for the three financial years ended 31 December 2007, 31 December 2006 and 31 December 2005 as extracted from the relevant annual reports of the Company is set out below.

**Consolidated Income Statement**

*For the year ended 31 December*

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	266,027	227,206	242,536
<b>Cost of sales</b>	<u>(109,266)</u>	<u>(97,521)</u>	<u>(110,221)</u>
<b>Gross profit</b>	156,761	129,685	132,315
<b>Other income and gains</b>	6,558	5,103	5,859
<b>Selling and distribution costs</b>	(81,967)	(72,231)	(68,359)
<b>Administrative expenses</b>	(66,651)	(66,200)	(74,041)
<b>Other operating income, net</b>	58,565	2,509	16,631
<b>Fair value gains/(losses) and write-back of deficits on revaluation of properties, net</b>	(10,332)	12,545	6,397
<b>Finance costs</b>	(1,291)	(1,077)	(969)
<b>Share of profits and losses of associates</b>	<u>(6,388)</u>	<u>(2,852)</u>	<u>(2,883)</u>
<b>Profit before tax</b>	55,255	7,482	14,950
<b>Tax</b>	<u>—</u>	<u>—</u>	<u>43</u>
<b>Profit for the year</b>	<u>55,255</u>	<u>7,482</u>	<u>14,993</u>
<b>Attributable to:</b>			
Equity holders of the Company	52,426	12,047	10,923
Minority interests	<u>2,829</u>	<u>(4,565)</u>	<u>4,070</u>
	<u>55,255</u>	<u>7,482</u>	<u>14,993</u>
<b>Dividends</b>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>
<b>Earnings per share attributable to ordinary equity holders of the Company</b>			
— Basic	<u>3.18 cents</u>	<u>0.73 cents</u>	<u>0.66 cents</u>
— Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

**Consolidated Balance Sheet***As at 31 December*

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	77,303	84,638	80,326
Investment properties	113,900	123,900	109,700
Prepaid land premiums	2,986	3,063	3,140
Goodwill	6,610	6,610	6,610
Interests in associates	17,258	20,511	17,348
Available-for-sale equity investments	<u>35,448</u>	<u>35,503</u>	<u>35,503</u>
Total non-current assets	<u>253,505</u>	<u>274,225</u>	<u>252,627</u>
<b>Current assets</b>			
Inventories	41,359	37,481	34,920
Trade receivables	7,161	8,701	7,105
Prepayments, deposits and other receivables	33,656	33,267	37,407
Prepaid land premiums	77	77	77
Equity investments at fair value through profit or loss	197,894	154,612	148,736
Derivative financial instruments	—	104	—
Pledged deposits	342	342	342
Time deposits	495,798	495,074	515,379
Cash and bank balances	<u>46,487</u>	<u>27,148</u>	<u>29,246</u>
Total current assets	<u>822,774</u>	<u>756,806</u>	<u>773,212</u>
<b>Current liabilities</b>			
Trade and other payables	40,973	47,662	55,270
Interest-bearing bank and other borrowings	4,712	9,268	3,978
Current portion of debentures	2,670	4,102	1,684
Other loans	5,349	5,304	5,230
Tax payable	<u>5,497</u>	<u>5,497</u>	<u>5,497</u>
Total current liabilities	<u>59,201</u>	<u>71,833</u>	<u>71,659</u>
<b>Net current assets</b>	<u>763,573</u>	<u>684,973</u>	<u>701,553</u>
<b>Total assets less current liabilities</b>	<u>1,017,078</u>	<u>959,198</u>	<u>954,180</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Total assets less current liabilities</b>	<u>1,017,078</u>	<u>959,198</u>	<u>954,180</u>
<b>Non-current liabilities</b>			
Debentures	3,462	3,754	6,673
Interest-bearing bank and other borrowings	114	206	297
Deferred revenue	<u>23,015</u>	<u>25,821</u>	<u>27,868</u>
<b>Total non-current liabilities</b>	<u>26,591</u>	<u>29,781</u>	<u>34,838</u>
<b>Net assets</b>	<u><u>990,487</u></u>	<u><u>929,417</u></u>	<u><u>919,342</u></u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital	16,507	16,507	16,507
Reserves	<u>943,433</u>	<u>885,397</u>	<u>871,428</u>
	959,940	901,904	887,935
<b>Minority interests</b>	<u>30,547</u>	<u>27,513</u>	<u>31,407</u>
<b>Total equity</b>	<u><u>990,487</u></u>	<u><u>929,417</u></u>	<u><u>919,342</u></u>

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

The following are the audited consolidated financial statements of the Group for the year ended 31 December 2007 as extracted from the 2007 annual report of the Company.

### CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2007*

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
<b>REVENUE</b>	5	266,027	227,206
Cost of sales		<u>(109,266)</u>	<u>(97,521)</u>
Gross profit		156,761	129,685
Other income and gains	5	6,558	5,103
Selling and distribution costs		(81,967)	(72,231)
Administrative expenses		(66,651)	(66,200)
Other operating income, net	6	58,565	2,509
Fair value gains/(losses) and write-back of deficits on revaluation of properties, net		(10,332)	12,545
Finance costs	7	(1,291)	(1,077)
Share of profits and losses of associates		<u>(6,388)</u>	<u>(2,852)</u>
<b>PROFIT BEFORE TAX</b>	6	55,255	7,482
Tax	10	<u>—</u>	<u>—</u>
<b>PROFIT FOR THE YEAR</b>		<u>55,255</u>	<u>7,482</u>
Attributable to:			
Equity holders of the Company	11	52,426	12,047
Minority interests		<u>2,829</u>	<u>(4,565)</u>
		<u>55,255</u>	<u>7,482</u>
<b>DIVIDENDS</b>		<u>Nil</u>	<u>Nil</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	12		
Basic		<u>3.18 cents</u>	<u>0.73 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP****CONSOLIDATED BALANCE SHEET***31 December 2007*

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	77,303	84,638
Investment properties	14	113,900	123,900
Prepaid land premiums	15	2,986	3,063
Goodwill	16	6,610	6,610
Interests in associates	18	17,258	20,511
Available-for-sale equity investments	19	<u>35,448</u>	<u>35,503</u>
Total non-current assets		<u>253,505</u>	<u>274,225</u>
<b>CURRENT ASSETS</b>			
Inventories	20	41,359	37,481
Trade receivables	21	7,161	8,701
Prepayments, deposits and other receivables	22	33,656	33,267
Prepaid land premiums	15	77	77
Equity investments at fair value through profit or loss	23	197,894	154,612
Derivative financial instruments	24	—	104
Pledged deposits	25	342	342
Time deposits		495,798	495,074
Cash and bank balances	25	<u>46,487</u>	<u>27,148</u>
Total current assets		<u>822,774</u>	<u>756,806</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	26	40,973	47,662
Interest-bearing bank and other borrowings	27	4,712	9,268
Current portion of debentures	29	2,670	4,102
Other loans	30	5,349	5,304
Tax payable		<u>5,497</u>	<u>5,497</u>
Total current liabilities		<u>59,201</u>	<u>71,833</u>
<b>NET CURRENT ASSETS</b>		<u>763,573</u>	<u>684,973</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,017,078</u>	<u>959,198</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

		<b>2007</b>	<b>2006</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,017,078</u>	<u>959,198</u>
<b>NON-CURRENT LIABILITIES</b>			
Debentures	29	3,462	3,754
Interest-bearing bank and other borrowings	27	114	206
Deferred revenue		<u>23,015</u>	<u>25,821</u>
Total non-current liabilities		<u>26,591</u>	<u>29,781</u>
<b>Net assets</b>		<u>990,487</u>	<u>929,417</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital	32	16,507	16,507
Reserves	34(a)	<u>943,433</u>	<u>885,397</u>
		959,940	901,904
<b>Minority interests</b>		<u>30,547</u>	<u>27,513</u>
<b>Total equity</b>		<u>990,487</u>	<u>929,417</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Attributable to equity holders of the Company										
	Issued capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Property revaluation reserve HK\$'000	Available-for-sale equity investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total interests HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2006	16,507	1,189,721	478	808,822	3,114	—	1,718	(1,132,425)	887,935	31,407	919,342
Surplus on revaluation	—	—	—	—	1,007	—	—	—	1,007	671	1,678
Exchange realignment	—	—	—	—	—	—	915	—	915	—	915
Total income and expense recognised directly in equity	—	—	—	—	1,007	—	915	—	1,922	671	2,593
Profit for the year	—	—	—	—	—	—	—	12,047	12,047	(4,565)	7,482
Total income and expense for the year	—	—	—	—	1,007	—	915	12,047	13,969	(3,894)	10,075
At 31 December 2006 and 1 January 2007	16,507	1,189,721	478	808,822	4,121	—	2,633	(1,120,378)	901,904	27,513	929,417
Disposal of land and buildings	—	—	—	—	(4,121)	—	—	4,121	—	—	—
Changes in fair value of an available-for-sale equity investment	—	—	—	—	—	(55)	—	—	(55)	—	(55)
Impairment loss recognised in the income statement	—	—	—	—	—	55	—	—	55	—	55
Exchange realignment	—	—	—	—	—	—	5,610	—	5,610	205	5,815
Total income and expense recognised directly in equity	—	—	—	—	(4,121)	—	5,610	4,121	5,610	205	5,815
Profit for the year	—	—	—	—	—	—	—	52,426	52,426	2,829	55,255
Total income and expense for the year	—	—	—	—	(4,121)	—	5,610	56,547	58,036	3,034	61,070
At 31 December 2007	16,507	1,189,721*	478*	808,822*	—*	—*	8,243*	(1,063,831)*	959,940	30,547	990,487

\* These reserve accounts comprise the consolidated reserves of HK\$943,433,000 (2006: HK\$885,397,000) in the consolidated balance sheet.

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		55,255	7,482
Adjustments for:			
Depreciation	6	9,710	8,944
Amortisation of deferred revenue	6	(3,335)	(1,852)
Recognition of prepaid land premiums	15	77	77
Finance costs	7	1,291	1,077
Dividend income from listed investments	5	(5,122)	(4,765)
Interest income	5	(26,068)	(25,478)
Share of profits and losses of associates		6,388	2,852
Fair value losses/(gains) on revaluation of investment properties, net	6	18,600	(9,982)
Write-back of deficits on revaluation of resort and recreational club properties	6	(8,268)	(2,563)
Write-back of accrued payables	6	(12,570)	(8,060)
Impairment of trade receivables	6	206	30
Impairment of other receivables	6	—	4,480
Loss/(gain) on disposal of items of property, plant and equipment	6	(5,168)	66
Fair value losses/(gains), net:			
Available-for-sale equity investments (transfer from equity)	6	55	—
Equity investments at fair value through profit or loss	6	(38,147)	2,065
Derivative instrument — a transaction not qualifying as a hedge	6	104	(104)
Gains on disposal of equity investments at fair value through profit or loss, net	6	(4,626)	(1,308)
Foreign exchange gains, net		(4,516)	(2,615)
		(16,134)	(29,654)
Increase in inventories		(3,878)	(2,561)
Decrease/(increase) in trade receivables		1,334	(1,626)
Increase in prepayments, deposits and other receivables		(955)	(2,458)
Increase/(decrease) in trade and other payables		5,994	(1,087)
<b>Cash used in operations</b>		(13,639)	(37,386)
Interest received		27,048	27,566
Dividends received from listed investments		4,708	4,765
<b>Net cash inflow/(outflow) from operating activities</b>		18,117	(5,055)

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
<b>Net Cash inflow/(outflow) from operating activities</b>		18,117	(5,055)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(1,924)	(9,070)
Additions to investment properties		(586)	(18)
Purchases of equity investments at fair value through profit or loss		(11,527)	(15,262)
Advances to associates		(1,063)	(5,446)
Proceeds from disposal of items of property, plant and equipment		13,000	6
Proceeds from disposal of equity investments at fair value through profit or loss		11,018	8,629
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		<u>224,365</u>	<u>(77,278)</u>
<b>Net cash inflow/(outflow) from investing activities</b>		<u>233,283</u>	<u>(98,439)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank loans		55,153	42,840
Repayment of bank loans		(59,710)	(37,550)
Redemption of debentures		(1,650)	(670)
Capital element of finance lease rental payments		(91)	(91)
Interest paid		<u>(949)</u>	<u>(718)</u>
<b>Net cash inflow/(outflow) from financing activities</b>		<u>(7,247)</u>	<u>3,811</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		244,153	(99,683)
<b>Cash and cash equivalents at beginning of year</b>		27,148	126,829
<b>Effect of foreign exchange rate changes, net</b>		<u>275</u>	<u>2</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><u>271,576</u></u>	<u><u>27,148</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		46,487	27,148
Non-pledged time deposits with original maturity of less than three months when acquired		<u>225,089</u>	<u>—</u>
		<u><u>271,576</u></u>	<u><u>27,148</u></u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP****BALANCE SHEET**

31 December 2007

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	324	271
Investment properties	14	128,400	127,900
Interests in subsidiaries	17	225,610	224,780
Interests in associates	18	347	322
Total non-current assets		<u>354,681</u>	<u>353,273</u>
<b>CURRENT ASSETS</b>			
Equity investments at fair value through profit or loss	23	177,201	143,381
Prepayments, deposits and other receivables	22	6,145	6,655
Pledged deposits	25	342	342
Time deposits		495,798	495,074
Cash and bank balances	25	6,070	4,553
Total current assets		<u>685,556</u>	<u>650,005</u>
<b>CURRENT LIABILITIES</b>			
Other payables	26	4,205	2,408
Due to a subsidiary	17	45,275	54,974
Total current liabilities		<u>49,480</u>	<u>57,382</u>
<b>NET CURRENT ASSETS</b>		<u>636,076</u>	<u>592,623</u>
<b>Net assets</b>		<u>990,757</u>	<u>945,896</u>
<b>EQUITY</b>			
Issued capital	32	16,507	16,507
Reserves	34(b)	974,250	929,389
<b>Total equity</b>		<u>990,757</u>	<u>945,896</u>

## NOTES TO FINANCIAL STATEMENTS

*31 December 2007***1. CORPORATE INFORMATION**

ENM Holdings Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at Suite 1502, 15/F, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

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

- wholesale and retail of fashion wear and accessories
- telecommunications operations
- resort and recreational club operations
- investment holding and securities trading

**2.1 BASIS OF PREPARATION**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, land and buildings, resort and recreational club properties, equity investments and derivative financial instruments which have been measured at fair value as further explained in note 2.4. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

**Basis of consolidation**

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

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

**2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

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

HKFRS 7	<i>Financial Instruments: Disclosures</i>
HKAS 1 Amendment	<i>Capital Disclosures</i>
HK(IFRIC)-Int 8	<i>Scope of HKFRS 2</i>
HK(IFRIC)-Int 9	<i>Reassessment of Embedded Derivatives</i>
HK(IFRIC)-Int 10	<i>Interim Financial Reporting and Impairment</i>

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

(a) HKFRS 7 *Financial Instruments: Disclosures*

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

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

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 41 to the financial statements.

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

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

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

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group does not have any embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

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

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

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

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

HKFRS 2 Amendment	<i>Share-based Payment</i> <sup>1</sup>
HKFRS 8	<i>Operating Segments</i> <sup>1</sup>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> <sup>1</sup>
HKAS 23 (Revised)	<i>Borrowing Costs</i> <sup>1</sup>
HK(IFRIC)-Int 11	<i>HKFRS 2 - Group and Treasury Share Transactions</i> <sup>2</sup>
HK(IFRIC)-Int 12	<i>Service Concession Arrangements</i> <sup>4</sup>

HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> <sup>3</sup>
HK(IFRIC)-Int 14	<i>HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> <sup>4</sup>
HKFRS 3 (Revised)	<i>Business Combination</i> <sup>5</sup>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2009

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

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

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

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

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

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

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

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

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 has been revised to require that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revisions to HKFRS 3 and HKAS 27 will be applied by the Group prospectively as required under the revised standards and will affect future acquisitions and transactions of the Group with minority interests.

## **2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Subsidiaries**

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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

### **Associates**

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

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

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

**Goodwill**

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

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

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

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

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

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

***Goodwill previously eliminated against consolidated capital reserves***

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

**Impairment of non-financial assets other than goodwill**

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

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

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

**Related parties**

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

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

**Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits/accumulated losses as a movement in reserves.

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

Land and buildings ( <i>Note</i> )	Over the remaining lease terms
Resort and recreational club properties	Over the remaining lease terms
Leasehold improvements	Over the shorter of the remaining lease terms and 5 to 6 years
Furniture, fixtures and equipment	2 to 7 years
Communications equipment	6 years
Motor vehicles	3 to 5 years

*Note:* These represent buildings situated on leasehold land whereby the fair values of the leasehold interests in the land and buildings elements cannot be allocated reliably at the inception of the respective leases.

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

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

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

#### **Investment properties**

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

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

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

#### **Leases**

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

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

#### **Investments and other financial assets**

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

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

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

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

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

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

#### ***Loans and receivables***

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

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

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

***Fair value***

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

***Impairment of financial assets***

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

***Assets carried at amortised cost***

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

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

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

***Assets carried at cost***

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

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

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

**Derecognition of financial assets**

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**Financial liabilities at amortised cost (including interest-bearing loans and borrowings)**

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

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

**Financial guarantee contracts**

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of

the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

**Derecognition of financial liabilities**

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

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

**Derivative financial instruments and hedging**

The Group uses derivative financial instruments such as foreign exchange option contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of foreign exchange option contracts is determined by reference to current forward exchange rates for contracts with similar maturity profiles.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis or the actual basis and comprises invoiced value of purchases, and where applicable, freight, insurance and delivery charges. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to make the sale.

**Cash and cash equivalents**

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

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

**Provisions**

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

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

#### Income tax

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

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

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

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

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

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

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

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

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

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

**Revenue recognition**

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

(a) *Wholesale and retail of fashion wear and accessories*

Revenue from the sale of fashion wear and accessories is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(b) *Telecommunications operations*

Telecommunications operations include the provision of telecommunications services and the marketing and distribution of network cards and other accessories:

*Provision of telecommunications services*

Revenue from the provision of telecommunications services, comprising proprietary services and carrier operations, is recognised when the services are rendered on the basis of traffic statistics agreed with international telecommunications carriers to the extent of the amounts expected to be received.

