The following is the text of a report prepared for the purpose of inclusion in this document, received from the auditors and reporting accountants of the Company, Grant Thornton, Certified Public Accountants, Hong Kong:

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

27th June, 2007

The Directors
Recruit Holdings Limited
Somerley Limited

Dear Sirs,

We set out below our report on the financial information relating to Recruit Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31st December, 2004, 2005 and 2006 (the "Relevant Periods"), for inclusion in the listing document of the Company dated 27th June, 2007 in connection with the proposed listing of the entire issued share capital of the Company on the Main Board (the "Main Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of introduction.

The Company was incorporated in the Cayman Islands as an exempted company on 13th March, 2000 and redomiciled to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda, with limited liability on 29th January, 2003. The shares of the Company have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange since 20th July, 2000.

At the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 40 of Section II, all of which are private companies (or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong private company). All companies comprising the Group have adopted 31st December as their financial year end date.

The audited consolidated financial statements of the Group for the Relevant Periods were prepared in accordance with accounting principles generally accepted in Hong Kong and in compliance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). We have acted as the auditors of the Company since the year ended 31st December, 2005. The consolidated financial statements of the Group for the year ended 31st December, 2004 were audited by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong. Details of auditors and applicable accounting standards for the preparation of the financial statements of the subsidiaries are set out in Note 40 of Section II.

For the purpose of this report, we have examined the audited consolidated financial statements of the Group for the Relevant Periods 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 consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the Relevant Periods and the consolidated balance sheets of the Group as at 31st December, 2004, 2005 and 2006 and the balance sheets of the Company as at 31st December, 2004, 2005 and 2006, together with the notes set out in Sections I to IV below (the "Financial Information") have been prepared based on the audited consolidated financial statements of the Group for the Relevant Periods, after making such adjustments as are appropriate. The directors of the Company, during the Relevant Periods, are responsible for the preparation of these consolidated financial statements which give a true and fair view. In preparing these consolidated financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the preparation of the Financial Information which gives a true and fair view. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the consolidated results and cash flows of the Group for the Relevant Periods and of the state of affairs of the Group and the Company as at 31st December, 2004, 2005 and 2006.

I. FINANCIAL INFORMATION

1. CONSOLIDATED INCOME STATEMENTS

		Year ended 31st December,		
		2004	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Revenue and turnover	*5*	103,995	227,103	298,333
Direct operating costs		(48,598)	(136,496)	(182,526)
Gross profit		55,397	90,607	115,807
Other operating income		4,418	11,633	14,977
Gain on disposal of investment properties		–	–	12,114
Selling and distribution costs		(14,067)	(34,943)	(41,333)
Administrative expenses		(11,444)	(27,732)	(32,598)
Other operating expenses		(290)	(698)	(2,087)
Operating profit		34,014	38,867	66,880
Finance costs	*7*	–	(539)	(2,618)
Profit before income tax	*8*	34,014	38,328	64,262
Income tax expense	*11*	(28)	(1,060)	(5,982)
Profit for the year		33,986	37,268	58,280
Attributable to:				
Equity holders of the Company		33,986	37,094	55,102
Minority interests		–	174	3,178
Profit for the year		33,986	37,268	58,280
Dividends	*12*	–	10,969	26,106
Earnings per share for profit attributable to the equity holders of the Company during the year	*13*			
Basic *(HK cents)*		14.54	13.57	20.07
Diluted *(HK cents)*		14.47	13.46	19.94

2. CONSOLIDATED BALANCE SHEETS

		At 31st December,		
		2004	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*14*	3,407	41,971	74,257
Prepaid land lease payments	*15*	–	–	1,034
Investment properties	*16*	36,660	39,800	–
Interests in associates	*18*	7,351	–	1,411
Deposit paid for acquisition of property, plant and equipment		2,001	–	–
		49,419	81,771	76,702
Current assets				
Inventories	*21*	–	8,599	15,455
Trade and other receivables and deposits	*22*	21,472	77,746	75,724
Financial assets at fair value through profit or loss	*23*	–	162	11,452
Advances to associates	*18*	–	5,365	18,978
Cash and cash equivalents	*24*	36,245	44,934	55,157
		57,717	136,806	176,766
Current liabilities				
Trade and other payables	*25*	8,797	50,446	43,611
Finance lease liabilities	*26*	–	3,808	3,691
Provision for taxation		–	–	2,855
		8,797	54,254	50,157
Net current assets		48,920	82,552	126,609
Total assets less current liabilities		98,339	164,323	203,311
Non-current liabilities				
Finance lease liabilities	*26*	–	16,586	13,714
Loans from minority shareholders	*27*	–	9,476	–
Deferred tax liabilities	*28*	–	1,060	1,990
		–	27,122	15,704
Net assets		98,339	137,201	187,607

		At 31st December,		
		2004	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
EQUITY				
Equity attributable to the equity holders of the Company				
Share capital	*29*	54,500	54,844	54,960
Reserves	*31*	43,839	71,209	100,028
Proposed final and special dividends	*12*	–	10,969	20,610
		98,339	137,022	175,598
Minority interests		–	179	12,009
Total equity		98,339	137,201	187,607