*Marketing and distribution of network cards and other accessories*

Revenue from the marketing and distribution of network cards and other accessories is recognised when the services are rendered and the Group's right to receive payment has been established.

(c) *Resort and recreational club operations*

Entrance fee income is recognised when the application for club membership is accepted and no significant uncertainty as to collectability exists. Annual subscription fee income is recognised over the relevant period of the membership. Revenue from the provision of resort and club facilities, catering and other services is recognised when goods are delivered or services are rendered.

(d) *Dividend income*

Dividend income is recognised when the shareholders' right to receive payment has been established.

(e) *Interest income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(f) *Rental income*

Rental income is recognised on a time proportion basis over the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Contingent rental is recognised in the income statement for the period in which it is earned.

(g) *Consultancy, management and other services*

Revenue from the provision of consultancy, management and other services is recognised when the relevant services have been provided and the Group's right to receive payment has been established.

**Employee benefits**

*Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

In parallel with the MPF Scheme, the Group also operates separate defined contribution retirement benefits schemes under the Occupational Retirement Schemes Ordinance for those employees who are eligible to participate. These separate schemes operate in a similar way to the MPF Scheme, except that when an employee leaves the schemes before his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group will be reduced by the relevant amount of the forfeited employer contributions.

*Share-based payment transactions*

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

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

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

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

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

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

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

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

#### **Borrowing costs**

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

#### **Foreign currencies**

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

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

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

### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

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

#### **Judgements**

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

##### *Operating lease commitments - Group as lessor*

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

***Classification between investment properties and owner-occupied properties***

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

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

***Estimation uncertainty***

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

***Impairment of goodwill***

The key assumptions used for impairment assessment of goodwill are included in note 16 to the financial statements.

***Impairment of available-for-sale financial assets***

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. In the year ended 31 December 2007, impairment loss recognised for available-for-sale assets amounted to HK\$55,000 (2006: Nil).

***Write-down of inventories to net realisable value***

Management reviews the aging analysis of inventories at each balance sheet date and makes provision for obsolete and slow-moving inventory items identified that are either expected to be sold below cost or no longer suitable for sale. This assessment process involves estimates. Management is satisfied that sufficient provision for obsolete and slow-moving inventories has been made as at 31 December 2007.

***Estimation of fair value of properties***

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

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

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

#### **4. SEGMENT INFORMATION**

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

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

<b>Business segments</b>	<b>Nature of operations</b>
Wholesale and retail of fashion wear and accessories	The trading of fashion wear and accessories
Telecommunications operations	The provision of telecommunications services and the marketing and distribution of network cards and other accessories
Resort and recreational club operations	The provision of resort and recreational facilities and catering services
Investments and treasury	Treasury operations and the holding and trading of investments for short term and long term investment returns

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**
**(a) Business segments**

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

**Group**

	Wholesale and retail of fashion wear and accessories		Telecom- munications operations		Resort and recreational club operations		Investments and treasury		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	214,168	174,710	3,535	2,985	17,134	19,268	31,190	30,243	266,027	227,206
Other revenue	<u>1,574</u>	<u>2,202</u>	<u>90</u>	<u>7</u>	<u>4,867</u>	<u>2,370</u>	<u>27</u>	<u>524</u>	<u>6,558</u>	<u>5,103</u>
Total	<u>215,742</u>	<u>176,912</u>	<u>3,625</u>	<u>2,992</u>	<u>22,001</u>	<u>21,638</u>	<u>31,217</u>	<u>30,767</u>	<u>272,585</u>	<u>232,309</u>
Segment results	<u>8,040</u>	<u>(11,039)</u>	<u>6,999</u>	<u>(3,397)</u>	<u>4,723</u>	<u>3,725</u>	<u>56,333</u>	<u>11,618</u>	76,095	907
Unallocated expenses									(2,829)	(2,041)
Fair value gains/(losses) on revaluation of investment properties, net	—	—	—	—	(24,100)	8,782	5,500	1,200	(18,600)	9,982
Write-back of deficits on revaluation of resort and recreational club properties	—	—	—	—	8,268	2,563	—	—	8,268	2,563
Finance costs									(1,291)	(1,077)
Share of profits and losses of associates	—	—	—	—	(3,087)	(4,571)	(3,301)	1,719	<u>(6,388)</u>	<u>(2,852)</u>
Profit before tax									55,255	7,482
Tax									—	—
Profit for the year									<u>55,255</u>	<u>7,482</u>

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

Group	Wholesale and retail of fashion wear and accessories		Telecom- munications operations		Resort and recreational club operations		Investments and treasury		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	101,732	97,568	24,065	18,280	178,765	190,637	754,459	704,035	1,059,021	1,010,520
Interests in associates	—	—	—	—	8,304	8,942	8,954	11,569	17,258	20,511
Total assets									<u>1,076,279</u>	<u>1,031,031</u>
Segment liabilities	16,090	14,464	10,233	23,141	42,359	45,970	6,787	3,068	75,469	86,643
Unallocated liabilities									<u>10,323</u>	<u>14,971</u>
Total liabilities									<u>85,792</u>	<u>101,614</u>
Other segment information:										
Depreciation and amortisation	7,757	7,028	40	107	1,883	1,781	107	105	9,787	9,021
Impairment losses recognised in the income statement	—	—	—	—	206	30	55	4,480	261	4,510
Write-back of accrued payables	—	—	12,570	8,060	—	—	—	—	12,570	8,060
Other non-cash expenses	—	—	—	26	—	40	1,788	12,038	1,788	12,104
Capital expenditure on:										
Property, plant and equipment	1,687	8,393	—	10	78	322	159	345	1,924	9,070
Investment properties	—	—	—	—	586	18	—	—	586	18
Surplus on revaluation of land and buildings recognised directly in equity attributable to equity holders of the Company	<u>—</u>	<u>1,007</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,007</u>

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**
**(b) Geographical segments**

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

**Group**

	Hong Kong		Mainland China		Other Asia Pacific regions		Others		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	<u>262,413</u>	<u>224,132</u>	<u>1,234</u>	<u>3,070</u>	<u>—</u>	<u>4</u>	<u>2,380</u>	<u>—</u>	<u>266,027</u>	<u>227,206</u>
Other segment information:										
Segment assets	<u>906,532</u>	<u>843,390</u>	<u>138,334</u>	<u>155,991</u>	<u>30,946</u>	<u>30,706</u>	<u>467</u>	<u>944</u>	<u>1,076,279</u>	<u>1,031,031</u>
Capital expenditure on:										
Property, plant and equipment	1,924	9,060	—	10	—	—	—	—	1,924	9,070
Investment properties	<u>—</u>	<u>—</u>	<u>586</u>	<u>18</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>586</u>	<u>18</u>

**5. REVENUE, OTHER INCOME AND GAINS**

The principal activities of the Group are the wholesale and retail of fashion wear and accessories, telecommunications operations, resort and recreational club operations, and investment and treasury operations. An analysis of revenue (which is also the Group's turnover), other income and gains is as follows:

	2007 HK\$'000	2006 HK\$'000
<b>Revenue</b>		
Wholesale and retail of fashion wear and accessories	214,168	174,710
Telecommunications operations	3,535	2,985
Resort and recreational club operations	17,134	19,268
Dividend income from listed investments	5,122	4,765
Interest income	<u>26,068</u>	<u>25,478</u>
	<u>266,027</u>	<u>227,206</u>
<b>Other income and gains</b>		
Rental income	894	455
Management fees	1,014	1,833
Others	<u>4,650</u>	<u>2,815</u>
	<u>6,558</u>	<u>5,103</u>

## 6. PROFIT BEFORE TAX

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

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Cost of inventories sold		108,988	97,272
Depreciation*	13	9,710	8,944
Auditors' remuneration for audit services		1,398	1,315
Amortisation of deferred revenue		(3,335)	(1,852)
Recognition of prepaid land premiums*	15	77	77
Operating lease payments for land and buildings:			
Minimum lease payments		44,884	36,307
Contingent rentals		3,182	1,854
Impairment of other receivables*		—	4,480
Write-back of accrued payables*		(12,570)	(8,060)
Fair value losses/(gains), net:			
Available-for-sale equity investments (transfer from equity)*		55	—
Equity investments at fair value through profit or loss*		(38,147)	2,065
Derivative instrument - a transaction not qualifying as a hedge*		104	(104)
Gains on disposal of equity investments at fair value through profit or loss, net*		(4,626)	(1,308)
Loss/(gain) on disposal of items of property, plant and equipment*		(5,168)	66
Net rental income		(890)	(449)
Employee benefits expense (including directors' remunerations (note 8)):			
Salaries, wages and other benefits		57,009	56,013
Pension scheme contributions under defined contribution schemes		1,940	2,011
Less: Forfeited contributions <sup>^</sup>		—	(48)
		<u>58,949</u>	<u>57,976</u>
Exchange gains, net*		(8,579)	(8,791)
Impairment of trade receivables		206	30
Fair value losses/(gains) on revaluation of investment properties, net	14	18,600	(9,982)
Write-back of deficits on revaluation of resort and recreational club properties	13	(8,268)	(2,563)
Write-down of inventories to net realisable value		<u>1,000</u>	<u>1,000</u>

\* The balances are included in "Other operating income, net" on the face of the consolidated income statement.

<sup>^</sup> At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2006: Nil).

## 7. FINANCE COSTS

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	935	704
Interest on a finance lease	14	14
Accretion of interest on debentures	342	359
	<u>1,291</u>	<u>1,077</u>

## 8. DIRECTORS' REMUNERATION

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

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	400	400
Other emoluments:		
Salaries, allowances and benefits in kind	5,869	5,806
Pension scheme contributions	36	36
Performance related bonuses	242	117
	<u>6,147</u>	<u>5,959</u>
	<u>6,547</u>	<u>6,359</u>

No share options or any other forms of share-based payments were granted to directors during the year (2006: Nil).

## (a) Independent non-executive directors

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dr. Cecil Sze Tsung CHAO	20	20
Dr. Jen CHEN	20	20
Mr. Ian Grant ROBINSON	240	240
	<u>280</u>	<u>280</u>

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

## (b) Executive directors and a non-executive director

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Performance related bonuses <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
<b>2007</b>					
Executive directors:					
Mr. Joseph Wing Kong LEUNG	40	288	12	12	352
Mr. James C. NG	20	3,958	12	165	4,155
Mr. Derek Wai Choi LEUNG	20	—	—	—	20
Mr. Wing Tung YEUNG	20	1,623	12	65	1,720
	100	5,869	36	242	6,247
Non-executive director:					
Mr. Raymond Wai Pun LAU	20	—	—	—	20
	<u>120</u>	<u>5,869</u>	<u>36</u>	<u>242</u>	<u>6,267</u>
<b>2006</b>					
Executive directors:					
Mr. Joseph Wing Kong LEUNG	40	288	12	12	352
Mr. James C. NG	20	3,958	12	—	3,990
Mr. Derek Wai Choi LEUNG	20	—	—	—	20
Mr. Wing Tung YEUNG	20	1,560	12	105	1,697
	100	5,806	36	117	6,059
Non-executive director:					
Mr. Raymond Wai Pun LAU	20	—	—	—	20
	<u>120</u>	<u>5,806</u>	<u>36</u>	<u>117</u>	<u>6,079</u>

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

**9. FIVE HIGHEST PAID EMPLOYEES**

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

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	4,357	4,492
Pension scheme contributions	<u>126</u>	<u>144</u>
	<u><u>4,483</u></u>	<u><u>4,636</u></u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	<b>Number of employees</b>	
	<b>2007</b>	<b>2006</b>
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$2,500,001 to HK\$3,000,000	<u>1</u>	<u>1</u>
	<u><u>3</u></u>	<u><u>3</u></u>

No share options or any other forms of share-based payments were granted to the five highest paid employees during the year (2006: Nil).

**10. TAX**

No provision for Hong Kong profits tax and overseas income tax has been made for the year ended 31 December 2007 (2006: Nil) as the Company and its subsidiaries either did not generate any assessable profits for the year or have available tax losses brought forward from prior years to offset against any assessable profits generated during the year.

A reconciliation of the tax expense applicable to profit before tax using the applicable rate for the countries/jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	Group			
	2007		2006	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit before tax	<u>55,255</u>		<u>7,482</u>	
Tax charge at the applicable tax rate	10,346	18.7	1,716	22.9
Income not subject to tax	(8,347)	(15.1)	(7,970)	(106.5)
Expenses not deductible for tax	3,747	6.8	3,749	50.1
Tax losses not recognised	3,946	7.1	3,723	49.8
Tax losses utilised from previous periods	<u>(9,692)</u>	<u>(17.5)</u>	<u>(1,218)</u>	<u>(16.3)</u>
Tax charge at the Group's effective rate	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of HK\$44,861,000 (2006: HK\$21,163,000) which has been dealt with in the financial statements of the Company (note 34(b)).

#### 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$52,426,000 (2006: HK\$12,047,000), and the weighted average number of ordinary shares in issue during the year of 1,650,658,676 (2006: 1,650,658,676).

Diluted earnings per share amounts for the years ended 31 December 2007 and 2006 have not been disclosed as there were no diluting events during these years.

## 13. PROPERTY, PLANT AND EQUIPMENT

## Group

	Land and buildings <i>HK\$'000</i>	Resort and recreational club properties <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Com- munications equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2007</b>							
Cost or valuation:							
At beginning of year	9,200	62,300	1,875	47,959	37,552	3,493	162,379
Additions	—	—	100	1,824	—	—	1,924
Disposals	(9,200)	—	—	(9,201)	—	—	(18,401)
Surplus on revaluation	—	8,268	—	—	—	—	8,268
Elimination of accumulated depreciation	—	(1,568)	—	—	—	—	(1,568)
Exchange realignment	—	—	22	32	—	35	89
At 31 December 2007	—	69,000	1,997	40,614	37,552	3,528	152,691
Accumulated depreciation and impairment:							
At beginning of year	—	—	1,662	35,532	37,552	2,995	77,741
Depreciation provided during the year	1,368	1,568	94	6,557	—	123	9,710
Write-back on revaluation	—	(1,568)	—	—	—	—	(1,568)
Disposals	(1,368)	—	—	(9,201)	—	—	(10,569)
Exchange realignment	—	—	18	29	—	27	74
At 31 December 2007	—	—	1,774	32,917	37,552	3,145	75,388
Net book value:							
At 31 December 2007	—	69,000	223	7,697	—	383	77,303
Analysis of cost or valuation:							
At cost	—	—	1,997	40,614	37,552	3,528	83,691
At 31 December 2007 valuation	—	69,000	—	—	—	—	69,000
	—	69,000	1,997	40,614	37,552	3,528	152,691

Group	Resort and recreational		Leasehold improvements	Furniture, fixtures and equipment	Com-munications equipment	Motor vehicles	Total
	Land and buildings	club properties					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>31 December 2006</b>							
Cost or valuation:							
At beginning of year	8,500	61,200	1,678	45,022	37,565	3,535	157,500
Additions	—	—	183	8,887	—	—	9,070
Disposals	—	—	—	(6,038)	(13)	(69)	(6,120)
Surplus on revaluation	1,678	2,563	—	—	—	—	4,241
Elimination of accumulated depreciation	(978)	(1,463)	—	—	—	—	(2,441)
Exchange realignment	—	—	14	88	—	27	129
At 31 December 2006	<u>9,200</u>	<u>62,300</u>	<u>1,875</u>	<u>47,959</u>	<u>37,552</u>	<u>3,493</u>	<u>162,379</u>
Accumulated depreciation and impairment:							
At beginning of year	—	—	1,558	35,193	37,565	2,858	77,174
Depreciation provided during the year	978	1,463	95	6,260	—	148	8,944
Write-back on revaluation	(978)	(1,463)	—	—	—	—	(2,441)
Disposals	—	—	—	(6,005)	(13)	(30)	(6,048)
Exchange realignment	—	—	9	84	—	19	112
At 31 December 2006	<u>—</u>	<u>—</u>	<u>1,662</u>	<u>35,532</u>	<u>37,552</u>	<u>2,995</u>	<u>77,741</u>
Net book value:							
At 31 December 2006	<u>9,200</u>	<u>62,300</u>	<u>213</u>	<u>12,427</u>	<u>—</u>	<u>498</u>	<u>84,638</u>
Analysis of cost or valuation:							
At cost	—	—	1,875	47,959	37,552	3,493	90,879
At 31 December 2006 valuation	<u>9,200</u>	<u>62,300</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>71,500</u>
	<u>9,200</u>	<u>62,300</u>	<u>1,875</u>	<u>47,959</u>	<u>37,552</u>	<u>3,493</u>	<u>162,379</u>

Company	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2007</b>			
Cost:			
At beginning of year	183	164	347
Additions	<u>100</u>	<u>60</u>	<u>160</u>
At 31 December 2007	<u>283</u>	<u>224</u>	<u>507</u>
Accumulated depreciation:			
At beginning of year	25	51	76
Depreciation provided during the year	<u>38</u>	<u>69</u>	<u>107</u>
At 31 December 2007	<u>63</u>	<u>120</u>	<u>183</u>
Net book value:			
At 31 December 2007	<u><u>220</u></u>	<u><u>104</u></u>	<u><u>324</u></u>
<b>31 December 2006</b>			
Cost:			
At beginning of year	—	3	3
Additions	<u>183</u>	<u>161</u>	<u>344</u>
At 31 December 2006	<u>183</u>	<u>164</u>	<u>347</u>
Accumulated depreciation:			
At beginning of year	—	3	3
Depreciation provided during the year	<u>25</u>	<u>48</u>	<u>73</u>
At 31 December 2006	<u>25</u>	<u>51</u>	<u>76</u>
Net book value:			
At 31 December 2006	<u><u>158</u></u>	<u><u>113</u></u>	<u><u>271</u></u>

The net book value of a motor vehicle held under a finance lease included in the total amount of the Group's motor vehicles at 31 December 2007 amounted to HK\$248,000 (2006: HK\$341,000).

The Group's resort and recreational club properties are situated in Hong Kong and are held under medium term leases.

The Group's resort and recreational club properties were revalued at 31 December 2007 and 2006 by independent professionally qualified valuers, DTZ Debenham Tie Leung Limited ("DTZ"), on a depreciated replacement cost basis. The revaluation surplus of HK\$8,268,000 (2006: HK\$2,563,000) for the year ended 31 December 2007 has been credited to the income statement to write-back deficits on previous revaluations.

Had the Group's resort and recreational club properties been carried at historical cost less accumulated depreciation and impairment losses as at 31 December 2007, their aggregate carrying amount would have been approximately HK\$27,454,000.

#### 14. INVESTMENT PROPERTIES

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January	123,900	109,700
Additions	586	18
Net profit/(loss) from a fair value adjustment	(18,600)	9,982
Exchange realignment	<u>8,014</u>	<u>4,200</u>
Carrying amount at 31 December	<u><u>113,900</u></u>	<u><u>123,900</u></u>

At 31 December 2007, the Group's investment properties comprised industrial property units situated in Hong Kong of HK\$11,400,000 (2006: HK\$5,900,000) and resort and recreational club properties situated in Mainland China of HK\$102,500,000 (2006: HK\$118,000,000). These properties are held under medium term leases.

The Group's industrial property units are held for capital appreciation purpose whereas its resort and recreational club properties are held for leasing to an associate of the Group, Shanghai Landis Hospitality Management Co. Ltd., under an operating lease arrangement for resort and recreational club operations. Further summary details of the lease are included in note 37(a) to the financial statements.

	<b>Company</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January	127,900	122,700
Net profit from a fair value adjustment	<u>500</u>	<u>5,200</u>
Carrying amount at 31 December	<u><u>128,400</u></u>	<u><u>127,900</u></u>

At 31 December 2007, the Company's investment properties comprised industrial property units of HK\$11,400,000 (2006: HK\$5,900,000) and resort and recreational club properties of HK\$117,000,000 (2006: HK\$122,000,000) which are situated in Hong Kong and are held under medium term leases.

The Company's industrial property units are held for capital appreciation purpose whereas its resort and recreational club properties are leased to its wholly-owned subsidiary, Hill Top Country Club Limited, for resort and recreational club operations.

The Group's and the Company's investment properties were revalued individually at 31 December 2007 and 2006 by independent professionally qualified valuers, DTZ, on an open market, existing use basis.

Further particulars of the Group's investment properties are included on page 102 of the Company's 2007 annual report.

#### 15. PREPAID LAND PREMIUMS

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January	3,140	3,217
Recognised during the year	<u>(77)</u>	<u>(77)</u>
Carrying amount at 31 December	3,063	3,140
Current portion	<u>(77)</u>	<u>(77)</u>
Non-current portion	<u><u>2,986</u></u>	<u><u>3,063</u></u>

The leasehold land is held under a medium term lease and is situated in Hong Kong.

#### 16. GOODWILL

Goodwill capitalised as an asset in the consolidated balance sheet arose from the acquisition of subsidiaries.

	<b>Group</b>
	<i>HK\$'000</i>
Cost:	
At 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007	8,045
Accumulated impairment:	
At 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007	<u>1,435</u>
Net carrying amount:	
At 31 December 2007 and 2006	<u><u>6,610</u></u>

#### Impairment testing of goodwill

Goodwill of a carrying amount of HK\$6,610,000 (2006: HK\$6,610,000) as at 31 December 2007 relates to the Group's wholesale and retail of fashion wear and accessories business (the "Fashion Business").

The recoverable amount of the Group's Fashion Business has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by management that cover a 15-year period. Assumptions have been made by management that the cash flows from the Group's Fashion Business will continue beyond at least the forecast period in view of management's long term experience in running the business. The discount rate applied to the cash flow projections is 7.5%.

The annual growth rate used to extrapolate the cash flows of the Group's Fashion Business during the forecast period is 6% based on the assumptions that there will be no significant economic downturn throughout the period, taking into account of the market competition and the continuous growth in market demand for upscale fashion wear and accessories.

Management has considered the assumptions used in the cash flow projections, taking into account the business expansion plan going forward, which includes the strategic expansion in Hong Kong and other cities in China, and believes that there is no impairment in the goodwill related to the Fashion Business. Management believes that any reasonably foreseeable change in any of the key assumptions would not cause the carrying amount of the goodwill to exceed its recoverable amount.

#### 17. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	12,700	12,700
Due from subsidiaries	<u>1,308,746</u>	<u>1,282,104</u>
	1,321,446	1,294,804
Provision for impairment	<u>(1,095,836)</u>	<u>(1,070,024)</u>
	<u>225,610</u>	<u>224,780</u>

Impairment losses were recognised for investments in the unlisted shares of subsidiaries and amounts due from subsidiaries with carrying amounts (before deducting the impairment losses) of HK\$12,700,000 and HK\$1,083,136,000, respectively, because these subsidiaries have insufficient assets to be realised for the Company to recover its interests therein. During the year ended 31 December 2007, there was no movement in the impairment recognised for the investments in unlisted shares (2006: Nil) and the increase in impairment for amounts due from subsidiaries was HK\$25,812,000 (2006: HK\$15,543,000).

The amounts due from subsidiaries are unsecured, interest-free and not due for settlement within one year. The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

The carrying amounts of all balances with subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Asia Pacific Telecommunications Limited	Hong Kong	HK\$2,000	—	100	Provision of telecom- munications services
e-New Media Technology Limited	British Virgin Islands/ Hong Kong	US\$1	100	—	Investment holding
e-Media (Asia) Limited	Cayman Islands/ Hong Kong	US\$1	100	—	Investment holding

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
ENM Investments Limited	Cayman Islands/ Hong Kong	US\$1	100	—	Investment holding
Fortress Global Limited	Hong Kong	HK\$2	—	100	Investment holding
Hill Top Country Club Limited	Hong Kong	HK\$10,000,000	100	—	Recreational club operations
Jackpot International Business Inc.	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Kenmure Limited	Hong Kong	HK\$55,000,000	—	60	Investment holding
Lion Dragon Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
New Media Corporation	Cayman Islands/ Hong Kong	US\$2,227,280	—	100	Investment holding
Powerbridge Limited	British Virgin Islands/ Hong Kong	US\$600,000	—	75	Investment holding
Richtime Management Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Shanghai ENM Telecom & Technology Limited**	People's Republic of China ("PRC")/ Mainland China	US\$1,000,000	—	75	Marketing and distribution of network cards and other accessories
Shanghai Hilltop Resort Hotel Ltd. ("Shanghai Hilltop")***	PRC/Mainland China	US\$7,200,000	—	80	Property investment in a resort and recreational club
The Swank Shop Limited	Hong Kong	HK\$104,500,000	—	60	Retail and wholesale of fashion wear and accessories
Ventures Triumph Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Voice Information Systems Limited	Hong Kong	Ordinary "A" HK\$3,000,000 Ordinary "B" HK\$2,000,000	—	100	Provision of telecommunications services
Wintalent International Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding

\* Registered as a wholly-foreign-owned enterprise established in the PRC

\*\* Registered as a Sino-foreign co-operation joint venture established in the PRC

# The English names are direct translations of the Chinese names of the entities

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

## 18. INTERESTS IN ASSOCIATES

	Group		Company	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	—	—	1	1
Share of net assets	15,406	14,276	—	—
Goodwill on acquisition	14,986	14,986	—	—
	30,392	29,262	1	1
Due from associates	1,385	5,768	346	321
	31,777	35,030	347	322
Provision for impairment	(14,519)	(14,519)	—	—
	17,258	20,511	347	322

The amounts due from associates are unsecured, interest-free and not due for settlement within one year. The carrying amounts of all balances with associates approximate to their fair values.

Included in goodwill on acquisition was an amount of HK\$14,519,000 (2006: HK\$14,519,000) as at 31 December 2007 which arose from the acquisition of 20% equity interest in Beijing Smartdot Technologies Co. Ltd.. This goodwill balance had been fully impaired in prior years.

Particulars of the principal associates are as follows:

Name	Particulars of issued shares held/registered share capital	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Beijing Smartdot Technologies Co. Ltd.	RMB37,742,000	PRC	20	Software development and provision of project solutions
Shanghai Landis Hospitality Management Co. Ltd. ("Shanghai Landis") #	US\$8,000,000	PRC	35	Resort and recreational club management
Ventile Investments Limited	100 ordinary shares of US\$1 each	British Virgin Islands	35	Provision of financing services

# The English name is a direct translation of the Chinese name of the company.

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

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

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

	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets	174,490	167,828
Liabilities	(110,757)	(99,928)
Revenues	122,864	96,337
Loss	<u>(20,211)</u>	<u>(4,721)</u>

**19. AVAILABLE-FOR-SALE EQUITY INVESTMENTS**

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Overseas listed equity investments, at fair value	70	125
Unlisted equity investments, at cost less impairment loss	<u>35,378</u>	<u>35,378</u>
	<u>35,448</u>	<u>35,503</u>

During the year ended 31 December 2007, the gross loss of the Group's available-for-sale equity investments recognised directly in equity amounted to HK\$55,000 (2006: Nil) and this entire balance was removed from equity and recognised in the income statement for the year. No gross gain or loss of the Group's available-for-sale equity investments was recognised directly in equity for the year ended 31 December 2006.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices. The unlisted equity investments are carried at cost, less any impairment losses, because the directors are of the opinion that their fair values cannot be measured reliably. Such investments are non-derivative and mainly represent investments in the shares of entities principally involved in medical drug development, manufacturing and distribution, and electronic payment and intra-bank fund transfer services. The Group does not intend to dispose of them in the near future.

**20. INVENTORIES**

As at 31 December 2007 and 2006, all of the Group's inventories represented finished goods.

## 21. TRADE RECEIVABLES

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	9,098	10,567
Impairment	<u>(1,937)</u>	<u>(1,866)</u>
	<u>7,161</u>	<u>8,701</u>

The Group maintains a defined credit policy for its trade customers and the credit terms given vary according to the business activities. The financial strength of and the length of business relationship with the customers, on an individual basis, are considered in arriving at the respective credit terms. Overdue balances are reviewed regularly by management.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	4,128	5,847
2 to 3 months	844	290
Over 3 months	<u>2,189</u>	<u>2,564</u>
	<u>7,161</u>	<u>8,701</u>

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

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	1,866	1,872
Impairment losses recognised ( <i>note 6</i> )	206	30
Amount written off as uncollectible	<u>(135)</u>	<u>(36)</u>
At 31 December	<u>1,937</u>	<u>1,866</u>

Included in the above provision for impairment of trade receivables was a provision for individually impaired trade receivables of HK\$1,937,000 (2006: HK\$1,866,000) with a carrying amount of HK\$1,937,000 (2006: HK\$1,866,000). The individually impaired trade receivables relate to customers that have been in default for prolonged periods and there is significant uncertainty over the recovery of the balances. The Group does not hold any collateral or other credit enhancements over these balances.

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

The aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	<b>Group</b>	
	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Neither past due nor impaired	4,160	5,847
Less than 1 month past due	290	276
1 to 3 months past due	522	252
Over 3 months past due	<u>2,189</u>	<u>2,326</u>
	<u><u>7,161</u></u>	<u><u>8,701</u></u>

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

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

The carrying amounts of trade receivables approximate to their fair values.

**22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Deposits	17,463	17,713	446	381
Prepayments and other receivables	<u>16,193</u>	<u>15,554</u>	<u>5,699</u>	<u>6,274</u>
	<u><u>33,656</u></u>	<u><u>33,267</u></u>	<u><u>6,145</u></u>	<u><u>6,655</u></u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default and their carrying amounts approximate to their fair values.

**23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Listed equity investments, at market value:				
Hong Kong	197,497	153,881	177,201	143,381
Elsewhere	<u>397</u>	<u>731</u>	<u>—</u>	<u>—</u>
	<u><u>197,894</u></u>	<u><u>154,612</u></u>	<u><u>177,201</u></u>	<u><u>143,381</u></u>

The above equity investments at 31 December 2007 and 2006 were classified as held for trading and included the ordinary shares of HK\$2 each of China Motor Bus Company, Limited, a company incorporated in Hong Kong, as follows:

	Group		Company	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Market value of ordinary shares of China Motor Bus Company, Limited	131,384	118,413	130,601	117,706
Proportion of ownership interest	4.5%	4.5%	4.5%	4.5%

At the date of approval of these financial statements, the market value of the Group's short term equity investments held as at 31 December 2007 was approximately HK\$179,353,000.

#### 24. DERIVATIVE FINANCIAL INSTRUMENTS

The foreign exchange option contract held by the Group as at 31 December 2006 was carried at its fair value of HK\$104,000.

The foreign exchange option contract was entered into by the Group to manage its exchange rate exposure and did not meet the criteria for hedge accounting. The fair value loss of the foreign exchange option contract for the year ended 31 December 2007 and up to its expiry amounted to HK\$104,000, and was charged to the income statement for the year. During the year ended 31 December 2006, the fair value gain of the foreign exchange option of HK\$104,000 was credited to the income statement for that year.

The Group had no outstanding foreign exchange option contracts as at 31 December 2007.

#### 25. CASH AND BANK BALANCES AND DEPOSITS

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$9,280,000 (2006: HK\$7,042,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

## 26. TRADE AND OTHER PAYABLES

Included in the Group's trade and other payables as at 31 December 2007 were trade and bills payables of HK\$12,893,000 (2006: HK\$25,948,000). As at 31 December 2007, the Company had no trade and bills payables (2006: Nil). An aged analysis of the Group's trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Within 1 month	4,704	5,700
2 to 3 months	281	274
Over 3 months	<u>7,908</u>	<u>19,974</u>
	<u>12,893</u>	<u>25,948</u>

All trade and other payables of the Group and the Company are unsecured, interest-free and repayable within three months or on demand. The carrying amounts of the financial liabilities included in the above balances approximate to their fair values.

## 27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2007			2006		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>						
Finance lease payables ( <i>note 28</i> )	3	2008	92	3	2007	91
Bank loans - unsecured	7 to 8	2008	<u>4,620</u>	7.75 to 8	2007	<u>9,177</u>
			4,712			9,268
<b>Non-current</b>						
Finance lease payables ( <i>note 28</i> )	3	2009 - 2010	<u>114</u>	3	2008 - 2010	<u>206</u>
			<u>4,826</u>			<u>9,474</u>

Other than the fixed interest rate of 3% for the finance lease arrangement, all interest-bearing borrowings of the Group bear interest at floating rates. All interest-bearing bank and other borrowings of the Group are denominated in Hong Kong dollars.

The carrying amounts of the Group's current borrowings approximate to their fair values. The fair value of the Group's non-current finance lease payables with a carrying amount of HK\$114,000 (2006: HK\$206,000) was HK\$119,000 (2006: HK\$218,000) at the balance sheet date and was calculated by discounting the expected future cash flows at the prevailing interest rates.

## 28. FINANCE LEASE PAYABLES

The Group leases a motor vehicle under a finance lease arrangement with a remaining lease term of two years and three months as at 31 December 2007.

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

**Group**

	<b>Minimum lease payments 2007 HK\$'000</b>	<b>Minimum lease payments 2006 HK\$'000</b>	<b>Present value of minimum lease payments 2007 HK\$'000</b>	<b>Present value of minimum lease payments 2006 HK\$'000</b>
Amounts payable:				
Within one year	105	105	92	91
In the second year	105	105	91	91
In the third to fifth years, inclusive	<u>26</u>	<u>131</u>	<u>23</u>	<u>115</u>
Total minimum finance lease payments	236	341	<u>206</u>	<u>297</u>
Future finance charges	<u>(30)</u>	<u>(44)</u>		
Total net finance lease payables	206	297		
Portion classified as current liabilities (note 27)	<u>(92)</u>	<u>(91)</u>		
Non-current portion (note 27)	<u>114</u>	<u>206</u>		

**29. DEBENTURES**

Each debenture holder is entitled to be a debenture member of the Hilltop Country Club (the “Club”) operated by a subsidiary of the Group, Hill Top Country Club Limited, subject to the rules and by-laws of the Club so long as the debentures shall remain outstanding, and has the right to use and enjoy all the facilities of the Club free from payment of monthly subscription. At the balance sheet date, the redeemable periods of the Group’s debentures carried at amortised cost were as follows:

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<u>2,670</u>	<u>4,102</u>
In the second year	385	2,557
In the third to fifth years, inclusive	<u>3,077</u>	<u>1,197</u>
	<u>3,462</u>	<u>3,754</u>
	<u>6,132</u>	<u>7,856</u>

All redeemable debentures are denominated in Hong Kong dollars, interest-free and may be renewed upon maturity subject to the Group’s consent.

The carrying amounts of the redeemable debentures approximate to their fair values.

**30. OTHER LOANS**

As at 31 December 2007, the unsecured loans from a minority shareholder of a subsidiary denominated in foreign currencies amounted to RMB1,216,241 (2006: RMB1,216,241) and US\$521,859 (2006: US\$521,859). The loans are interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate to their fair values.

## 31. DEFERRED TAX

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

**Group**

	<b>Depreciation allowance in excess of related depreciation</b>	<b>Losses available for offset against future taxable profit</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2006	2,666	(2,666)	—
Deferred tax charged/(credited) to the income statement during the year	<u>5,495</u>	<u>(5,495)</u>	<u>—</u>
At 31 December 2006 and at 1 January 2007	8,161	(8,161)	—
Deferred tax charged/(credited) to the income statement during the year	<u>1,559</u>	<u>(1,559)</u>	<u>—</u>
At 31 December 2007	<u>9,720</u>	<u>(9,720)</u>	<u>—</u>

The Group has tax losses arising in Hong Kong of HK\$496,029,000 (2006: HK\$528,212,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. As disclosed above, deferred tax assets have been recognised in respect of these losses only to the extent to offset any deferred tax liabilities of the same subsidiaries. Deferred tax assets have not been recognised for tax losses of HK\$440,487,000 (2006: HK\$481,577,000) as the losses have arisen in subsidiaries that have either been loss-making for some time or whose availability of future taxable profits is unpredictable.