3. BALANCE SHEETS

	Notes	At 31st December, 2004 HK$'000	2005 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES				
Non-current assets				
Investments in subsidiaries	*17*	1	–	–
Interest in an associate	*18*	70	–	–
Amounts due from subsidiaries	*19*	83,470	–	–
		83,541	–	–
Current assets				
Amounts due from subsidiaries	*19*	–	126,494	146,435
Advance to an associate	*18*	–	70	70
Other receivables		226	683	221
Cash and cash equivalents	*24*	3,923	226	10,814
		4,149	127,473	157,540
Current liabilities				
Other payables		13	55	22
Amounts due to subsidiaries	*20*	45	188	12,666
		58	243	12,688
Net current assets		4,091	127,230	144,852
Net assets		87,632	127,230	144,852
EQUITY				
Equity attributable to the equity holders of the Company				
Share capital	*29*	54,500	54,844	54,960
Reserves	*31*	33,132	61,417	69,282
Proposed final and special dividends	*12*	–	10,969	20,610
Total equity		87,632	127,230	144,852

4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to the equity holders of the Company										Minority interests	Total equity
	Share capital	Share premium	Employee compensation reserve	Exchange reserve	Merger reserve	Contributed surplus	Goodwill reserve	Capital contribution	Proposed final and special dividends	(Accumulated losses)/ Retained earnings		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004	27,250	49,724	–	5	(43,897)	45,000	13,440	–	–	(59,047)	–	32,475
Profit for the year	–	–	–	–	–	–	–	–	–	33,986	–	33,986
Total recognised income for the year	–	–	–	–	–	–	–	–	–	33,986	–	33,986
Issue of rights shares	27,250	5,450	–	–	–	–	–	–	–	–	–	32,700
Share issue expenses	–	(1,204)	–	–	–	–	–	–	–	–	–	(1,204)
Equity-settled share-based payment expenses *(Note 10 of Section II)*	–	–	382	–	–	–	–	–	–	–	–	382
At 31st December, 2004	54,500	53,970	382	5	(43,897)	45,000	13,440	–	–	(25,061)	–	98,339
At 1st January, 2005	54,500	53,970	382	5	(43,897)	45,000	13,440	–	–	(25,061)	–	98,339
Effect on adoption of HKFRS 3	–	–	–	–	–	–	(13,440)	–	–	13,440	–	–
At 1st January, 2005, as restated	54,500	53,970	382	5	(43,897)	45,000	–	–	–	(11,621)	–	98,339
Currency translation	–	–	–	60	–	–	–	–	–	–	5	65
Fair value change on loans from minority shareholders	–	–	–	–	–	–	–	521	–	–	–	521
Net results recognised directly in equity	–	–	–	60	–	–	–	521	–	–	5	586
Profit for the year	–	–	–	–	–	–	–	–	–	37,094	174	37,268
Total recognised income and expense for the year	–	–	–	60	–	–	–	521	–	37,094	179	37,854
Shares issued at premium	344	116	–	–	–	–	–	–	–	–	–	460
Share issue expenses	–	(21)	–	–	–	–	–	–	–	–	–	(21)
Equity-settled share-based payment expenses *(Note 10 of Section II)*	–	–	569	–	–	–	–	–	–	–	–	569
Proposed final 2005 dividend *(Note 12 of Section II)*	–	–	–	–	–	(10,969)	–	–	10,969	–	–	–
At 31st December, 2005	54,844	54,065	951	65	(43,897)	34,031	–	521	10,969	25,473	179	137,201

	Equity attributable to the equity holders of the Company									Minority interests	Total equity
	Share capital	Share premium	Employee compen-sation reserve	Exchange reserve	Merger reserve	Contri-buted surplus	Capital contri-bution	Proposed final and special dividends	Retained earnings		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2006	54,844	54,065	951	65	(43,897)	34,031	521	10,969	25,473	179	137,201
Currency translation	–	–	–	(20)	–	–	–	–	–	(4)	(24)
Net results recognised directly in equity	–	–	–	(20)	–	–	–	–	–	(4)	(24)
Profit for the year	–	–	–	–	–	–	–	–	55,102	3,178	58,280
Total recognised income and expense for the year	–	–	–	(20)	–	–	–	–	55,102	3,174	58,256
Shares issued at premium	116	35	–	–	–	–	–	–	–	–	151
Share issue expenses	–	(3)	–	–	–	–	–	–	–	–	(3)
Equity-settled share- based payment expenses *(Note 10 of Section II)*	–	–	332	–	–	–	–	–	–	–	332
Final 2005 dividend paid *(Note 12 of Section II)*	–	–	–	–	–	(8)	–	(10,969)	–	–	(10,977)
Interim 2006 dividend paid *(Note 12 of Section II)*	–	–	–	–	–	(5,488)	–	–	–	–	(5,488)
Proposed final and special 2006 dividends *(Note 12 of Section II)*	–	–	–	–	–	(20,610)	–	20,610	–	–	–
Transfer to minority shareholders	–	–	–	–	–	–	(521)	–	–	521	–
Capitalisation of loan by minority shareholders of a subsidiary *(Note 27 of Section II)*	–	–	–	–	–	–	–	–	–	8,389	8,389
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	(254)	(254)
At 31st December, 2006	54,960	54,097	1,283	45	(43,897)	7,925	–	20,610	80,575	12,009	187,607

The merger reserve of the Group arose as a result of a group reorganisation in 2000 and represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the issued share capital of Recruit (BVI) Limited.

The contributed surplus of the Group arose as a result of the reduction in share capital in accordance with the Group's capital reorganisation in 2003.

During the year ended 31st December, 2004, the Group undertook a share consolidation as set out in Note 29 of Section II to the Financial Information.

5. CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31st December, 2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from operating activities			
Profit before income tax	34,014	38,328	64,262
Adjustments for:			
Amortisation of prepaid land lease payments	–	–	21
Depreciation	1,360	4,946	11,978
Dividend income from equity investments	–	(18)	(1)
Equity-settled share-based payment expenses	382	569	332
Excess over the costs of acquisition of additional interests in a subsidiary	–	–	(254)
Gain from changes in fair value of investment properties	(1,945)	(3,140)	–
Gain on disposal of investment properties	–	–	(12,114)
Gain on financial assets at fair value through profit or loss	–	(239)	(9,149)
Gain on partial disposal of investments in subsidiaries	–	(6,000)	–
Impairment of receivables	290	698	2,087
Interest element of finance lease payments	–	539	2,618
Interest income	(222)	(405)	(827)
Loss on disposal and write off of property, plant and equipment	1	226	392
Operating profit before working capital changes	33,880	35,504	59,345
Increase in inventories	–	(8,599)	(6,856)
Increase in trade and other receivables and deposits	(12,292)	(56,972)	(65)
Increase/(Decrease) in trade and other payables	10	41,655	(6,987)
Cash generated from operations	21,598	11,588	45,437
Income taxes paid	(28)	–	(2,197)
Net cash from operating activities	21,570	11,588	43,240

	Year ended 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from investing activities			
Dividend income received	–	18	1
Increase in investment in an associate	–	–	(1,411)
Increase in prepaid land lease payments	–	–	(1,055)
Interest received	222	405	827
Net repayments/(advances) of advances to associates	–	1,986	(13,613)
Payment for acquisition of investment properties	(34,715)	–	–
Payment of deposit for acquisition of property, plant and equipment	(2,001)	–	–
Proceeds on disposal of financial assets at fair value through profit or loss	–	2,852	39,763
Proceeds on partial disposal of investments in subsidiaries	–	6,000	–
Proceeds on disposal of property, plant and equipment	110	–	502
Proceeds on disposal of investment properties	–	–	51,914
Purchase of property, plant and equipment	(2,370)	(17,842)	(22,780)
Purchase of financial assets at fair value through profit or loss	–	(2,775)	(41,904)
Net cash (used in)/generated from investing activities	(38,754)	(9,356)	12,244

	Year ended 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from financing activities			
Capital element of finance lease liabilities paid	–	(3,440)	(25,329)
Increase/(Decrease) in loans from minority shareholders	–	9,997	(997)
Interest element of finance lease payments	–	(539)	(2,618)
Proceeds from shares issued on exercise of share options	–	460	151
Proceeds on issue of rights shares	32,700	–	–
Share issue expenses paid	(1,204)	(21)	(3)
Dividends paid to equity holders of the Company	–	–	(16,465)
Net cash generated from/(used in) financing activities	31,496	6,457	(45,261)
Net increase in cash and cash equivalents	14,312	8,689	10,223
Cash and cash equivalents at 1st January	21,933	36,245	44,934
Cash and cash equivalents at 31st December	36,245	44,934	55,157

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company on 13th March, 2000 and redomiciled to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda, with limited liability on 29th January, 2003. The address of the Company's registered office is 26/F, 625 King's Road, North Point, Hong Kong. The Company's shares have been listed on the GEM of the Stock Exchange since 20th July, 2000.

The Company acts as an investment holding company, provides corporate management services and is engaged in investment trading activities. Details of the activities of its subsidiaries are set out in Note 40 of Section II to the Financial Information.

2. BASIS OF PRESENTATION

The Financial Information have been prepared in accordance with HKFRSs. The Financial Information comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Adoption of new and revised HKFRSs

(i) In 2004, the Group has early adopted HKAS 40 "Investment Property" in advance of its effective date. HKAS 40 introduces both cost model and fair value model for the measurement of investment property. For fair value model, HKAS 40 requires fair value changes be recognised to the income statement in the period in which they arise. The Group has elected to apply the fair value model in measuring its investment properties and recognises the fair value changes to the income statement in the period in which they arise. Details of the fair value changes recognised to the income statement during the Relevant Periods are set out in Note 8 of Section II to the Financial Information. The early adoption of HKAS 40 does not have any impact to the result of the Group prior to 2004 as the Group did not have any investment property as at 31st December, 2003.

(ii) In 2005, the Group has adopted, for the first time, the new and revised HKFRSs, which are relevant to its operations and effective for the accounting periods beginning on or after 1st January, 2005. These include the following:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investment in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment. Significant effects on the Relevant Periods arising from the application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

(a) *Adoption of HKAS 1*

The application of HKAS 1 has resulted in a change in the presentation of the financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company is now presented as an allocation of the net result of the year.

(b) *Adoption of HKAS 39*

On the adoption of HKAS 39, the Group classified its investments in securities, other than subsidiaries and associates into financial assets at fair value through profit or loss and measured at fair value.

HKAS 39 requires all financial assets and liabilities to be measured at fair value on initial recognition and thereafter at amortised cost using the effective interest rate method at subsequent balance sheet dates.

(c) *Adoption of HKFRS 2*

Prior to the adoption of HKFRS 2 on 1st January, 2005, equity-settled share-based payment transactions were treated as changes in the entity's equity only upon execution. HKFRS 2 requires all goods and services received in the course of share-based payment transactions to be measured at fair value and recognised in the financial statements with a corresponding credit to equity, unless the transaction is settled in cash. When applied to employee share-based compensation, this leads to the recognition of share options which have been granted and are expected to vest as an expense in income statement.