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

## 32. SHARE CAPITAL

**Shares**

	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
100,000,000,000 (2006: 100,000,000,000) ordinary shares of HK\$0.01 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
1,650,658,676 (2006: 1,650,658,676) ordinary shares of HK\$0.01 each	<u>16,507</u>	<u>16,507</u>

A capital reorganisation scheme was approved by the shareholders at an extraordinary general meeting on 11 July 2002 and was subsequently confirmed by the sanction of an order of the High Court of Hong Kong dated 6 August 2002. Details of the capital reorganisation scheme are as follows:

- (a) the authorised share capital of the Company was reduced from HK\$1,000,000,000 (divided into 2,000,000,000 ordinary shares of HK\$0.50 each) to HK\$20,000,000 (divided into 2,000,000,000 ordinary shares of HK\$0.01 each). Such reduction was effected by cancelling the paid-up capital per share by HK\$0.49 on each of the 1,650,658,676 ordinary shares in issue on 6 August 2002, being the date on which the court petition was heard, and by reducing the nominal value of all the issued and unissued ordinary shares of the Company from HK\$0.50 to HK\$0.01 per ordinary share; and
- (b) upon such reduction of capital taking effect:
  - (i) the authorised share capital of the Company was increased to its former amount of HK\$1,000,000,000 by the creation of additional 98,000,000,000 ordinary shares of HK\$0.01 each; and
  - (ii) a special reserve was created and credited with an amount equal to the credit arising from the said reduction of capital as detailed in (a) above, which amounted to HK\$808,822,751. Such reserve shall not be treated as realised profit and shall, for as long as the Company shall remain a listed company, be treated as an undistributable reserve. However, the special reserve may be reduced by the aggregate of any increase in the issued capital or in the share premium account of the Company resulting from an issue of shares for cash or other new consideration or upon a capitalisation of distributable reserves.

#### Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 33 to the financial statements.

### 33. SHARE OPTION SCHEMES

In an extraordinary general meeting of the Company held on 14 June 2002, the shareholders of the Company formally approved the termination of the share option scheme adopted on 30 December 1997 (the "Old Scheme") and the adoption of a new share option scheme (the "New Scheme"), in compliance with the amended Chapter 17 of the Listing Rules and for the purpose of providing the Company a flexible means of giving incentives and rewards to executive directors and employees for their contributions to the Group. The Old Scheme expired on 29 December 2007 and all outstanding options granted under this scheme also lapsed.

Under the terms of the New Scheme, the board of directors may, at its discretion, invite executive directors and employees of the Group to take up options to subscribe for shares of the Company. The New Scheme shall be valid and effective for a period of 10 years ending on 13 June 2012, after which period no further options will be granted. The exercise price of options shall be determined by the board and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date, which must be a business day; (ii) a price being the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the Company's shares. A nominal consideration of HK\$1 is payable on acceptance of any option granted.

The total number of shares available for issue under the New Scheme at 31 December 2007 was 243,415,800 (2006: 243,415,800), which represented 14.7% (2006: 14.7%) of the issued share capital of the Company on the same date. In respect of the maximum entitlement of each participant under the New Scheme, the number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue. Any further grant of options in excess of this limit is subject to shareholders' approval in a general meeting.

At 31 December 2007 and the date of approval of these financial statements, no share options were outstanding. At 31 December 2006, the employees of the Company had 312,000 options granted under the Old Scheme to subscribe for shares of the Company (the market value per share of the Company at 31 December 2006 was HK\$0.51). During the years ended 31 December 2007 and 2006, no share options were granted to the directors of the Company or the employees of the Group.

The share options of the Company are unlisted and each option gives the holder the right to subscribe for one ordinary share of HK\$0.01 of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

**Share options granted to employees under the Old Scheme were as follows:**

Date of grant of share options*	Exercise period of share options	Exercise price of share options per share** HK\$	Number of share options		
			At 1 January 2007	Lapsed during the year	At 31 December 2007
1 December 1999	1 December 1999 to 29 December 2007	1.804	48,000	(48,000)	—
1 August 2000	1 August 2000 to 29 December 2007	0.630	264,000	(264,000)	—
			<u>312,000</u>	<u>(312,000)</u>	<u>—</u>

\* The vesting period of the share options was from the date of grant until the commencement of the exercise period.

\*\* The exercise price of the share options was subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

**34. RESERVES****(a) Group**

The amounts of the Group's reserves and the movements therein for the current year and the prior year are presented in the consolidated statement of changes in equity on page 29 of the financial statements.

**(b) Company**

	<b>Share premium account</b>	<b>Special reserve</b>	<b>Capital redemption reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(note 32(b)(ii))</i>				
At 1 January 2006	1,189,721	808,822	478	(1,090,795)	908,226
Profit for the year	—	—	—	21,163	21,163
At 31 December 2006 and 1 January 2007	1,189,721	808,822	478	(1,069,632)	929,389
Profit for the year	—	—	—	44,861	44,861
At 31 December 2007	<u>1,189,721</u>	<u>808,822</u>	<u>478</u>	<u>(1,024,771)</u>	<u>974,250</u>

**35. MAJOR NON-CASH TRANSACTION**

In the year ended 31 December 2007, the Group capitalised its advance to an associate of HK\$5,446,000 as further capital contribution in proportion to the Group's equity interest as agreed amongst all other shareholders of the associate.

**36. CONTINGENT LIABILITIES**

At the balance sheet date, the Company or the Group had the following significant contingent liabilities:

- (a) One of the telecommunications content providers of a subsidiary issued a letter through its solicitors in March 2002 claiming damages of US\$1,500,000 (equivalent to HK\$11,670,000) from that subsidiary in relation to changes of rates applied by that subsidiary for services delivered by the content provider. The claimant also disputed traffic volumes generated in the past and claimed to have been underpaid by at least US\$2,736,000 (equivalent to HK\$21,286,000).

Management studied the allegations raised and sought legal advice on the subsidiary's legal rights and liabilities. Upon advice, the subsidiary sought to refute most of the allegations and made a counterclaim of approximately US\$6,215,000 (equivalent to HK\$48,353,000) in September 2002 for the return of sums advanced on account to the content provider due to uncollectibles, discrepancies arising on reconciliation of traffic volumes and other related items. Thereafter, there has been no communication in respect of the mentioned claims between the subsidiary and the content provider.

In view of the above, management considers it unlikely that any loss will arise, and accordingly, no provision has been made in the financial statements.

- (b) The Company had corporate guarantees executed as part of the security for general banking facilities granted to certain subsidiaries to the extent of HK\$342,000 (2006: HK\$342,000).

### 37. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group has entered into an operating lease arrangement with an associate of the Group, Shanghai Landis, for the lease of resort and recreational club properties (note 14 to the financial statements) under which the effective lease period is from 1 July 2006 to 30 June 2016.

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

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,134	800
In the second to fifth years, inclusive	5,682	5,090
After five years	<u>4,971</u>	<u>6,030</u>
	<u><u>11,787</u></u>	<u><u>11,920</u></u>

During the year, no income was recognised by the Group in respect of contingent rentals receivable (2006: Nil).

#### (b) As lessee

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

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

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	36,773	38,528	809	510
In the second to fifth years, inclusive	<u>37,116</u>	<u>51,698</u>	<u>—</u>	<u>—</u>
	<u><u>73,889</u></u>	<u><u>90,226</u></u>	<u><u>809</u></u>	<u><u>510</u></u>

**38. COMMITMENTS**

In addition to the operating lease commitments detailed in note 37(b) above, the Group had the following commitments at the balance sheet date:

**(a) Capital commitments**

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided, for development of resort properties	<u>—</u>	<u>338</u>

**(b) Other commitment**

The Company, acting on behalf of Hill Top Country Club Limited, a wholly-owned subsidiary of the Company, is a party to a co-operative joint venture agreement with a Mainland China joint venture partner in respect of the resort and recreational club properties of Shanghai Hilltop. According to the terms of the co-operative joint venture agreement and supplementary agreements entered into between 1996 and 2002, Shanghai Hilltop is committed to pay the Mainland China joint venture partner a minimum annual fee of RMB1,650,000 (equivalent to HK\$1,749,000) and US\$268,000 (equivalent to HK\$2,085,000) from 2001 to 2008 and from 2009 to 2022, respectively. In 2003, Shanghai Hilltop entered into a management subcontracting agreement with Shanghai Landis, an associate of the Group, under which Shanghai Landis has undertaken to absorb any such amounts payable to the Mainland China joint venture partner by Shanghai Hilltop up to 30 June 2016, the expiry date of the management sub-contracting agreement.

At 31 December 2007, the minimum amount payable to the Mainland China joint venture partner by Shanghai Hilltop up to 2022 under the above arrangement was HK\$30,940,000 (2006: HK\$32,490,000), of which HK\$17,387,000 (2006: HK\$18,938,000) will be absorbed by Shanghai Landis up to 30 June 2016.

**39. RELATED PARTY TRANSACTIONS**

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	<i>Notes</i>	<b>Group</b>	
		<b>2007</b>	<b>2006</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Rental expenses and building management			
fees paid to related companies	(i)	2,027	1,747
Rental income from an associate	(ii)	<u>848</u>	<u>400</u>

*Notes:*

- (i) The rental expenses and building management fees paid to related companies controlled by a substantial shareholder of the Company were determined by reference to relevant industry practice, and included rental expenses of HK\$1,735,000 (2006: HK\$1,456,000) which constituted continuing connected transactions of the Company as defined under the Listing Rules. Details of the connected transactions of the Company are included in the report of the directors on pages 14 and 15 of the Company's 2007 annual report.

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(ii) The rental income from an associate arose from the lease of resort and recreational club properties in accordance with an operating lease arrangement agreed with the associate.

(b) Compensation of key management personnel of the Group:

	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short term employee benefits	10,869	10,996
Post-employment benefits	<u>180</u>	<u>182</u>
Total compensation paid to key management personnel	<u><u>11,049</u></u>	<u><u>11,178</u></u>

Further details of directors' emoluments are included in note 8 to the financial statements.

**40. FINANCIAL INSTRUMENTS BY CATEGORY**

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

**2007**

<b>Financial assets</b>	<b>Group</b>			
	<b>Financial assets at fair value through profit or loss - held for trading</b>	<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interests in associates	—	1,385	—	1,385
Available-for-sale equity investments	—	—	35,448	35,448
Trade receivables	—	7,161	—	7,161
Financial assets included in prepayments, deposits and other receivables	—	19,264	—	19,264
Equity investments at fair value through profit or loss	197,894	—	—	197,894
Pledged deposits	—	342	—	342
Time deposits	—	495,798	—	495,798
Cash and bank balances	<u>—</u>	<u>46,487</u>	<u>—</u>	<u>46,487</u>
	<u><u>197,894</u></u>	<u><u>570,437</u></u>	<u><u>35,448</u></u>	<u><u>803,779</u></u>

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**FINANCIAL INFORMATION OF THE GROUP**

<b>Financial liabilities</b>	<b>Financial liabilities at amortised cost</b> <i>HK\$'000</i>
Trade and other payables	27,932
Interest-bearing bank and other borrowings	4,826
Debentures	6,132
Other loans	<u>5,349</u>
	<u><u>44,239</u></u>

**2006**

<b>Financial assets</b>	<b>Group</b>			<b>Total</b> <i>HK\$'000</i>
	<b>Financial assets at fair value through profit or loss - held for trading</b>	<b>Loans and receivables</b>	<b>Available- for-sale financial assets</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Interests in associates	—	5,768	—	5,768
Available-for-sale equity investments	—	—	35,503	35,503
Trade receivables	—	8,701	—	8,701
Financial assets included in prepayments, deposits and other receivables	—	20,361	—	20,361
Equity investments at fair value through profit or loss	154,612	—	—	154,612
Derivative financial instruments	104	—	—	104
Pledged deposits	—	342	—	342
Time deposits	—	495,074	—	495,074
Cash and bank balances	<u>—</u>	<u>27,148</u>	<u>—</u>	<u>27,148</u>
	<u><u>154,716</u></u>	<u><u>557,394</u></u>	<u><u>35,503</u></u>	<u><u>747,613</u></u>

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

<b>Financial liabilities</b>	<b>Financial liabilities at amortised cost</b> <i>HK\$'000</i>
Trade and other payables	37,116
Interest-bearing bank and other borrowings	9,474
Debentures	7,856
Other loans	<u>5,304</u>
	<u>59,750</u>

<b>Financial assets</b>	<b>Company</b>					
	<b>2007</b>			<b>2006</b>		
	<b>Financial assets at fair value through profit or loss - held for trading <i>HK\$'000</i></b>	<b>Loans and receivables <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>	<b>Financial assets at fair value through profit or loss - held for trading <i>HK\$'000</i></b>	<b>Loans and receivables <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
Interests in subsidiaries	—	225,610	225,610	—	224,780	224,780
Interests in associates	—	346	346	—	321	321
Equity investments at fair value through profit or loss	177,201	—	177,201	143,381	—	143,381
Financial assets included in prepayments, deposits and other receivables	—	5,749	5,749	—	6,253	6,253
Pledged deposits	—	342	342	—	342	342
Time deposits	—	495,798	495,798	—	495,074	495,074
Cash and bank balances	—	<u>6,070</u>	<u>6,070</u>	—	<u>4,553</u>	<u>4,553</u>
	<u>177,201</u>	<u>733,915</u>	<u>911,116</u>	<u>143,381</u>	<u>731,323</u>	<u>874,704</u>

<b>Financial liabilities</b>	<b>2007</b>	<b>2006</b>
	<b>Financial liabilities at amortised cost</b>	<b>Financial liabilities at amortised cost</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables	3,806	2,186
Due to subsidiaries	<u>45,275</u>	<u>54,974</u>
	<u>49,081</u>	<u>57,160</u>

#### 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has interest-bearing bank and other borrowings, and other loans for financing its operations and has various other financial assets and liabilities such as trade receivables and payables, which arise directly from its operations. The main risks arising from these financial instruments of the Group are interest rate risk, foreign currency risk, credit risk and liquidity risk.

In addition, the Group is exposed to equity price risk mainly arising from its listed equity investments which are carried at fair value.

The Group's risk management strategy aims to minimise the adverse effects of financial risks on the financial performance of the Group and the board reviews and agrees policies, as summarised below, for managing each of these risks. It is the Group's policy that financial instruments are not held or sold for speculative purposes.

##### **Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term interest-bearing bank borrowings with floating interest rates.

The Group's policy to manage its interest rate risk is to reduce or maintain its current level of interest-bearing borrowings. As the Group is not expected to significantly increase its level of interest-bearing borrowings, it has not used any interest rate swaps to hedge its exposure to interest rate risk.

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax <i>HK\$'000</i>	Increase/ (decrease) in equity <i>HK\$'000</i>
<b>2007</b>			
Hong Kong dollar	50	(3)	(3)
Hong Kong dollar	(50)	3	3
<b>2006</b>			
Hong Kong dollar	50	(7)	(7)
Hong Kong dollar	(50)	7	7

**Foreign currency risk**

The Group has transactional currency exposures. Such exposures arise from purchases in currencies other than the functional currency of the Group's subsidiaries. Approximately 99% (2006: 97%) of the Group's purchases are denominated in currencies other than the functional currency of the Group's subsidiaries.

The Group from time to time uses foreign exchange option contracts to partially manage foreign currency risk exposures and will continue to monitor such exposures and market conditions to determine if any other hedging arrangements are required in the future.

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

	Increase/ (decrease) in US\$/Euro rate %	Increase/ (decrease) in profit before tax <i>HK\$'000</i>	Increase/ (decrease) in equity <i>HK\$'000</i>
<b>2007</b>			
If Hong Kong dollar weakens against Euro	5	(172)	(172)
If Hong Kong dollar strengthens against Euro	(5)	172	172
If Hong Kong dollar weakens against US\$	5	24,882	24,882
If Hong Kong dollar strengthens against US\$	(5)	(24,882)	(24,882)
<b>2006</b>			
If Hong Kong dollar weakens against Euro	5	(210)	(210)
If Hong Kong dollar strengthens against Euro	(5)	210	210
If Hong Kong dollar weakens against US\$	5	22,677	22,677
If Hong Kong dollar strengthens against US\$	(5)	(22,677)	(22,677)

**Credit risk**

The Group trades on credit terms only with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debt is not significant.



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

	Company	
	2007	2006
	Within 1 year or on demand <i>HK\$'000</i>	Within 1 year or on demand <i>HK\$'000</i>
Other payables	3,806	2,186
Due to a subsidiary	<u>45,275</u>	<u>54,974</u>
	<u>49,081</u>	<u>57,160</u>

**Equity price risk**

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is mainly exposed to equity price risk arising from investments in listed equity securities classified as equity investments at fair value through profit or loss as at 31 December 2007. The Group's listed investments are primarily listed on the Stock Exchange and are valued at quoted market prices at the balance sheet date.

The market equity index for the Stock Exchange, at the close of business of the nearest trading day in the year to the balance sheet date, and its highest and lowest points during the year were as follows:

	31 December 2007	High/low 2007	31 December 2006	High/low 2006
Hong Kong - Hang Seng Index	27,812	31,638/ 18,664	19,964	20,001/ 14,944

The following table demonstrates the sensitivity to every 5% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date.

	Carrying amount of equity investments <i>HK\$'000</i>	Increase/ (decrease) in profit before tax <i>HK\$'000</i>	Increase/ (decrease) in equity <i>HK\$'000</i>
<b>2007</b>			
Investments listed in Hong Kong			
- Held for trading	197,497	9,875/ (9,875)	9,875/ (9,875)
<b>2006</b>			
Investments listed in Hong Kong			
- Held for trading	153,881	7,694/ (7,694)	7,694/ (7,694)

**Capital management**

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is the total borrowings divided by the total equity attributable to equity holders of the Company. The Group's policy is to maintain a low level of debt and a gearing ratio not higher than 20%. The total borrowings include interest-bearing bank and other borrowings, debentures and other loans. The gearing ratios as at the balance sheet dates were as follows:

<b>Group</b>	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing bank and other borrowings	4,826	9,474
Debentures	6,132	7,856
Other loans	<u>5,349</u>	<u>5,304</u>
Total borrowings	<u>16,307</u>	<u>22,634</u>
Shareholder's equity	<u>959,940</u>	<u>901,904</u>
Gearing ratio	<u>1.70%</u>	<u>2.51%</u>

**42. POST BALANCE SHEET EVENTS**

On 22 January 2008, the Company announced that on 21 January 2008, e-Media (Asia) Limited, a wholly-owned subsidiary of the Company, entered into agreements with the minority shareholders to acquire an aggregate additional 40% interest in Kenmure Limited for a total consideration of HK\$22,000,000.

Kenmure Limited is currently a 60%-owned subsidiary of the Company and owns the entire interest of the Fashion Business of the Group. The proposed acquisition will be communicated to the shareholders of the Company in a circular and is subject to independent shareholders' approval in accordance with the Listing Rules.

**43. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 28 March 2008.

### 3. INDEBTEDNESS

#### Borrowings

As at the close of business on 29 February 2008, being the latest practicable date for the purpose of this statement of indebtedness of the Enlarged Group prior to the printing of the circular, the Enlarged Group had outstanding borrowings of approximately HK\$21,185,000, details of which are set out below:

	<i>HK\$'000</i>
Bank loans, unsecured	8,789
Finance lease payables	190
Debentures	6,857
Loans from a minority shareholder of a subsidiary, unsecured	5,349

#### Contingent liabilities and guarantees

As at the close of business on 29 February 2008, the Enlarged Group had the following significant contingent liabilities and guarantees:

- (a) One of the telecommunications content providers of a subsidiary issued a letter through its solicitors in March 2002 claiming damages of US\$1,500,000 (equivalent to HK\$11,670,000) from that subsidiary in relation to changes of rates applied by that subsidiary for services delivered by the content provider. The claimant also disputed traffic volumes generated in the past and claimed to have been underpaid by at least US\$2,736,000 (equivalent to HK\$21,286,000). Management studied the allegations raised and sought legal advice on the subsidiary's legal rights and liabilities. Upon advice, the subsidiary sought to refute most of the allegations and made a counterclaim of approximately US\$6,215,000 (equivalent to HK\$48,353,000) in September 2002 for the return of sums advanced on account to the content provider due to uncollectibles, discrepancies arising on reconciliation of traffic volumes and other related items. Thereafter, there has been no communication in respect of the mentioned claims between the subsidiary and the content provider.

In view of the above, management considers it unlikely that any loss will arise, and accordingly, no provision has been made in the financial statements.

- (b) The Company had corporate guarantees executed as part of the security for general banking facilities granted to certain subsidiaries to the extent of HK\$342,000.
- (c) As at 29 February 2008, Kenmure Limited, a 60% owned subsidiary of the Group, had a guarantee given in favour of a bank to the extent of HK\$6,000,000 in respect of bank lending facilities granted to another subsidiary of the Group. These facilities were utilised to the extent of HK\$1,502,000 as at 29 February 2008 and were included in the above-mentioned "Bank loans, unsecured" of the Group of HK\$8,789,000.

**Disclaimer**

Save as aforesaid, and apart from intra-group liabilities, and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, authorised or otherwise created but unissued term loans or other borrowings, indebtedness in nature of borrowings, liabilities under acceptances (other than trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 29 February 2008.

**4. WORKING CAPITAL**

The Directors, after due and careful consideration and taking into account the available banking facilities and internal resources of the Enlarged Group, are of the opinion that upon Completion, the Enlarged Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

**5. MATERIAL ADVERSE CHANGE**

Up to the Latest Practicable Date, the Directors confirm that there are no material adverse changes in the financial or trading position of the Group since 31 December 2007, the date to which the latest audited consolidated financial statements of the Group were made up.

**6. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP**

VivaSha Club Resort, a resort under an associated company of the Group, has planned to cooperate with specialists to introduce spa facilities and specialty restaurants to the resort. The Group believes that such improvement will enhance the club membership sales of the resort and help to promote group tourist and corporate conference business of the Group.

The Group will put new efforts into Hong Kong Hilltop Country Club to expand its club membership base.

Hong Kong economy will continue to grow; the Group is confident about the future prospects of the retail fashion operation. The booming Chinese economy is creating a growing class of wealthy consumers with the desire for luxury goods. The Group is currently studying an expansion of the fashion retail network in China.

The Group continues to look for investment opportunities with good potential in order to enhance the Group's value and profitability. The Group's strong balance sheet and net cash position also provide the flexibility to capitalise on investment opportunities when the circumstance arises.

## 1. ACCOUNTANTS' REPORT ON KENMURE GROUP

*The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.*



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

14 April 2008

The Board of Directors  
ENM Holdings Limited  
Suite 1502, 15/F  
Chinachem Golden Plaza  
77 Mody Road, Tsimshatsui East  
Kowloon, Hong Kong

Dear Sirs,

We set out below our report on the financial information of Kenmure Limited (“Kenmure”) and its subsidiaries (hereinafter collectively referred to as the “Kenmure Group”) for each of the three years ended 31 December 2005, 2006 and 2007 (the “Relevant Periods”) for inclusion in the circular of ENM Holdings Limited (the “Company”) dated 14 April 2008 (the “Circular”) and issued in connection with the Company’s proposed acquisition of an additional 40% interest in the issued share capital of Kenmure, an indirect subsidiary of the Company, whose 60% equity interest is currently held by the Company.

Kenmure was incorporated in Hong Kong with limited liability on 3 March 2003. The principal activity of Kenmure is investment holding and the principal activities of the subsidiaries of the Kenmure Group comprise the wholesale and retail of fashion wear and accessories.

At the date of this report, Kenmure had the following subsidiaries:

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to Kenmure		Principal activities
			Direct	Indirect	
The Swank Shop Limited	Hong Kong	HK\$104,500,000	100	—	Retail and wholesale of fashion wear and accessories
Christabel Trading Company Limited	Hong Kong	HK\$4,500,000	—	100	Inactive

The statutory financial statements of Kenmure and its subsidiaries for the Relevant Periods, which were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), were audited by us in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA.

For the purpose of this report, the directors of Kenmure have prepared the company and consolidated financial statements of Kenmure for the Relevant Periods (the “Financial Information”) based on the audited financial statements of Kenmure and its subsidiaries with no adjustments and on the basis set out in Note 2.1 below. We have carried out independent audit procedures on the Financial Information in accordance with HKSAs and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The directors of Kenmure are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, and accounting estimates are made that are reasonable in the circumstances. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion solely to you.

In our opinion, the Financial Information together with the notes thereto give, for the purpose of this report, a true and fair view of the results and cash flows of the Kenmure Group for the Relevant Periods, and of the state of affairs of Kenmure and the Kenmure Group as at 31 December 2005, 2006 and 2007.

## I. FINANCIAL INFORMATION

## CONSOLIDATED INCOME STATEMENTS

	<i>Notes</i>	Year ended 31 December		
		2007 <i>HK\$</i>	2006 <i>HK\$</i>	2005 <i>HK\$</i>
REVENUE	4	214,168,334	174,710,277	195,467,100
Cost of sales		<u>(105,469,305)</u>	<u>(92,643,609)</u>	<u>(103,092,761)</u>
Gross profit		108,699,029	82,066,668	92,374,339
Other income and gains	4	10,861,110	8,406,224	11,873,356
Selling and distribution costs		(87,982,944)	(77,910,888)	(73,232,400)
Administrative expenses		(23,338,281)	(23,536,659)	(25,853,006)
Other operating income/(expenses), net		(103,731)	103,731	5,628,400
Finance costs	7	<u>(948,455)</u>	<u>(718,322)</u>	<u>(606,898)</u>
PROFIT/(LOSS) FOR THE YEAR	6	<u>7,186,728</u>	<u>(11,589,246)</u>	<u>10,183,791</u>
DIVIDENDS		<u>Nil</u>	<u>Nil</u>	<u>Nil</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF KENMURE	11			
Basic		<u>0.13</u>	<u>(0.21)</u>	<u>0.19</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEETS

	<i>Notes</i>	<b>As at 31 December</b>		
		<b>2007</b>	<b>2006</b>	<b>2005</b>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>NON-CURRENT ASSETS</b>				
Property and equipment	12	7,423,718	21,325,920	18,284,134
Goodwill	13	<u>23,086,016</u>	<u>23,086,016</u>	<u>23,086,016</u>
Total non-current assets		<u>30,509,734</u>	<u>44,411,936</u>	<u>41,370,150</u>
<b>CURRENT ASSETS</b>				
Inventories	15	40,969,124	37,099,990	34,508,303
Trade receivables	16	3,295,729	3,759,784	2,918,766
Prepayments, deposits and other receivables	17	18,482,817	18,635,716	17,636,499
Derivative financial instruments	18	—	103,731	—
Cash and bank balances	19	<u>24,950,509</u>	<u>10,032,359</u>	<u>17,789,737</u>
Total current assets		<u>87,698,179</u>	<u>69,631,580</u>	<u>72,853,305</u>
<b>CURRENT LIABILITIES</b>				
Trade and bills payables	20	5,008,231	5,048,179	1,666,609
Other payables and accruals	21	11,081,168	9,415,999	8,263,968
Interest-bearing bank and other borrowings	22	<u>4,711,843</u>	<u>9,268,147</u>	<u>3,978,693</u>
Total current liabilities		<u>20,801,242</u>	<u>23,732,325</u>	<u>13,909,270</u>
NET CURRENT ASSETS		<u>66,896,937</u>	<u>45,899,255</u>	<u>58,944,035</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>97,406,671</u>	<u>90,311,191</u>	<u>100,314,185</u>
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing bank and other borrowings	22	<u>114,044</u>	<u>205,292</u>	<u>296,540</u>
Net assets		<u>97,292,627</u>	<u>90,105,899</u>	<u>100,017,645</u>
<b>EQUITY</b>				
Issued capital	24	55,000,000	55,000,000	55,000,000
Reserves	25(a)	<u>42,292,627</u>	<u>35,105,899</u>	<u>45,017,645</u>
Total equity		<u>97,292,627</u>	<u>90,105,899</u>	<u>100,017,645</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<b>Issued capital</b>	<b>Share premium account</b>	<b>Land and buildings revaluation reserve</b>	<b>Retained profits</b>	<b>Total</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January 2005	55,000,000	12,873,650	2,304,272	16,769,200	86,947,122
Surplus on revaluation	<u>—</u>	<u>—</u>	<u>2,886,732</u>	<u>—</u>	<u>2,886,732</u>
Total income recognised directly in equity	—	—	2,886,732	—	2,886,732
Profit for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,183,791</u>	<u>10,183,791</u>
At 31 December 2005 and 1 January 2006	55,000,000	12,873,650	5,191,004	26,952,991	100,017,645
Surplus on revaluation	<u>—</u>	<u>—</u>	<u>1,677,500</u>	<u>—</u>	<u>1,677,500</u>
Total income recognised directly in equity	—	—	1,677,500	—	1,677,500
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(11,589,246)</u>	<u>(11,589,246)</u>
At 31 December 2006 and 1 January 2007	55,000,000	12,873,650	6,868,504	15,363,745	90,105,899
Disposal of land and buildings	<u>—</u>	<u>—</u>	<u>(6,868,504)</u>	<u>6,868,504</u>	<u>—</u>
Total income and expense recognised directly in equity	—	—	(6,868,504)	6,868,504	—
Profit for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,186,728</u>	<u>7,186,728</u>
At 31 December 2007	<u>55,000,000</u>	<u>12,873,650*</u>	<u>—*</u>	<u>29,418,977*</u>	<u>97,292,627</u>

\* These reserve accounts comprise the consolidated reserves of HK\$42,292,627, HK\$35,105,899 and HK\$45,017,645 in the consolidated balance sheets as at 31 December 2007, 2006 and 2005, respectively.

## CONSOLIDATED CASH FLOW STATEMENTS

	<i>Notes</i>	<b>Year ended 31 December</b>		
		<b>2007</b>	<b>2006</b>	<b>2005</b>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit/(loss) for the year		7,186,728	(11,589,246)	10,183,791
Adjustments for:				
Finance costs	7	948,455	718,322	606,898
Depreciation	6	7,757,786	7,028,594	5,726,672
Interest income	4	(96,059)	(168,565)	(129,176)
Write-back of provision for loans to a then associate	6	—	—	(4,095,000)
Gain on disposal of items of property and equipment	4	(5,168,205)	—	(31,882)
Fair value loss/(gain) of a derivative instrument - a transaction not qualifying as a hedge	6	<u>103,731</u>	<u>(103,731)</u>	<u>—</u>
		10,732,436	(4,114,626)	12,261,303
Increase in inventories		(3,869,134)	(2,591,687)	(1,449,126)
Decrease/(increase) in trade receivables		464,055	(841,018)	3,283,909
Decrease/(increase) in prepayments, deposits and other receivables		152,899	(999,217)	(1,941,026)
Decrease in an amount due from a then associate		—	—	641,233
Increase/(decrease) in trade and bills payables		(39,948)	3,381,570	(825,874)
Increase/(decrease) in other payables and accruals		<u>1,665,169</u>	<u>1,152,031</u>	<u>(7,209,448)</u>
Net cash inflow/(outflow) from operating activities		<u>9,105,477</u>	<u>(4,012,947)</u>	<u>4,760,971</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of items of property and equipment		(1,687,379)	(8,392,880)	(7,945,464)
Proceeds from disposal of items of property and equipment		13,000,000	—	32,580
Repayment of loans from a then associate		—	—	4,095,000
Interest received		<u>96,059</u>	<u>168,565</u>	<u>129,176</u>
Net cash inflow/(outflow) from investing activities		<u>11,408,680</u>	<u>(8,224,315)</u>	<u>(3,688,708)</u>

**APPENDIX II****FINANCIAL INFORMATION OF KENMURE GROUP**

	Year ended 31 December		
	2007	2006	2005
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank loans	55,153,634	42,840,190	39,408,813
Repayment of bank loans	(59,709,938)	(37,550,736)	(42,118,402)
Capital element of finance lease rental payments	(91,248)	(91,248)	(68,436)
Interest paid	<u>(948,455)</u>	<u>(718,322)</u>	<u>(606,898)</u>
Net cash inflow/(outflow) from financing activities	<u>(5,596,007)</u>	<u>4,479,884</u>	<u>(3,384,923)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	14,918,150	(7,757,378)	(2,312,660)
Cash and cash equivalents at beginning of year	<u>10,032,359</u>	<u>17,789,737</u>	<u>20,102,397</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
	<u>24,950,509</u>	<u>10,032,359</u>	<u>17,789,737</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	<u>24,950,509</u>	<u>10,032,359</u>	<u>17,789,737</u>

## BALANCE SHEETS

	<i>Notes</i>	<b>As at 31 December</b>		
		<b>2007</b>	<b>2006</b>	<b>2005</b>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>NON-CURRENT ASSETS</b>				
Interests in subsidiaries	14	<u>67,873,650</u>	<u>67,873,650</u>	<u>67,873,650</u>
<b>CURRENT LIABILITIES</b>				
Other payables and accruals		90,000	80,000	40,000
Due to a subsidiary	14	<u>654,488</u>	<u>571,783</u>	<u>529,078</u>
Total current liabilities		<u>744,488</u>	<u>651,783</u>	<u>569,078</u>
Net assets		<u>67,129,162</u>	<u>67,221,867</u>	<u>67,304,572</u>
<b>EQUITY</b>				
Issued capital	24	55,000,000	55,000,000	55,000,000
Reserves	25(b)	<u>12,129,162</u>	<u>12,221,867</u>	<u>12,304,572</u>
Total equity		<u>67,129,162</u>	<u>67,221,867</u>	<u>67,304,572</u>

## II. NOTES TO THE FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

Kenmure is a limited liability company incorporated in Hong Kong. Its registered office is located at Suite 1502, 15/F, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

During the Relevant Periods, the Kenmure Group was engaged in the wholesale and retail of fashion wear and accessories.

In the opinion of the directors of Kenmure, ENM Holdings Limited, a company incorporated and listed in Hong Kong, is Kenmure's ultimate holding company.

### 2.1 BASIS OF PRESENTATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for land and buildings and derivative financial instruments which have been measured at fair value as further explained in note 2.3. The Financial Information is presented in Hong Kong dollars ("HK\$").

#### Basis of consolidation

The Financial Information includes the financial statements of Kenmure and its subsidiaries for each of the years ended 31 December 2005, 2006 and 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Kenmure Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Kenmure Group are eliminated on consolidation.

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

The Kenmure Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2009

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

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the entity operates, and revenue from the entity’s major customers. The Kenmure Group does not expect to and is not required to apply HKFRS 8 as the debt or equity instruments of Kenmure are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) and Kenmure does not file, or is in the process of filing, its consolidated financial statements with a securities commission or any other regulatory organisation for the purpose of issuing any class of instruments in a public market.

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

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Kenmure Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

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

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

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

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

As the Kenmure Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Kenmure Group and therefore are unlikely to have any financial impact on the Kenmure Group.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 has been revised to require that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revisions to HKFRS 3 and HKAS 27 will be applied by the Kenmure Group prospectively as required under the revised standards and will affect future acquisitions and transactions of the Kenmure Group with any minority interests.

### **2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Subsidiaries**

A subsidiary is an entity in which Kenmure, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which Kenmure has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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

#### **Goodwill**

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

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

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

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

**Impairment of non-financial assets other than goodwill**

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

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

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

**Related parties**

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

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

**Property and equipment and depreciation**

Property and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been

put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits/accumulated losses as a movement in reserves.

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

Land and buildings ( <i>note</i> )	Over the remaining lease terms
Furniture, fixtures and equipment	2 to 7 years
Motor vehicles	3 to 5 years

*Note:* These represent buildings situated on leasehold land whereby the fair values of the leasehold interests in land and buildings elements cannot be allocated reliably at the inception of the respective leases.

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

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

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

### Leases

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

**Financial assets***Trade and other receivables*

Trade and other receivables are non-derivative financial assets within the scope of HKAS 39 with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value (original invoiced amounts) and subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the trade and other receivables are derecognised or impaired, as well as through the amortisation process.

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

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

**Derecognition of financial assets**

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Kenmure Group's continuing involvement is the amount of the transferred asset that the Kenmure Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Kenmure Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**Financial liabilities at amortised cost (including interest-bearing loans and borrowings)**

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

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

**Derecognition of financial liabilities**

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

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

**Derivative financial instruments and hedging**

The Kenmure Group uses derivative financial instruments such as foreign exchange option contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of foreign exchange option contracts is determined by reference to current forward exchange rates for contracts with similar maturity profiles.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the actual basis and comprises invoiced value of purchases, and where applicable, freight, insurance and delivery charges. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to make the sale.

**Cash and cash equivalents**

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

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

**Provisions**

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

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

**Income tax**

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

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

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

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

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

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

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

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

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

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

### **Revenue recognition**

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Kenmure Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (c) rental income, on a time proportion basis over the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Contingent rental is recognised in the income statement for the period in which it is earned;
- (d) dividend income, when the shareholders' right to receive payment has been established; and
- (e) from the provision of management services, when the relevant services have been rendered and the Kenmure Group's right to receive payment has been established.