According to the transitional provisions of HKFRS 2, all equity-settled share-based payments granted after 7th November, 2002 that had not vested on 1st January, 2005 are required to be recognised retrospectively in the Group's financial statements.

The effect of the adoption of HKFRS 2 on the consolidated income statement is summarised as follows:

	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Increase in staff costs, included in administrative expenses	382	569	332
Total decrease in profit for the year	(382)	(569)	(332)
Profit attributable to:			
Equity holders of the Company	(382)	(569)	(332)
Minority interests	–	–	–
	(382)	(569)	(332)
Decrease in basic and diluted earnings per share *(HK cents)*	(0.16)	(0.21)	(0.12)

The effect of the adoption of HKFRS 2 on the consolidated balance sheet of the Group is summarised as follows:

	HK$'000
At 31st December, 2004 and 1st January, 2005	
Increase/(Decrease) in equity:	
Employee compensation reserve	382
Accumulated losses	(382)
At 31st December, 2005 and 1st January, 2006	
Increase/(Decrease) in equity:	
Employee compensation reserve	951
Retained earnings	(951)
At 31st December, 2006	
Increase/(Decrease) in equity:	
Employee compensation reserve	1,283
Retained earnings	(1,283)

The effect of the adoption of HKFRS 2 on the balance sheet of the Company is summarised as follows:

	HK$'000
At 31st December, 2004 and 1st January, 2005	
Amounts due from subsidiaries	382
Increase in equity:	
Employee compensation reserve	382
At 31st December, 2005 and 1st January, 2006	
Amounts due from subsidiaries	951
Increase in equity:	
Employee compensation reserve	951
At 31st December, 2006	
Amounts due from subsidiaries	1,283
Increase in equity:	
Employee compensation reserve	1,283

(d) *Adoption of HKFRS 3*

This standard stipulates a prospective change to the accounting policy.

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (formerly known as "negative goodwill") is recognised immediately in income statement in the period in which the acquisition takes place.

In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised the carrying amount of negative goodwill on 1st January, 2005 amounting to HK$13,440,000 against the accumulated losses as at 1st January, 2005. Details of which are set out in the consolidated statements of changes in equity on page 141 to this document.

(e) *Other standards adopted*

The adoption of all other new and revised HKFRSs did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these standards and interpretations did not result in any significant changes to the amounts or disclosures in these financial statements.

(iii) In 2006, the Group has adopted, for the first time, a number of new and amended HKFRSs, which are effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. These include the following:

HKAS 1, HKAS 27 & HKFRS 3 (Amendments)	Presentation of Financial Statements, Consolidated and Separate Financial Statements & Business Combinations – Amendments as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS 1 & HKFRS 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a lease
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The adoption of the above new and amended HKFRSs has resulted in changes to the Group's accounting policies as set out below, but these had no material effect on the amounts reported for the Relevant Periods:

(a) Financial guarantee contracts

In 2006, the Group has adopted the amendments to HKAS 39 "Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts" which is effective for annual period beginning on or after 1st January, 2006.

A financial guarantee contract is defined by HKAS 39 as a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Company acts as the issuer of financial guarantee contracts

Prior to 1st January, 2006, financial guarantee contracts were not accounted for in accordance with HKAS 39 and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the adoption of these amendments, a financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

In connection with a financial guarantee granted to a bank over the repayment under finance leases by a subsidiary, this change in accounting policy has had no material effect on the Company's or Group's amounts reported for the current and prior accounting periods.

(b) Leases

In the current year, the Group has adopted HK(IFRIC)-Int 4 which concludes that an arrangement may contain a lease if the substance of the transaction (for a series of transactions) is the transfer of the right to use a specific asset or assets for an agreed period of time in return for a payment (or a series of payments) even if there is no legal form of a lease. The Group's accounting policy on leases has been changed accordingly, i.e. to account for a transaction (or a component of a transaction) as a lease even in the absence of a legal form of a lease.

The Group has followed the guidance in HK(IFRIC)-Int 4 and identified that processing arrangement for manufacturing of printed products in the PRC contains a lease. According to HK(IFRIC)-Int 4, the Group's payments under this arrangement have been separated into amounts attributable to the lease component and the manufacturing services performed by the manufacturer under the processing arrangement. Both charges are included in the direct operation costs. This change has had no material effect on the Group's results for the current and prior accounting periods.

(iv) The Group has not early adopted the following new and amended HKFRSs that have been issued up to the date of this report but are not yet effective during the Relevant Periods. The directors of the Company anticipate that the adoption of these HKFRSs will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[7]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1st January, 2007
2 Effective for annual periods beginning on or after 1st March, 2006
3 Effective for annual periods beginning on or after 1st May, 2006
4 Effective for annual periods beginning on or after 1st June, 2006
5 Effective for annual periods beginning on or after 1st November, 2006
6 Effective for annual periods beginning on or after 1st March, 2007
7 Effective for annual periods beginning on or after 1st January, 2009
8 Effective for annual periods beginning on or after 1st January, 2008

3.2 Basis of preparation

The significant accounting policies that have been used in the preparation of these Financial Information are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The Financial Information have been prepared on the historical cost basis except for the revaluation of investment properties and certain financial assets and liabilities. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the Financial Information. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

3.4 Subsidiaries

Subsidiaries are entities over which the Company has the power to control, directly or indirectly, the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Acquired subsidiaries (other than combining entities under common control) are subject to the application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

In the Company's balance sheet, investments in subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3.5 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investments in associates are initially recognised at cost and subsequently accounted for using the equity method. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) or fair value adjustment attributable to the share in the associate identified on acquisition.