### **Employee benefits**

#### *Pension schemes*

The Kenmure Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Kenmure Group in an independently administered fund. The Kenmure Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

In parallel with the MPF Scheme, the Kenmure Group also operates separate defined contribution retirement benefits schemes under the Occupational Retirement Schemes Ordinance for those employees who are eligible to participate. These separate schemes operate in a similar way to the MPF Scheme, except that when an employee leaves the schemes before his/her interest in the Kenmure Group's employer contributions vesting fully, the ongoing contributions payable by the Kenmure Group will be reduced by the relevant amount of the forfeited employer contributions.

### **Borrowing costs**

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

**Foreign currencies**

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

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

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

**Estimation uncertainty**

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

***Impairment of goodwill***

The key assumptions used for impairment assessment of goodwill are included in note 13 to the Financial Information.

***Estimation of fair value of properties***

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

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

The principal assumptions for the Kenmure Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

*Write-down of inventories to net realisable value*

Management reviews the aging analysis of inventories at each balance sheet date and makes provision for obsolete and slow-moving inventory items identified that are either expected to be sold below cost or no longer suitable for sale. This assessment process involves estimates. Management is satisfied that sufficient provision for obsolete and slow-moving inventories has been made as at the balance sheet dates.

**4. REVENUE, OTHER INCOME AND GAINS**

Revenue, which is also the Kenmure Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of other income and gains is as follows:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Sub-leasing rental income	—	—	528,997
Management fees	1,014,422	1,832,547	3,462,379
Exchange gains, net	4,026,314	6,035,975	6,911,381
Gain on disposal of items of property and equipment	5,168,205	—	31,882
Interest income	96,059	168,565	129,176
Others	<u>556,110</u>	<u>369,137</u>	<u>809,541</u>
	<u>10,861,110</u>	<u>8,406,224</u>	<u>11,873,356</u>

**5. SEGMENT INFORMATION**

No business or geographical segment information is presented as all revenue, expenses, assets and liabilities of the Kenmure Group for the Relevant Periods are related to wholesale and retail of fashion wear and accessories in Hong Kong.

## 6. PROFIT/(LOSS) FOR THE YEAR

The Kenmure Group's profit/(loss) is arrived at after charging/(crediting):

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Cost of inventories sold	105,469,305	92,643,609	103,092,761
Depreciation	7,757,786	7,028,594	5,726,672
Fair value loss/(gain) of a derivative instrument			
- a transaction not qualifying as a hedge	103,731	(103,731)	—
Operating lease payments for land and buildings:			
Minimum lease payments	41,949,874	34,583,369	32,449,887
Contingent rentals	3,182,241	1,853,532	2,877,076
Write-back of provision for loans to a then associate	—	—	(4,095,000)
Employee benefits expenses (excluding directors' remunerations (note 8)):			
Salaries, wages and other benefits	27,379,508	27,117,114	27,491,959
Pension scheme contributions under defined contribution schemes	1,090,872	1,109,823	1,088,333
Less: Forfeited contributions <sup>^</sup>	<u>—</u>	<u>(48,063)</u>	<u>(40,429)</u>
	<u>28,470,380</u>	<u>28,178,874</u>	<u>28,539,863</u>
Auditors' remuneration for audit services	500,000	490,000	360,000
Write-down of inventories to net realisable value	<u>1,000,000</u>	<u>1,000,000</u>	<u>4,300,000</u>

<sup>^</sup> At 31 December 2007, 2006 and 2005, the Kenmure Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

## 7. FINANCE COSTS

	<b>Kenmure Group</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Interest on bank loans wholly repayable within five years	934,763	704,630	596,629
Interest on a finance lease	<u>13,692</u>	<u>13,692</u>	<u>10,269</u>
	<u>948,455</u>	<u>718,322</u>	<u>606,898</u>

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the Relevant Periods, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

	<b>Kenmure Group</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Fees	<u>—</u>	<u>—</u>	<u>—</u>
Other emoluments:			
Salaries, allowances and benefits in kind	2,400,000	2,539,804	2,863,847
Pension scheme contributions	<u>102,000</u>	<u>120,000</u>	<u>120,000</u>
	<u>2,502,000</u>	<u>2,659,804</u>	<u>2,983,847</u>

## 9. TAX

No provision for Hong Kong profits tax has been made as Kenmure and its subsidiaries either did not generate any assessable profits for the Relevant Periods or have available tax losses brought forward from prior years to offset against any assessable profits generated during the Relevant Periods.

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax using the Hong Kong statutory rate of 17.5% for the Relevant Periods to the tax expense at the effective tax rate is as follows:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Profit/(loss) before tax	<u>7,186,728</u>	<u>(11,589,246)</u>	<u>10,183,791</u>
Tax charge/(credit) at the statutory rate of 17.5%	1,257,678	(2,028,118)	1,782,164
Income not subject to tax	(24,351)	(29,499)	(961,595)
Expenses not deductible for tax	46,329	36,654	30,577
Tax losses utilised from previous periods	(1,295,539)	—	(1,126,325)
Tax losses not recognised	—	2,025,550	—
Temporary differences not recognised	<u>15,883</u>	<u>(4,587)</u>	<u>275,179</u>
Tax charge at the Kenmure Group's effective rate	<u>—</u>	<u>—</u>	<u>—</u>

At the balance sheet date, net deferred tax assets in respect of tax losses and other temporary differences not recognised were as follows:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Tax losses	22,009,809	23,305,349	21,370,450
Others	<u>981,144</u>	<u>(765,702)</u>	<u>(926,002)</u>
	<u>22,990,953</u>	<u>22,539,647</u>	<u>20,444,448</u>

Deferred tax assets have not been recognised in respect of the above items as the directors consider that the availability of further taxable profits of the relevant subsidiaries is unpredictable. As at 31 December 2007, 2006 and 2005, the Kenmure Group had tax losses arising in Hong Kong of approximately HK\$125,770,000, HK\$133,173,000 and HK\$122,117,000, respectively, which are available indefinitely for offsetting against the future taxable profits of the relevant subsidiaries.

#### **10. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF KENMURE**

The consolidated profit/(loss) attributable to equity holders of Kenmure for each of the years ended 31 December 2007, 2006 and 2005 include a loss of HK\$92,705, HK\$82,705 and HK\$52,665, respectively, which has been dealt with in the financial statements of Kenmure (note 25(b)).

#### **11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF KENMURE**

The calculations of basic earnings per share amounts for the years ended 31 December 2007 and 2005 were based on the profit attributable to ordinary share holders of Kenmure of HK\$7,186,728 and HK\$10,183,791, respectively, and the weighted average number of ordinary shares in issue during these years of 55,000,000.

The calculation of basic loss per share amount for the year ended 31 December 2006 was based on the loss attributable to ordinary share holders of Kenmure of HK\$11,589,246 and the weighted average number of ordinary shares in issue during the year of 55,000,000.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2007, 2006 and 2005 have not been disclosed as there were no diluting events during these years.

## 12. PROPERTY AND EQUIPMENT

## Kenmure Group

	Land and buildings <i>HK\$</i>	Furniture, fixtures and equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
<b>Cost or valuation:</b>				
At 1 January 2005	6,200,000	23,795,505	1,408,024	31,403,529
Additions	—	7,936,188	465,500	8,401,688
Surplus on revaluation	2,886,732	—	—	2,886,732
Elimination of accumulated depreciation	(586,732)	—	—	(586,732)
Disposals	—	(2,318,037)	(1,155,850)	(3,473,887)
At 31 December 2005 and 1 January 2006	8,500,000	29,413,656	717,674	38,631,330
Additions	—	8,392,880	—	8,392,880
Surplus on revaluation	1,677,500	—	—	1,677,500
Elimination of accumulated depreciation	(977,500)	—	—	(977,500)
Disposals	—	(5,332,926)	—	(5,332,926)
At 31 December 2006 and 1 January 2007	9,200,000	32,473,610	717,674	42,391,284
Additions	—	1,687,379	—	1,687,379
Disposals	(9,200,000)	(7,947,095)	—	(17,147,095)
At 31 December 2007	—	26,213,894	717,674	26,931,568
<b>Accumulated depreciation:</b>				
At 1 January 2005	—	17,343,872	1,336,573	18,680,445
Depreciation provided during the year	586,732	5,058,472	81,468	5,726,672
Write-back on revaluation	(586,732)	—	—	(586,732)
Disposals	—	(2,317,339)	(1,155,850)	(3,473,189)
At 31 December 2005 and 1 January 2006	—	20,085,005	262,191	20,347,196
Depreciation provided during the year	977,500	5,936,979	114,115	7,028,594
Write-back on revaluation	(977,500)	—	—	(977,500)
Disposals	—	(5,332,926)	—	(5,332,926)
At 31 December 2006 and 1 January 2007	—	20,689,058	376,306	21,065,364
Depreciation provided during the year	1,368,205	6,296,481	93,100	7,757,786
Disposals	(1,368,205)	(7,947,095)	—	(9,315,300)
At 31 December 2007	—	19,038,444	469,406	19,507,850
<b>Net book value:</b>				
At 31 December 2005	<u>8,500,000</u>	<u>9,328,651</u>	<u>455,483</u>	<u>18,284,134</u>
At 31 December 2006	<u>9,200,000</u>	<u>11,784,552</u>	<u>341,368</u>	<u>21,325,920</u>
At 31 December 2007	<u>—</u>	<u>7,175,450</u>	<u>248,268</u>	<u>7,423,718</u>

## Kenmure Group

	<b>Land and buildings</b> <i>HK\$</i>	<b>Furniture, fixtures and equipment</b> <i>HK\$</i>	<b>Motor vehicles</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>
Analysis of cost or valuation:				
At cost	—	29,413,656	717,674	30,131,330
At 31 December 2005 valuation	<u>8,500,000</u>	—	—	<u>8,500,000</u>
	<u>8,500,000</u>	<u>29,413,656</u>	<u>717,674</u>	<u>38,631,330</u>
Analysis of cost or valuation:				
At cost	—	32,473,610	717,674	33,191,284
At 31 December 2006 valuation	<u>9,200,000</u>	—	—	<u>9,200,000</u>
	<u>9,200,000</u>	<u>32,473,610</u>	<u>717,674</u>	<u>42,391,284</u>
Analysis of cost or valuation:				
At cost	—	26,213,894	717,674	26,931,568
At 31 December 2007 valuation	—	—	—	—
	—	<u>26,213,894</u>	<u>717,674</u>	<u>26,931,568</u>

The land and buildings of the Kenmure Group were revalued at 31 December 2006 and 2005 by an independent professionally qualified valuer, Vigers Appraisal & Consulting Limited, at open market value, based on their existing use and were held under medium leases terms. During the year ended 31 December 2007, the Kenmure Group disposed the land and buildings to an independent third party for a cash consideration of HK\$13,000,000.

The net book values of a motor vehicle held under a finance lease included in the total amounts of the Kenmure Group's motor vehicles at 31 December 2007, 2006 and 2005 were HK\$248,268, HK\$341,368 and HK\$434,467, respectively.

### 13. GOODWILL

At 1 January 2005, 31 December 2005, 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007, the cost and net carrying amount of goodwill capitalised as an asset in the consolidated balance sheet of the Kenmure Group, which arose from the acquisition of subsidiaries, was HK\$23,086,016.

#### Impairment testing of goodwill

Goodwill of a carrying amount of HK\$23,086,016 as at 31 December 2007, 2006 and 2005 relates to the Kenmure Group's wholesale and retail of fashion wear and accessories business (the "Fashion Business").

The recoverable amount of the Kenmure Group's Fashion Business has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by management covering a 15-year period. Assumptions have been made by management that the cash flows from the Kenmure Group's Fashion Business will continue beyond at least the forecast period in view of management's long term experience in running the business. The discount rate applied to cash flow projections is 7.5%.

The annual growth rate used to extrapolate the cash flows for the Kenmure Group's Fashion Business during the forecast period is 6% based on the assumptions that there will be no significant economic downturn throughout the period, taking into account of the market competition and the continuous growth in market demand for upscale fashion wear and accessories.

Management has considered the assumptions used in the cash flow projections, taking into account the business expansion plan going forward, which includes the strategic expansion in Hong Kong and other cities in China, and believes that there is no impairment in the goodwill related to the Fashion Business. Management believes that any reasonably foreseeable change in any of the key assumptions would not cause the carrying amount of the goodwill to exceed its recoverable amount.

#### 14. INTERESTS IN SUBSIDIARIES

	<b>Kenmure</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Unlisted shares, at cost	39,500,000	39,500,000	39,500,000
Loan to a subsidiary	<u>28,373,650</u>	<u>28,373,650</u>	<u>28,373,650</u>
	<u>67,873,650</u>	<u>67,873,650</u>	<u>67,873,650</u>

The Kenmure Group's loan to a subsidiary is unsecured, interest-free and not due for settlement within one year. The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

The carrying amounts of all balances with subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to Kenmure		Principal activities
			Direct	Indirect	
The Swank Shop Limited	Hong Kong	HK\$104,500,000	100	—	Retail and wholesale of fashion wear and accessories
Christabel Trading Company Limited	Hong Kong	HK\$4,500,000	—	100	Inactive

#### 15. INVENTORIES

At 31 December 2005, 2006 and 2007, the Kenmure Group's inventories represented finished goods.

## 16 TRADE RECEIVABLES

	<b>Kenmure Group</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Trade receivables	4,692,190	5,156,245	4,315,227
Impairment	<u>(1,396,461)</u>	<u>(1,396,461)</u>	<u>(1,396,461)</u>
	<u>3,295,729</u>	<u>3,759,784</u>	<u>2,918,766</u>

The Kenmure Group maintains a defined credit policy for its trade customers and the credit period is generally less than three months. The financial strength of and the length of business relationship with the customers, on an individual basis, are considered in arriving at the respective credit terms. Overdue balances are reviewed regularly by management.

An aged analysis of the trade receivables as at the balance sheet dates, based on the invoice date and net of provisions, is as follows:

	<b>Kenmure Group</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Within 1 month	3,257,708	3,759,784	2,703,677
2 to 3 months	38,021	—	16,000
Over 3 months	<u>—</u>	<u>—</u>	<u>199,089</u>
	<u>3,295,729</u>	<u>3,759,784</u>	<u>2,918,766</u>

In the years ended 31 December 2007 and 2006, there was no movement in provision for impairment of trade receivables. In the year ended 31 December 2005, provision for impairment of trade receivables decreased from HK\$1,546,444 as at 1 January 2005 to HK\$1,396,461 as at 31 December 2005 following a reversal of impairment of HK\$149,983 during that year.

Included in the impairment of trade receivables was a full provision for individually impaired trade receivables of HK\$1,396,461 with carrying amount of HK\$1,396,461 as at 31 December 2007, 2006 and 2005. The individually impaired trade receivables relate to a customer that has been in default for a prolonged period and there is significant uncertainty over the recovery of the receivables. The Kenmure Group does not hold any collateral or other credit enhancements over these balances.

**APPENDIX II****FINANCIAL INFORMATION OF KENMURE GROUP**

The aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	<b>Kenmure Group</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Neither past due nor impaired	3,289,303	3,759,784	2,719,677
Less than 1 month past due	6,426	—	—
Over 1 month past due	—	—	199,089
	<u>3,295,729</u>	<u>3,759,784</u>	<u>2,918,766</u>

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

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

The carrying amounts of trade receivables approximate to their fair values.

**17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	<b>Kenmure Group</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Deposits	17,320,951	17,136,549	16,664,920
Prepayment and other receivables	<u>1,161,866</u>	<u>1,499,167</u>	<u>971,579</u>
	<u>18,482,817</u>	<u>18,635,716</u>	<u>17,636,499</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default and their carrying amounts approximate to their fair values.

**18. DERIVATIVE FINANCIAL INSTRUMENTS**

The foreign exchange option contract held by the Kenmure Group as at 31 December 2006 was carried at its fair value of HK\$103,731.

The foreign exchange option contract was entered into by the Kenmure Group to manage its exchange rate exposure and did not meet the criteria for hedge accounting. The fair value loss of the foreign exchange option contract for the year ended 31 December 2007 and up to its expiry amounted to HK\$103,731 and was charged to the income statement for the year. During the year ended 31 December 2006, the fair value gain of the foreign exchange option of HK\$103,731 was credited to the income statement for that year.

The Kenmure Group had no outstanding foreign exchange option contracts as at 31 December 2005 and 2007.

**19. CASH AND BANK BALANCES**

Cash at banks earns interest at floating rates based on daily bank deposit rates. No bank balances are pledged or restricted for use.

The carrying amounts of cash and bank balances approximate to their fair values.

**20. TRADE AND BILLS PAYABLES**

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

	<b>Kenmure Group</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Within 1 month	4,179,304	5,046,829	1,665,259
2 to 3 months	273,262	—	—
Over 3 months	<u>555,665</u>	<u>1,350</u>	<u>1,350</u>
	<u>5,008,231</u>	<u>5,048,179</u>	<u>1,666,609</u>

All trade and bills payables of the Kenmure Group are unsecured, interest-free and repayable within three months or on demand. The carrying amounts of trade and bills payables approximate to their fair values.

**21. OTHER PAYABLES AND ACCRUALS**

	<b>Kenmure Group</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Other payables	9,255,425	7,425,930	6,788,615
Accruals	<u>1,825,743</u>	<u>1,990,069</u>	<u>1,475,353</u>
	<u>11,081,168</u>	<u>9,415,999</u>	<u>8,263,968</u>

All other payables and accruals of the Kenmure Group are unsecured, interest-free and repayable within three months or on demand. The carrying amounts of the financial liabilities included in the above balances approximate to their fair values.

## 22. INTEREST-BEARING BANK AND OTHER BORROWINGS

Kenmure Group	2007			2006			2005		
	Effective interest rate (%)	Maturity	HK\$	Effective interest rate (%)	Maturity	HK\$	Effective interest rate (%)	Maturity	HK\$
<b>Current</b>									
Finance lease payables ( <i>note 23</i> )	3	2008	91,248	3	2007	91,248	3	2006	91,248
Bank loans — unsecured	7 to 8	2008	<u>4,620,595</u>	7.75 to 8	2007	<u>9,176,899</u>	7 to 8	2006	<u>3,887,445</u>
			4,711,843			9,268,147			3,978,693
<b>Non-current</b>									
Finance lease payables ( <i>note 23</i> )	3	2009 - 2010	<u>114,044</u>	3	2008 - 2010	<u>205,292</u>	3	2007 - 2010	<u>296,540</u>
			<u>4,825,887</u>			<u>9,473,439</u>			<u>4,275,233</u>

Other than the fixed interest rate of 3% for the finance lease arrangement, all interest-bearing borrowings of the Kenmure Group bear interest at floating rates. All interest-bearing bank and other borrowings of the Kenmure Group are denominated in Hong Kong dollars.