Goodwill represents the excess of the cost of the investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in the associates equals or exceeds its interests in the associates, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associates.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, investments in associates are stated at cost less any impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

3.6 Excess of the Group's interest in net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (formerly known as "negative goodwill")

Negative goodwill is recognised immediately in income statement in the period in which the acquisition takes place.

In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised the carrying amount of negative goodwill at 1st January, 2005 of HK$13,440,000 against the accumulated losses as at 1st January, 2005.

3.7 Foreign currencies

The Financial Information are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of subsidiaries and associates, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with in the exchange reserve in equity.

3.8 Revenue recognition

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

– Advertising income is recognised on the date of the relevant publication issue or on time basis by reference to the period in which the advertisement is displayed in the website.

– Printing income and publication sales are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

– Service income is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

– Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

– Interest income is recognised on a time-proportion basis using the effective interest rate method.

– Dividend income is recognised when the right to receive payment is established.

– Advertising and promotion expenses are charged to the income statement when incurred.

The policies on financial assets at fair value through profit or loss are dealt with in Note 3.13(i) of Section II to the Financial Information.

3.9 Property, plant and equipment

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

The gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs over their estimated useful lives, at the following rates per annum:

Buildings	Over 50 years or the lease term, whichever is shorter
Furniture and fixtures	20%
Office equipment	20%
Leasehold improvements	20%–50% or over the lease term, whichever is shorter
Computer equipment and systems	33%
Motor vehicles	20%
Machinery	10%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets held under finance leases are depreciated over their estimated useful lives or where shorter the term of the lease using the same method as owned assets in the same category.

3.10 Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undeterminable future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, the investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is included in the income statement for the period in which they arise.

3.11 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease *(see Note 3.10 of Section II to the Financial Information)*.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments (the "initial value"), of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance lease charges, are recorded as finance lease liabilities.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance lease charges.

Finance lease charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the finance lease liabilities for each accounting period. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

(iii) Operating lease charges as the lessee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

3.12 Impairment

Goodwill, property, plant and equipment, prepaid land lease payments, and interests in subsidiaries and associates are subject to impairment testing.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which goodwill is monitored for internal management purpose.

Cash-generating units that include goodwill are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever there are indications that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit except that the carrying amount of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.13 Financial assets

The Group classifies its financial assets into the following categories: loans and receivables and financial assets at fair value through profit or loss. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on settlement date. 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.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. 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 cost.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial 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 amount of the loss is recognised in income statement of the period in which the impairment occurs.

If, in 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 to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement of the period in which the reversal occurs.

(ii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

3.14 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Cost comprises direct materials and, where applicable, direct labour costs and those overhead costs that have been incurred in bringing the inventories to their present condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and applicable selling expenses.

3.15 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.16 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, such as bank deposits.

3.17 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3.18 Employee benefits

(i) Retirement benefit schemes

The Group participates in several staff retirement benefit schemes for employees in Hong Kong and the People's Republic of China, except Hong Kong (the "PRC"), comprising defined contribution retirement schemes and a Mandatory Provident Fund scheme (the "MPF Scheme"). The assets of these schemes are held separately from those of the Group in independently administered funds. The retirement benefit schemes are generally funded by payments from employees and by the relevant group companies. The retirement benefit scheme costs charged to the income statement represents contributions payable by the Group to the schemes.

The subsidiaries operating in the PRC are required to participate in the defined contribution retirement schemes for their employees, organised by the relevant local government authorities. They are required to make contributions to the retirement benefit schemes at a specified percentage of employees' relevant income and there are no other further obligations to the Group.

Before 1st December, 2000, the Group operated a defined contribution retirement scheme (the "ORSO Scheme") in Hong Kong for all qualified employees. The ORSO Scheme is funded by monthly contributions from both employees and the Group at rates ranging from 5% to 7.5% of the employees' basic salary, depending on the length of service with the Group. The Group's contributions under the ORSO Scheme were reduced by contributions forfeited by those employees who left the ORSO Scheme prior to vesting fully in the contributions.

The Mandatory Provident Fund Schemes Authority has approved the ORSO Scheme as a Mandatory Provident Fund Exempted Occupational Retirement Scheme under the Mandatory Provident Fund Schemes Ordinance (the "MPF Schemes Ordinance"). With effect from 1st December, 2000, the MPF Scheme was set up under the MPF Schemes Ordinance for existing staff who opt for this scheme and eligible staff recruited on or after that date. When the underlying staff elect the MPF Scheme, retirement scheme benefits attributed to the staff under the ORSO Scheme remain unchanged in the MPF Scheme. Under the MPF Scheme, eligible employees are required to contribute 5% of their monthly basic salaries whereas the Group's contribution will be 5% of the relevant income with a maximum monthly contribution of HK$1,000 and there are no other legal or constructive obligations to the Group.

(ii) *Share-based employee compensation*

All share-based payment arrangements granted after 7th November, 2002 and had not yet vested on 1st January, 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans to remunerate its employees and directors.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognised as an expense in the income statement with a corresponding credit to the employee compensation reserve in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

When the share options are exercised, forfeited or are still not exercised at the expiry date, the amount previously recognised in employee compensation reserve will continue to be held in employee compensation reserve.

(iii) *Bonus plans*

The Group recognises a liability and an expense for bonuses where it has a contractual obligation or where there is a past practice that has created a constructive obligation.

3.19 Related parties

Parties are considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

– controls, is controlled by, or is under common control with, the Group;

– has an interest in the Group that gives it significant influence over the Group;

– has joint control over the Group;

(ii) the party is a jointly-controlled entity;

(iii) the party is an associate;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) 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 (iv) or (v); or

(vii) 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.

3.20 Financial liabilities

The Group's financial liabilities include trade and other payables, finance lease liabilities, loans from minority shareholders and amounts due to group companies.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

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

Where 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 the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments *(see Note 3.11(ii) of Section II to the Financial Information)*.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction cost) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Trade and other payables and amounts due to group companies

Trade and other payables and amounts due to group companies are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method.

3.21 Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisaton, if appropriate.

3.22 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.23 Segment reporting

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

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment assets consist primarily of inventories, receivables and property, plant and equipment and operating cash but exclude corporate assets, interests in associates and investment properties. Segment liabilities consist primarily of operating liabilities but exclude deferred tax liabilities and liabilities incurred for financing rather than operating purpose. Segment revenue, expenses, assets and liabilities are determined before intra-group balance and intra-group transactions are eliminated as part of the consolidation process unless the group entities are in the same segment.

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

Unallocated items mainly comprise investment properties, deferred tax liabilities, corporate assets and liabilities, corporate and financing expenses.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and segment assets and capital expenditure are where the assets are located.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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:

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to the changes in market condition. Management reassess these estimations at the balance sheet date.

(ii) Estimated impairment of receivables and advances

The policy for the impairment of receivables and advances of the Group is based on, where appropriate, the evaluation of collectibility and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables and advances, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

(iii) Valuation of share options granted

The fair value of share options granted was calculated using the Black-Scholes valuation model based on certain estimates and assumptions made by Group's management. Some of the significant estimates and assumptions made by management include the estimated life of share options granted to be five years based on exercise restrictions and behavioural considerations; and the volatility of share price which was determined by reference to historical data and weighted average share prices. Details of the inputs are set out in Note 30 of Section II to the Financial Information.

(iv) **Depreciation**

The Group depreciated the property, plant and equipment on a straight-line basis over the estimated useful lives, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(v) **Current taxation and deferred taxation**

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the amount of the provision of taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. REVENUE AND TURNOVER

	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Advertising income	103,995	160,570	192,622
Printing income	–	66,533	105,711
	103,995	227,103	298,333

6. SEGMENT INFORMATION

Primary reporting format – business segments

The Group is organised on a worldwide basis into three main business segments:

Advertising – providing advertising services on different publications and magazines.

Printing – printing of books and magazines.

Investment – trading of financial assets at fair value through profit or loss.

	Advertising			Printing			Investment			Consolidated		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue												
– External sales	103,995	160,570	192,622	–	66,533	105,711	–	–	–	103,995	227,103	298,333
Segment results	30,492	29,422	36,076	–	(347)	13,984	–	257	7,910	30,492	29,332	57,970
Unallocated operating income										4,418	10,881	15,525
Unallocated operating expenses										(896)	(1,346)	(6,615)
Operating profit										34,014	38,867	66,880
Finance costs										–	(539)	(2,618)
Profit before income tax										34,014	38,328	64,262
Income tax expense										(28)	(1,060)	(5,982)
Profit for the year										33,986	37,268	58,280
Segment assets	51,619	74,998	65,327	–	97,022	127,296	–	162	28,846	51,619	172,182	221,469
Interests in associates										7,351	5,365	20,389
Unallocated assets										48,166	41,030	11,610
Total assets										107,136	218,577	253,468
Segment liabilities	8,781	21,128	24,987	–	58,601	35,975	–	–	–	8,781	79,729	60,962
Unallocated liabilities										16	1,647	4,899
Total liabilities										8,797	81,376	65,861
Other information												
Amortisation of prepaid land lease payments	–	–	21	–	–	–	–	–	–	–	–	21
Capital expenditure	2,370	5,797	3,001	–	37,880	43,174	–	–	–	2,370	43,677	46,175
Depreciation	1,360	3,303	3,276	–	1,643	8,702	–	–	–	1,360	4,946	11,978
Impairment of receivables	290	698	2,087	–	–	–	–	–	–	290	698	2,087

Secondary reporting format – geographical segments

The Group's operations are located in several main geographical areas. The following table provides an analysis of the Group's sales by geographical market based on the country in which the customer is located.

Sales by geographical markets:

	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong	74,111	83,790	87,657
Mainland China	29,884	77,246	111,052
Australia	–	52,494	72,843
United States	–	6,485	2,938
United Kingdom	–	5,064	21,930
New Zealand	–	2,024	1,598
Others	–	–	315
	103,995	227,103	298,333

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

	Segment assets			Capital expenditure		
	2004	2005	2006	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	51,619	119,732	126,611	2,370	1,909	3,704
Mainland China	–	52,450	94,858	–	41,768	42,471
	51,619	172,182	221,469	2,370	43,677	46,175

7. FINANCE COSTS

	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Finance lease charges	–	539	2,618