The carrying amounts of the Kenmure Group's current borrowings approximate to their fair values. The fair values of the Kenmure Group's non-current finance lease payables with carrying amounts of HK\$114,044, HK\$205,292 and HK\$296,540 as at 31 December 2007, 2006 and 2005 were HK\$119,344, HK\$218,260 and HK\$270,251, respectively, and were calculated by discounting the expected future cash flows at the prevailing market interest rate.

## 23. FINANCE LEASE PAYABLES

The Kenmure Group leases a motor vehicle under a finance lease arrangement with a remaining lease term of two years and three months as at 31 December 2007.

**APPENDIX II****FINANCIAL INFORMATION OF KENMURE GROUP**

At the balance sheet dates, the Kenmure Group's total future minimum lease payments under the finance lease and their present values were as follows:

Kenmure Group	Minimum lease payments			Present values of minimum lease payments		
	2007	2006	2005	2007	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Amounts payable:						
Within one year	104,940	104,940	104,940	91,248	91,248	91,248
In the second year	104,940	104,940	104,940	91,236	91,248	91,248
In the third to fifth years, inclusive	<u>26,235</u>	<u>131,175</u>	<u>236,115</u>	<u>22,808</u>	<u>114,044</u>	<u>205,292</u>
Total minimum finance lease payments	236,115	341,055	445,995	<u>205,292</u>	<u>296,540</u>	<u>387,788</u>
Future finance charges	<u>(30,823)</u>	<u>(44,515)</u>	<u>(58,207)</u>			
Total net finance lease payables	205,292	296,540	387,788			
Portion classified as current liabilities (note 22)	<u>(91,248)</u>	<u>(91,248)</u>	<u>(91,248)</u>			
Non-current portion (note 22)	<u>114,044</u>	<u>205,292</u>	<u>296,540</u>			

**24. SHARE CAPITAL**

	2007	2006	2005
	HK\$	HK\$	HK\$
Authorised:			
100,000,000 ordinary shares of HK\$1 each	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid:			
55,000,000 ordinary shares of HK\$1 each	<u>55,000,000</u>	<u>55,000,000</u>	<u>55,000,000</u>

**25. RESERVES****(a) Kenmure Group**

The amounts of the Kenmure Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity on page 93.

## (b) Kenmure

	Share premium account <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2005	12,873,650	(516,413)	12,357,237
Loss for the year	<u>—</u>	<u>(52,665)</u>	<u>(52,665)</u>
At 31 December 2005 and 1 January 2006	12,873,650	(569,078)	12,304,572
Loss for the year	<u>—</u>	<u>(82,705)</u>	<u>(82,705)</u>
At 31 December 2006 and 1 January 2007	12,873,650	(651,783)	12,221,867
Loss for the year	<u>—</u>	<u>(92,705)</u>	<u>(92,705)</u>
At 31 December 2007	<u>12,873,650</u>	<u>(744,488)</u>	<u>12,129,162</u>

## 26. MAJOR NON-CASH TRANSACTIONS

In the year ended 31 December 2005, the Kenmure Group entered into a finance lease arrangement in respect of a motor vehicle with a total capital value at the inception of the lease of HK\$456,224.

## 27. CONTINGENT LIABILITIES

At 31 December 2007, 2006 and 2005, Kenmure had a guarantee given in favour of a bank to the extent of HK\$6,000,000 in respect of banking facilities granted to a subsidiary. These facilities were utilised to the extent of HK\$240,449 and HK\$1,027,207 as at 31 December 2007 and 2006, respectively. None of these facilities was utilised as at 31 December 2005.

## 28. OPERATING LEASE ARRANGEMENTS

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

At the balance sheet dates, the Kenmure Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007 <i>HK\$</i>	2006 <i>HK\$</i>	2005 <i>HK\$</i>
Within one year	35,833,049	37,806,569	31,663,933
In the second to fifth years, inclusive	<u>37,116,237</u>	<u>51,574,568</u>	<u>32,481,667</u>
	<u>72,949,286</u>	<u>89,381,137</u>	<u>64,145,600</u>

## 29. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed elsewhere in the Financial Information, the Kenmure Group had the following material transactions with related parties during the Relevant Periods:

	<i>Notes</i>	<b>2007</b> <i>HK\$</i>	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
Management fee income from a then associate	(i)	—	—	1,546,955
Management fee paid to the ultimate holding company	(ii)	—	—	720,000
Consultancy fees paid to a company in which the spouse of a director of Kenmure has a controlling interest	(iii)	—	—	708,000
Interest income on loans to a then associate	(iv)	—	—	84,423
		<u>—</u>	<u>—</u>	<u>84,423</u>

*Notes:*

- (i) The management fee income received from a then associate arose from the Kenmure Group's provision of shop management services to the then associate in accordance with the agreement between the Kenmure Group and the then associate.
- (ii) The management fee was charged to the Kenmure Group at HK\$120,000 per month from 1 January 2005 to 30 June 2005 as agreed between the Kenmure Group and the ultimate holding company.
- (iii) The consultancy services provided to a subsidiary of Kenmure were charged at HK\$118,000 per month from 1 January 2005 to 30 June 2005 in accordance with the agreement between the subsidiary and the related company.
- (iv) The interest was charged at a rate of 2.5% per annum on a loan to the then associate which had been fully repaid during the year ended 31 December 2005.
- (b) Compensation of key management personnel of the Kenmure Group:

	<b>2007</b> <i>HK\$</i>	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
Short term employee benefits	4,300,398	5,403,014	5,949,323
Post-employment benefits	<u>159,695</u>	<u>217,715</u>	<u>224,315</u>
Total compensation paid to key management personnel	<u>4,460,093</u>	<u>5,620,729</u>	<u>6,173,638</u>

Further details of directors' emoluments are included in note 8 to the Financial Information.

## 30. FINANCIAL INSTRUMENTS BY CATEGORY

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

## 2007 — Kenmure Group

## Financial assets

	<b>Loans and receivables</b>
	<i>HK\$</i>
Trade receivables	3,295,729
Financial assets included in prepayments, deposits and other receivables	17,320,951
Cash and bank balances	<u>24,950,509</u>
	<u>45,567,189</u>

## Financial liabilities

	<b>Financial liabilities at amortised cost</b>
	<i>HK\$</i>
Trade and bills payables	5,008,231
Financial liabilities included in other payables and accruals	9,255,425
Interest-bearing bank and other borrowings	<u>4,825,887</u>
	<u>19,089,543</u>

## 2006 — Kenmure Group

## Financial assets

	Financial assets at fair value through profit or loss - held for trading <i>HK\$</i>	Loans and receivables <i>HK\$</i>	Total <i>HK\$</i>
Trade receivables	—	3,759,784	3,759,784
Financial assets included in prepayments, deposits and other receivables	—	17,136,549	17,136,549
Derivative financial instruments	103,731	—	103,731
Cash and bank balances	—	10,032,359	10,032,359
	<u>103,731</u>	<u>30,928,692</u>	<u>31,032,423</u>

## Financial liabilities

	Financial liabilities at amortised cost <i>HK\$</i>
Trade and bills payables	5,048,179
Financial liabilities included in other payables and accruals	7,425,930
Interest-bearing bank and other borrowings	<u>9,473,439</u>
	<u>21,947,548</u>

## 2005 — Kenmure Group

## Financial assets

	Loans and receivables <i>HK\$</i>
Trade receivables	2,918,766
Financial assets included in prepayments, deposits and other receivables	16,927,569
Cash and bank balances	<u>17,789,737</u>
	<u>37,636,072</u>

## 2005 — Kenmure Group

## Financial liabilities

	Financial liabilities at amortised cost <i>HK\$</i>
Trade and bills payables	1,666,609
Financial liabilities included in other payables and accruals	6,788,615
Interest-bearing bank and other borrowings	<u>4,275,233</u>
	<u>12,730,457</u>

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

## Kenmure

## Financial assets

	Loans and receivables		
	2007 <i>HK\$</i>	2006 <i>HK\$</i>	2005 <i>HK\$</i>
Interests in subsidiaries	<u>28,373,650</u>	<u>28,373,650</u>	<u>28,373,650</u>

## Financial liabilities

	Financial liabilities at amortised cost		
	2007 <i>HK\$</i>	2006 <i>HK\$</i>	2005 <i>HK\$</i>
Financial liabilities included in other payables and accruals	90,000	80,000	40,000
Due to a subsidiary	<u>654,488</u>	<u>571,783</u>	<u>529,078</u>
	<u>744,488</u>	<u>651,783</u>	<u>569,078</u>

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Kenmure Group has interest-bearing bank and other borrowings for financing its operations and has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations. The main risks arising from these financial instruments of the Kenmure Group are interest rate risk, foreign currency risk, credit risk and liquidity risk.

The Kenmure Group's risk management strategy aims to minimise the adverse effects of financial risks on the financial performance of the Kenmure Group and the board reviews and agrees policies, as summarised below, for managing each of these risks. It is the Kenmure Group's policy that financial instruments are not held or sold for speculative purposes.

**Interest rate risk**

The Kenmure Group's exposure to the risk of changes in market interest rates relates primarily to the Kenmure Group's short term interest-bearing bank borrowings with floating interest rates.

The Kenmure Group's policy to manage its interest rate risk is to reduce or maintain its current level of interest-bearing borrowings. As the Kenmure Group is not expected to significantly increase its level of interest-bearing borrowings, it has not used any interest rate swaps to hedge its exposure to interest rate risk.

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

**Kenmure Group**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit/ decrease/ (increase) in loss <i>HK\$</i>	Increase/ (decrease) in equity <i>HK\$</i>
<b>2007</b>			
Hong Kong dollar	50	(3,330)	(3,330)
Hong Kong dollar	(50)	3,330	3,330
<b>2006</b>			
Hong Kong dollar	50	(6,984)	(6,984)
Hong Kong dollar	(50)	6,984	6,984
<b>2005</b>			
Hong Kong dollar	50	(2,945)	(2,945)
Hong Kong dollar	(50)	2,945	2,945

**Foreign currency risk**

The Kenmure Group has transactional currency exposures. Such exposures arise from purchases in currencies other than the Kenmure Group's functional currency. Approximately 99%, 97% and 98% of the Kenmure Group's purchases for the years ended 31 December 2007, 2006 and 2005, respectively, are denominated in currencies other than the functional currency of the Kenmure Group.

The Kenmure Group from time to time uses foreign exchange option contracts to partially manage foreign currency risk exposures and will continue to monitor such exposures and market conditions to determine if any other hedging arrangements are required in the future.

**APPENDIX II****FINANCIAL INFORMATION OF KENMURE GROUP**

The following table demonstrates the sensitivity at the balance sheet dates to a reasonably possible change in the US\$ and Euro exchange rates, with all other variables held constant, of the Kenmure Group's profit or loss (due to changes in the fair value of monetary assets and liabilities) and the Kenmure Group's equity.

	Increase/ (decrease) in US\$/Euro rate %	Increase/ (decrease) in profit/ decrease/ (increase) in loss HK\$	Increase/ (decrease) in equity HK\$
<b>2007</b>			
If Hong Kong dollar weakens against Euro	5%	(169,285)	(169,285)
If Hong Kong dollar strengthens against Euro	(5%)	169,285	169,285
If Hong Kong dollar weakens against US\$	5%	(36,528)	(36,528)
If Hong Kong dollar strengthens against US\$	(5%)	36,528	36,528
<b>2006</b>			
If Hong Kong dollar weakens against Euro	5%	(201,222)	(201,222)
If Hong Kong dollar strengthens against Euro	(5%)	201,222	201,222
If Hong Kong dollar weakens against US\$	5%	(5,741)	(5,741)
If Hong Kong dollar strengthens against US\$	(5%)	5,741	5,741
<b>2005</b>			
If Hong Kong dollar weakens against Euro	5%	(27,042)	(27,042)
If Hong Kong dollar strengthens against Euro	(5%)	27,042	27,042
If Hong Kong dollar weakens against US\$	5%	(7,388)	(7,388)
If Hong Kong dollar strengthens against US\$	(5%)	7,388	7,388

**Credit risk**

The Kenmure Group trades on credit terms only with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Kenmure Group's exposure to bad debt is not significant.

The credit risk of the Kenmure Group's other financial assets, which comprise bank balances, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the amounts of these instruments.

Since the Kenmure Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. As the Kenmure Group's trade receivables relate to diversified debtors, there is no significant concentrations of credit risk within the Kenmure Group.

Further quantitative data in respect of the Kenmure Group's exposure to credit risk arising from trade receivables are disclosed in note 16 to the Financial Information.

**Liquidity risk**

The Kenmure Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

**APPENDIX II****FINANCIAL INFORMATION OF KENMURE GROUP**

The Kenmure Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

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

**Kenmure Group**

	<b>2007</b>			<b>Total</b>
	<b>Within 1 year or on demand</b>	<b>More than 1 year but less than 2 years</b>	<b>More than 2 years but less than 5 years</b>	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Trade and bills payables	5,008,231	—	—	5,008,231
Financial liabilities included in other payables and accruals	9,255,425	—	—	9,255,425
Interest-bearing bank and other borrowings	<u>4,711,843</u>	<u>91,236</u>	<u>22,808</u>	<u>4,825,887</u>
	<u>18,975,499</u>	<u>91,236</u>	<u>22,808</u>	<u>19,089,543</u>

**Kenmure Group**

	<b>2006</b>			<b>Total</b>
	<b>Within 1 year or on demand</b>	<b>More than 1 year but less than 2 years</b>	<b>More than 2 years but less than 5 years</b>	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Trade and bills payables	5,048,179	—	—	5,048,179
Financial liabilities included in other payables and accruals	7,425,930	—	—	7,425,930
Interest-bearing bank and other borrowings	<u>9,268,147</u>	<u>91,248</u>	<u>114,044</u>	<u>9,473,439</u>
	<u>21,742,256</u>	<u>91,248</u>	<u>114,044</u>	<u>21,947,548</u>

**Kenmure Group**

	<b>2005</b>			<b>Total</b>
	<b>Within 1 year or on demand</b>	<b>More than 1 year but less than 2 years</b>	<b>More than 2 years but less than 5 years</b>	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Trade and bills payables	1,666,609	—	—	1,666,609
Financial liabilities included in other payables and accruals	6,788,615	—	—	6,788,615
Interest-bearing bank and other borrowings	<u>3,978,693</u>	<u>91,248</u>	<u>205,292</u>	<u>4,275,233</u>
	<u>12,433,917</u>	<u>91,248</u>	<u>205,292</u>	<u>12,730,457</u>

**APPENDIX II****FINANCIAL INFORMATION OF KENMURE GROUP**

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

Kenmure	2007	2006	2005
	Within 1 year or on demand	Within 1 year or on demand	Within 1 year or on demand
	HK\$	HK\$	HK\$
Financial liabilities included in other payables and accruals	90,000	80,000	40,000
Due to a subsidiary	<u>654,488</u>	<u>571,783</u>	<u>529,078</u>
	<u>744,488</u>	<u>651,783</u>	<u>569,078</u>

**Capital management**

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

The Kenmure Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Kenmure Group may return capital to shareholders or issue new shares. The Kenmure Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the Relevant Periods.

The Kenmure Group monitors capital using a gearing ratio, which is total borrowings divided by total equity attributable to equity holders of the Kenmure Group. The Kenmure Group's policy is to maintain a low level of debt and a gearing ratio not higher than 20%. The total borrowings include interest-bearing bank and other borrowings. The gearing ratios as at the balance sheet dates were as follows:

	2007	2006	2005
	HK\$	HK\$	HK\$
Interest-bearing bank and other borrowings	<u>4,825,887</u>	<u>9,473,439</u>	<u>4,275,233</u>
Shareholders' equity	<u>97,292,627</u>	<u>90,105,899</u>	<u>100,017,645</u>
Gearing ratio	<u>5.0%</u>	<u>10.5%</u>	<u>4.3%</u>

**32. POST BALANCE SHEET EVENTS**

On 22 January 2008, the Company announced that on 21 January 2008, e-Media (Asia) Limited, the Company's wholly-owned subsidiary and Kenmure's immediate holding company, entered into agreements to acquire an aggregate additional 40% interest in Kenmure for a total consideration of HK\$22,000,000.

**33. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Kenmure Group in respect of any period subsequent to 31 December 2007.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

**2. MANAGEMENT DISCUSSION & ANALYSIS OF KENMURE GROUP**

The following is the management discussion and analysis of Kenmure Group for the three years ended 31 December 2007.

**FOR THE YEAR ENDED 31 DECEMBER 2007****Financial Review**

For the year ended 31 December 2007, the Kenmure Group reported a turnover of HK\$214,168,000 which represents an increase of 23% compared to 2006. Consolidated profit for the year amounted to HK\$7,187,000 as compared to a consolidated loss of HK\$11,589,000 for 2006.

**Liquidity and Financial Position**

At 31 December 2007, the Kenmure Group was in a solid financial position with cash and deposit holdings of HK\$24,951,000. At 31 December 2007, total borrowings stood at HK\$4,826,000 with HK\$4,712,000 of repayments falling due within one year. The Kenmure Group's gearing ratio (a comparison of total borrowings with total equity attributable to equity holders of the Kenmure Group) was 5% at the year end date. The current ratio as at 31 December 2007 was 4.2 times.

At 31 December 2007, the Kenmure Group's borrowings and bank balances were primarily denominated in Hong Kong dollars. Exchange differences were reflected in the audited financial statements. Other than the fixed interest rate of 3% for the finance lease arrangement, all borrowings of the Kenmure Group are on a floating rate basis. The Kenmure Group's imported purchases are mainly denominated in Euros. The Kenmure Group will from time to time review its foreign exchange position and market conditions to determine if any hedging is required.

**Business Review**

Swank produced encouraging results in 2007 with turnover of HK\$214,168,000, up 23% from the previous year.

The bullish economy, tighter management control and more focused merchandising program all contributed to this performance.

Gross profit margin increased by 4 percentage point from 47% to 51%. Although shop occupancy costs increased by 25% from the previous year, overall shop expenses reduced to 41% on turnover as compared with 45% in 2006. Head office expenses also improved to 10% on sales as opposed to 13% in 2006. These improvements contributed to Swank posting a net profit of HK\$7,300,000 of which HK\$5,168,000 was derived from the sale of property.

On the operation front, two new boutiques were opened during the year.

- (i) A New branch of Kenzo mono brand boutique was opened in December 2007 in Ocean Centre, Kowloon. Management is confident that this boutique will perform strongly once the Louis Vuitton flagship store (the largest in Asia) opens opposite the boutique in March 2008 as this will drastically increase foot traffic in the area.

- (ii) A Brunello Cucinelli boutique was opened in September 2007 in the IFC Mall, Hong Kong. This is the first Brunello Cucinelli boutique established in HK and with the brand's proven track record within Swank multi-label shops, it should perform well starting in the Spring/Summer 2008 season.

### **Employee and Remuneration Policies**

At 31 December 2007, the Kenmure Group employed a total of 145 full time staff with its main workforce stationed in the Kenmure Group's offices in Hong Kong. The Kenmure Group's remuneration policies are performance based and are in line with the salary trends in the respective locations. The Kenmure Group provides employee benefits such as staff insurance schemes, provident and pension funds, discretionary performance bonus, and external training support.

### **FOR THE YEAR ENDED 31 DECEMBER 2006**

#### **Financial Review**

For the year ended 31 December 2006, the Kenmure Group reported a turnover of HK\$174,710,000 which represents a decrease of 11% compared to 2005. Consolidated loss for the year amounted to HK\$11,589,000 as compared to a consolidated profit of HK\$10,184,000 for 2005.

#### **Liquidity and Financial Position**

At 31 December 2006, the Kenmure Group was in a solid financial position with cash and deposit holdings of HK\$10,032,000. At 31 December 2006, total borrowings stood at HK\$9,473,000 with HK\$9,268,000 of repayments falling due within one year. The Kenmure Group's gearing ratio (a comparison of total borrowings with total equity attributable to equity holders of the Kenmure Group) was 10.5% at the year end date. The current ratio as at 31 December 2006 was 2.9 times.

At 31 December 2006, the Kenmure Group's borrowings and bank balances were primarily denominated in Hong Kong dollars. Exchange differences were reflected in the audited financial statements. Other than the fixed interest rate of 3% for the finance lease arrangement, all borrowings of the Kenmure Group are on a floating rate basis. The Kenmure Group's imported purchases are mainly denominated in Euros. The Kenmure Group will from time to time review its foreign exchange position and market conditions to determine if any hedging is required.

#### **Business Review**

A number of shops were closed due to the expiration of leases in the first quarter and could only be reopened in new locations in the third quarter, thus affecting Swank's first six months' sales turnover. The relocated shop in Pacific Place incorporates both men's and ladies' wear. The new shop in Harbour City is for men only which complements the existing Swank ladies' wear nearby.

The new shop network reflects our strategy of targeting the upscale market in strategic locations in Hong Kong and Kowloon. Sales volume in the second half of the year returned to satisfactory levels.

**Employee and Remuneration Policies**

At 31 December 2006, the Kenmure Group employed a total of 150 full time staff with its main workforce stationed in the Kenmure Group's offices in Hong Kong. The Kenmure Group's remuneration policies are performance based and are in line with the salary trends in the respective locations. The Kenmure Group provides employee benefits such as staff insurance schemes, provident and pension funds, discretionary performance bonus, and external training support.

**FOR THE YEAR ENDED 31 DECEMBER 2005****Financial Review**

For the year ended 31 December 2005, the Kenmure Group reported a turnover of HK\$195,467,000 which represents an increase of 18% compared to 2004. Consolidated profit for the year amounted to HK\$10,184,000 as compared to HK\$12,684,000 for 2004.

**Liquidity and Financial Position**

At 31 December 2005, the Kenmure Group was in a solid financial position with cash and deposit holdings of HK\$17,790,000. At 31 December 2005, total borrowings stood at HK\$4,275,000 with HK\$3,979,000 of repayments falling due within one year. The Kenmure Group's gearing ratio (a comparison of total borrowings with total equity attributable to equity holders of the Kenmure Group) was 4.3% at the year end date. The current ratio as at 31 December 2005 was 5.2 times.

At 31 December 2005, the Kenmure Group's borrowings and bank balances were primarily denominated in Hong Kong dollars. Exchange differences were reflected in the audited financial statements. Other than the fixed interest rate of 3% for the finance lease arrangement, all borrowings of the Kenmure Group are on a floating rate basis. The Kenmure Group's imported purchases are mainly denominated in Euros. The Kenmure Group will from time to time review its foreign exchange position and market conditions to determine if any hedging is required.

**Business Review**

Swank has registered a sales growth of 20% as compared to the previous year, despite a subdued consumer climate over the period caused by warmer weather, rising interest rates and higher fuel prices. Gross profit rose by 9% year-on-year resulting in a positive bottom line. A total of four points-of-sale were opened in prime locations while an equal number of poor performing outlets were closed after lease expiry.

Swank will continue to drive sales upward and improve margins in 2006. It will increase its focus on in-trend luxury products, and improve merchandise display and customer services. A total of three additional shops will be opened in 2006 while two of which are relocations. Design of new shops will provide customers with a better shopping environment.

**Employee and Remuneration Policies**

At 31 December 2005, the Kenmure Group employed a total of 153 full time staff with its main workforce stationed in the Kenmure Group's offices in Hong Kong. The Kenmure Group's remuneration policies are performance based and are in line with the salary trends in the respective locations. The Kenmure Group provides employee benefits such as staff insurance schemes, provident and pension funds, discretionary performance bonus, and external training support.

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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

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**1. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL  
INFORMATION**

** ERNST & YOUNG**

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

14 April 2008

The Board of Directors  
ENM Holdings Limited  
Suite 1502, 15/F  
Chinachem Golden Plaza  
77 Mody Road, Tsimshatsui East  
Kowloon, Hong Kong

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the “Unaudited Pro Forma Financial Information”) of ENM Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) as set out in Appendix III to the circular of the Company dated 14 April 2008 (the “Circular”). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Company’s proposed acquisition of an additional 40% interest in the issued share capital of Kenmure Limited (the “Proposed Acquisition”), an indirect 60%-owned subsidiary of the Company, might have affected the assets and liabilities of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 135 to 137 to the Circular.

**Respective Responsibilities of Directors of the Company and Reporting Accountants**

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

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

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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

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**Basis of Opinion**

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

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

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2007 or any future date.

**Opinion**

In our opinion:

- a. the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

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**2.    PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP AFTER THE  
PROPOSED ACQUISITION**

**(A)   INTRODUCTION**

On 21 January 2008, e-Media (Asia) Limited, a wholly-owned subsidiary of the Company, entered into agreements to acquire an aggregate additional 40% interest in Kenmure Limited, an indirect 60%-owned subsidiary of the Company, for an aggregate consideration of HK\$22 million. The consideration is to be satisfied by cash.

The following is the unaudited pro forma statement of assets and liabilities of the Group as enlarged by the Proposed Acquisition (the “Enlarged Group”), which has been prepared on the basis of the notes set out below and with the assumption that the Proposed Acquisition had been completed as at 31 December 2007 for the purpose of illustrating how the Proposed Acquisition might have affected the financial position of the Group at that date.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared based on the Group’s audited consolidated balance sheet as at 31 December 2007, as set out in the annual report of the Company for the year ended 31 December 2007, which has already consolidated the balance sheet of Kenmure Limited and its subsidiaries, to the extent of the Group’s 60% equity interest therein, as at 31 December 2007 as presented in Appendix II of this Circular.

The unaudited pro forma statement of assets and liabilities has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not purport to represent what the assets and liabilities of the Enlarged Group shall be on the actual completion of the Proposed Acquisition.

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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

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**(B) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

As at 31 December 2007

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>The Enlarged Group</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	77,303		77,303
Investment properties	113,900		113,900
Prepaid land premiums	2,986		2,986
Goodwill	6,610		6,610
Interests in associates	17,258		17,258
Available-for-sale equity investments	35,448		35,448
Total non-current assets	<u>253,505</u>		<u>253,505</u>
<b>CURRENT ASSETS</b>			
Inventories	41,359		41,359
Trade receivables	7,161		7,161
Prepayments, deposits and other receivables	33,656		33,656
Prepaid land premiums	77		77
Equity investments at fair value through profit or loss	197,894		197,894
Pledged deposits	342		342
Time deposits	495,798		495,798
Cash and bank balances	46,487	(23,100) <sup>(i)</sup>	23,387
Total current assets	<u>822,774</u>		<u>799,674</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	40,973		40,973
Interest-bearing bank and other borrowings	4,712		4,712
Current portion of debentures	2,670		2,670
Other loans	5,349		5,349
Tax payable	5,497		5,497
Total current liabilities	<u>59,201</u>		<u>59,201</u>
<b>NET CURRENT ASSETS</b>	<u>763,573</u>		<u>740,473</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>1,017,078</u>		<u>993,978</u>

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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

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	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>The Enlarged Group</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Debentures	3,462		3,462
Interest-bearing bank and other borrowings	114		114
Deferred revenue	23,015		23,015
Total non-current liabilities	<u>26,591</u>		<u>26,591</u>
<b>Net assets</b>	<u>990,487</u>		<u>967,387</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital	16,507		16,507
Reserves	943,433	6,583 <sup>(ii)</sup>	950,016
	959,940		966,523
<b>Minority interests</b>	30,547	(29,683) <sup>(ii)</sup>	864
<b>Total equity</b>	<u>990,487</u>		<u>967,387</u>

*Notes*

- (i) This represents the total consideration for the Proposed Acquisition of HK\$22,000,000 plus the estimated transaction costs of approximately HK\$1,100,000. The total estimated cost of acquisition (including transaction costs) of HK\$23,100,000 is planned to be financed by the internal resources of the Group.

For the purpose of the Unaudited Pro Forma Financial Information, the available cash and bank balances of the Group as at 31 December 2007 is assumed to be applied for the settlement of the consideration for the Proposed Acquisition.

- (ii) The discount on the Proposed Acquisition of approximately HK\$6,583,000 has been credited to the retained profits of the Enlarged Group as if the Proposed Acquisition had been completed on 31 December 2007. This discount on acquisition has been calculated by comparing the 40% interest in the consolidated net assets of Kenmure Limited as at 31 December 2007 of HK\$29,683,000, as included in the Group's consolidated balance sheet, to the total estimated cost of acquisition (including transaction costs) of HK\$23,100,000 (see (i) above).

**1. RESPONSIBILITY STATEMENT**

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

**2. DISCLOSURE OF INTERESTS****(a) Interests and short positions of directors and chief executive**

As at the Latest Practicable Date, the interests or short positions of each Director and chief executive of the Group in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the “Model Code”) adopted by the Company to be notified to the Company and the Stock Exchange were as follows:

*Long position in the Company’s issued shares*

<b>Name of Director</b>	<b>Number of shares held through a controlled corporation</b>	<b>Percentage of the Company’s issued share capital</b>
Mr. Joseph Wing Kong LEUNG	200,000	0.012%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code adopted by the Company.

**(b) Interests of Shareholders discloseable pursuant to the SFO**

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, based on the register of interests kept by the Company under Section 336 of the SFO the following are persons (other than a Director or chief executive of the Company) who had, or were deemed to have, an interest or short position in the shares or underlying shares of the Company which

would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group or had any option in respect of such capital:

*Long Position in the Company's issued shares*

Name	Direct interests	Indirect interests	Number of shares held	Percentage of the Company's issued share capital
Diamond Leaf Limited	162,216,503	—	162,216,503	9.8%
Solution Bridge Limited	408,757,642	—	408,757,642	24.8%
Ms. Nina KUNG (deceased) <i>(note)</i>	—	570,974,145	570,974,145	34.6%

*Notes:* The interest disclosed under Ms. Nina KUNG (deceased) represents her deemed interests in the shares of the Company by virtue of her interests in Diamond Leaf Limited and Solution Bridge Limited.

Saved as disclosed above, the Directors and the chief executive of the Company are not aware that there is any party who, as at the Latest Practicable Date, had, or deemed to have, an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group or had any options in respect of such capital.

**(c) Directors' interest in competing business**

As at the Latest Practicable Date, in so far as the Directors were aware, none of the Directors or their respective associates were interested in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

**(d) Other interests**

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by, or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Enlarged Group.

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

### 3. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Enlarged Group within two years preceding the date of the Latest Practicable Date and are, or may be, material:

- (a) the Apex Agreement;
- (b) the Kosin Agreement; and
- (c) the share transfer agreement dated 17 December 2007 entered into between Lion Dragon Limited, a wholly-owned subsidiary of the Company and Jiangxiaodan in relation to the disposal of 10% of the equity interest in Beijing Smartdot Technologies Co. Ltd. at RMB12,000,000 (equivalent to approximately HK\$12,720,000).

### 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with any member of the Enlarged Group which is not determinable by the Enlarged Group within one year without payment of compensation, other than statutory compensation.

### 5. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

### 6. QUALIFICATION AND CONSENTS OF EXPERTS

The following is the qualifications of the experts who have given opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Guangdong Securities	a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities); type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
Ernst & Young	Certified Public Accountants

Guangdong Securities and Ernst & Young have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their letters or references to their names in the form and context in which they respectively appear.

Neither Guangdong Securities nor Ernst & Young has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

Neither Guangdong Securities nor Ernst & Young has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2007 (being the date to which the latest published audited financial statements of the Company were made up), or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

## **7. MISCELLANEOUS**

- (a) The qualified accountant of the Company is Mr. Victor Yiu Keung CHIANG. He is an associate member of The Institute of Chartered Accountants in England & Wales, and a fellow member of Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. Mr Chiang is also a Certified Public Accountant practicing in Hong Kong.
- (b) The Company Secretary of the Company is Ms. Pui Man CHENG. She is a fellow member of The Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. She is also a member of Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (c) The registered office of the Company is at Suite 1502, 15th Floor, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.
- (d) The share register of the Company is Computershare Hong Kong Investor Services Ltd at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

## **8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the registered office of the Company up to and including 30 April 2008.

- (a) the memorandum and articles of association of the Company;

- (b) the material contracts referred to in the section headed “Material Contracts” in paragraph 3 of this Appendix;
- (c) the annual reports of the Company for the two years ended 31 December 2007;
- (d) the letter of advice from Guangdong Securities to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 14 to 22 of this circular;
- (e) the report of Ernst & Young in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this Circular;
- (f) the accountant’s report on Keumure Group, the text of which is set out in Appendix II to this circular; and
- (g) the written consents from Guangdong Securities and Ernst & Young referred to in paragraph 6 of this appendix.

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## NOTICE OF THE EGM

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### ENM HOLDINGS LIMITED

### 安寧控股有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock code: 128)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of ENM Holdings Limited (the “Company”) will be held at the Hilltop Country Club, 10 Hilltop Road, Lo Wai, Tsuen Wan, New Territories, Hong Kong on Wednesday, 30 April 2008 at 11:00 a.m. or immediately after the conclusion of the annual general meeting of the Company to be held on the same day and place at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

(1) “**THAT,**

- (a) the Share Purchase Agreement dated 21 January 2008 (the “**Apex Agreement**”), a copy of which, signed by the Chairman of the meeting for the purposes of identification, has been produced to the meeting marked “A”, made between e-Media (Asia) Limited (“**e-Media (Asia)**”) and Apex Ocean Investments Limited (“Apex”) whereby e-Media (Asia) agreed to acquire Apex’s 30% interest in Kenmure Limited at a consideration of HK\$16,500,000 be and is hereby approved, confirmed and ratified and that the transactions contemplated thereunder be and are hereby approved; and
- (b) the directors of the Company be and are hereby authorised to do all such acts and things as they consider necessary or expedient or desirable in connection with or to give effect to the Apex Agreement and to implement the transactions contemplated thereunder.”

(2) “**THAT,**

- (a) the Share Purchase Agreement dated 21 January 2008 (the “**Kosin Agreement**”), a copy of which, signed by the Chairman of the meeting for the purposes of identification, has been produced to the meeting marked “B”, made between e-Media (Asia) Limited (“**e-Media (Asia)**”) and Kosin Limited (“Kosin”) whereby e-Media (Asia) agreed to acquire Kosin’s 10% interest in Kenmure Limited at a consideration of HK\$5,500,000 be and is hereby approved, confirmed and ratified and that the transactions contemplated thereunder be and are hereby approved; and

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## NOTICE OF THE EGM

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- (b) the directors of the Company be and are hereby authorised to do all such acts and things as they consider necessary or expedient or desirable in connection with or to give effect to the Kosin Agreement and to implement the transactions contemplated thereunder.”

By Order of the Board  
**ENM HOLDINGS LIMITED**  
**Joseph Wing Kong LEUNG**  
*Chairman*

Hong Kong, 14 April 2008

*Registered Office:*

Suite 1502, 15th Floor, Chinachem Golden Plaza,  
77 Mody Road, Tsimshatsui East,  
Kowloon, Hong Kong

**Notes:**

- (1) Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the meeting is enclosed. To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited at the registered office of the Company at Suite 1502, 15th Floor, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof.
- (3) Where there are joint holders of any share, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled to vote, but if more than one of such joint holders are present at the meeting in person or by proxy, the person so present whose name stands first in the register of members of the Company in respect of such share shall alone be entitled to vote in respect of it.
- (4) Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person at the meeting or any adjourned meeting if he so desires. If a member attends the meeting after having deposited the form of proxy, his form of proxy will be deemed to have been revoked.
- (5) As at the date hereof, the executive directors of the Company are Mr. Joseph Wing Kong LEUNG (Chairman), Mr. James C. NG (Chief Executive Officer), Mr. Derek Wai Choi LEUNG and Mr. Wing Tung YEUNG, the non-executive director of the Company is Mr. Raymond Wai Pun LAU, and the independent non-executive directors of the Company are Dr. Cecil Sze Tsung CHAO, Dr. Jen CHEN and Mr. Ian Grant ROBINSON.