8. PROFIT BEFORE INCOME TAX

	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Profit before income tax is arrived at after charging:			
Amortisation of prepaid land lease payments	–	–	21
Auditors' remuneration			
– Audit services	250	549	653
– Other services	–	–	350
Cost of inventories recognised as an expense	–	23,153	47,797
Depreciation *(Note (a))*:			
– Owned assets	1,360	4,350	10,302
– Leased assets	–	596	1,676
Employee benefit expense *(Note 10 of Section II)*	15,994	33,016	43,059
Impairment of receivables	290	698	2,087
Loss on disposal and write off of property, plant and equipment	1	226	392
Minimum lease payments paid under operating leases or leases defined under HK(IFRIC)-Int 4 in respect of:			
– Rented premises and production facilities	1,211	3,073	5,704
– Internet access line	91	84	156
Net foreign exchange loss	25	734	–
and after crediting *(Note (b))*:			
Dividend income from equity investments	–	(18)	(1)
Excess over the costs of acquisition of additional interests in a subsidiary	–	–	(254)
Gain from changes in fair value of investment properties *(Note 16 of Section II)*	(1,945)	(3,140)	–
Gain on financial assets at fair value through profit or loss	–	(239)	(9,149)
Gain on partial disposal of investments in subsidiaries	–	(6,000)	–
Interest income	(222)	(405)	(827)
Net foreign exchange gain	–	–	(1,524)
Operating lease rental income from:			
– Subleasing of office premises	(90)	–	–
– Investment properties	(88)	(1,334)	(953)

Notes:

(a) Depreciation expenses of HK$963,000, HK$3,523,000 and HK$9,785,000 for the years ended 31st December, 2004, 2005 and 2006, respectively, have been included in direct operating costs; and depreciation expenses of HK$397,000, HK$1,423,000 and HK$2,193,000 for the years ended 31st December, 2004, 2005 and 2006, respectively, have been included in administrative expenses.

(b) All these items have been included in other operating income. The directors have confirmed that certain items such as gain from changes in fair value of investment properties and gain on partial disposal of investments in subsidiaries are non-recurring in nature.

9. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to the directors during the Relevant Periods were as follows:

	Fee	Salaries and allowances	Discre-tionary bonuses	Retirement benefit scheme contri-butions	Equity-settled share-based payment expenses (Note)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31st December, 2004						
Executive directors						
Ms. Ho Suk Yi (appointed on 3rd June, 2004)	–	294	–	7	32	333
Mr. Lau Chuk Kin	–	–	–	–	–	–
Non-executive directors						
Ms. Lam Mei Lan	30	–	–	–	–	30
Mr. Lee Ching Ming, Adrian	30	–	–	–	–	30
Mr. Peter Stavros Patapios Christofis	30	–	–	–	–	30
Ms. Tam Yuk Ling, Rosaline (resigned on 30th August, 2004)	30	–	–	–	–	30
Mr. Wan Siu Kau	30	–	–	–	–	30
Independent non-executive directors						
Mr. Cheng Ping Kuen, Franco	60	–	–	–	–	60
Mrs. Ling Lee Ching Man, Eleanor	60	–	–	–	–	60
Mr. Tyen Kan Hee, Anthony (appointed on 8th September, 2004)	20	–	–	–	–	20
	290	294	–	7	32	623
Year ended 31st December, 2005						
Executive directors						
Ms. Ho Suk Yi	–	600	150	12	79	841
Mr. Lau Chuk Kin	–	–	–	–	–	–
Non-executive directors						
Ms. Lam Mei Lan	45	–	–	–	–	45
Mr. Lee Ching Ming, Adrian	45	–	–	–	–	45
Mr. Peter Stavros Patapios Christofis	45	–	–	–	–	45
Mr. Wan Siu Kau	45	–	–	–	–	45
Independent non-executive directors						
Mr. Cheng Ping Kuen, Franco	100	–	–	–	–	100
Mrs. Ling Lee Ching Man, Eleanor	100	–	–	–	–	100
Mr. Tyen Kan Hee, Anthony	78	–	–	–	–	78
	458	600	150	12	79	1,299

	Fee	Salaries and allowances	Discretionary bonuses	Retirement benefit scheme contributions	Equity-settled share-based payment expenses *(Note)*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31st December, 2006						
Executive directors						
Ms. Ho Suk Yi	–	720	150	12	–	882
Mr. Lau Chuk Kin	–	–	3,000	–	–	3,000
Non-executive directors						
Ms. Lam Mei Lan	50	–	–	–	–	50
Mr. Lee Ching Ming, Adrian	50	–	–	–	–	50
Mr. Peter Stavros Patapios Christofis	50	–	–	–	–	50
Mr. Wan Siu Kau	50	–	–	–	–	50
Independent non-executive directors						
Mr. Cheng Ping Kuen, Franco	110	–	–	–	–	110
Mrs. Ling Lee Ching Man, Eleanor	110	–	–	–	–	110
Mr. Tyen Kan Hee, Anthony	110	–	–	–	–	110
	530	720	3,150	12	–	4,412

Note: The amount of equity-settled share-based payment expenses is measured according to the Group's accounting policies for share-based employee compensation transactions as set out in Note 3.18(ii) of Section II to the Financial Information. Particulars of share options granted to the directors under the Company's GEM share option scheme are set out in Note 30 to the Section II to the Financial Information.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included none, one and two directors for the years ended 31st December, 2004, 2005 and 2006, respectively, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining five, four and three individuals during the Relevant Periods are as follows:

	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and other benefits	2,089	1,860	1,819
Discretionary bonuses	–	3,470	4,101
Retirement benefit scheme contributions	81	72	31
Equity-settled share-based payments	87	24	–
	2,257	5,426	5,951

The emoluments fell within the following bands:

	Number of individuals 2004	2005	2006
Emolument bands			
Nil – HK$1,000,000	5	3	–
HK$1,000,001 – HK$3,000,000	–	–	2
HK$3,000,001 – HK$3,500,000	–	1	1

During the Relevant Periods, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during the Relevant Periods.

10. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

	2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*
Wages, salaries and bonuses	14,792	29,809	39,977
Equity-settled share-based payments *(Note 30 of Section II)*	382	569	332
Retirement benefit scheme contributions *(Note 36 of Section II)*	324	1,282	1,872
Other benefits	496	1,356	878
	15,994	33,016	43,059

11. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% on the Company's estimated assessable profits for the year ended 31st December, 2006. No Hong Kong profits tax had been provided as the Group had tax deductible losses brought forward from previous years for the years ended 31st December, 2005 and 2004. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates during the Relevant Periods.

	2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*
Hong Kong profits tax			
Current year	–	–	5,019
Underprovision in prior years	28	–	33
Deferred taxation			
Current year *(Note 28 of Section II)*	–	1,060	930
	28	1,060	5,982

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Profit before income tax	34,014	38,328	64,262
Notional tax on the profit before income tax, calculated at the rates applicable to the profits in the tax jurisdictions concerned	5,952	4,720	10,249
Tax effect of non-taxable revenue	(456)	(1,381)	(6,450)
Tax effect of non-deductible expenses	130	2,286	2,362
Tax effect of tax losses not recognised	40	2,691	2,736
Tax effect of temporary differences not recognised	37	60	(470)
Utilisation of previously unrecognised tax losses	(5,703)	(7,316)	(2,478)
Underprovision in prior years	28	–	33
Income tax expense	28	1,060	5,982

12. DIVIDENDS

(a) Dividends attributable to the year:

	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Interim dividend of Nil, Nil and HK$0.02 per share	–	–	5,488
Proposed final dividend of Nil, HK$0.04 and HK$0.05 per share	–	10,969	13,740
Proposed special dividend of Nil, Nil and HK$0.025 per share	–	–	6,870
Additional final dividend in respect of the previous financial year	–	–	8
	–	10,969	26,106

The final and special dividends proposed after the balance sheet date has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of contributed surplus during the Relevant Periods and a proposed final and special dividends reserve has been set up.

Following the passing of the relevant resolution at the annual general meeting on 13th April, 2007, the final dividend of HK$0.05 per share totalling HK$13,740,000 and special dividend of HK$0.025 per share totalling HK$6,870,000 for the year ended 31st December, 2006 were paid on 18th April, 2007.

(b) Dividends attributable to the previous financial year, approved and paid during the year:

	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Final dividend in respect of the previous financial year	–	–	10,969
Additional final dividend in respect of the previous financial year	–	–	8
	–	–	10,977

13. EARNINGS PER SHARE

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

	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Profit attributable to the equity holders of the Company	33,986	37,094	55,102

	Number of shares		
	2004	2005	2006
	'000	*'000*	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	233,784	273,431	274,517
Effect of dilutive potential ordinary shares in respect of share options granted	1,142	2,076	1,799
Weighted average number of ordinary shares for the purpose of diluted earnings per share	234,926	275,507	276,316

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Furniture and fixtures	Office equipment	Leasehold improvements	Computer equipment and systems	Motor vehicles	Machinery	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004								
Cost	–	665	1,132	256	24,106	369	–	26,528
Accumulated depreciation	–	(652)	(1,067)	(81)	(21,962)	(258)	–	(24,020)
Net book amount	–	13	65	175	2,144	111	–	2,508
Year ended 31st December, 2004								
Opening net book amount	–	13	65	175	2,144	111	–	2,508
Additions	–	–	–	–	2,370	–	–	2,370
Disposals	–	–	–	–	(2)	(109)	–	(111)
Depreciation	–	(7)	(39)	(85)	(1,227)	(2)	–	(1,360)
Closing net book amount	–	6	26	90	3,285	–	–	3,407
At 31st December, 2004								
Cost	–	665	1,132	256	26,472	233	–	28,758
Accumulated depreciation	–	(659)	(1,106)	(166)	(23,187)	(233)	–	(25,351)
Net book amount	–	6	26	90	3,285	–	–	3,407
Year ended 31st December, 2005								
Opening net book amount	–	6	26	90	3,285	–	–	3,407
Exchange differences	–	7	2	5	45	–	–	59
Additions	–	1,201	459	11,374	5,569	856	24,218	43,677
Disposals	–	–	–	–	(226)	–	–	(226)
Depreciation	–	(129)	(60)	(1,244)	(2,832)	(82)	(599)	(4,946)
Closing net book amount	–	1,085	427	10,225	5,841	774	23,619	41,971
At 31st December, 2005								
Cost	–	1,874	1,594	11,637	31,869	1,089	24,218	72,281
Accumulated depreciation	–	(789)	(1,167)	(1,412)	(26,028)	(315)	(599)	(30,310)
Net book amount	–	1,085	427	10,225	5,841	774	23,619	41,971
Year ended 31st December, 2006								
Opening net book amount	–	1,085	427	10,225	5,841	774	23,619	41,971
Exchange differences	–	6	2	2	28	–	–	38
Additions	453	491	124	1,862	1,757	108	40,325	45,120
Disposals	–	–	–	–	(574)	(320)	–	(894)
Depreciation	(9)	(296)	(113)	(2,684)	(3,240)	(233)	(5,403)	(11,978)
Closing net book amount	444	1,286	440	9,405	3,812	329	58,541	74,257
At 31st December, 2006								
Cost	453	2,374	1,705	13,507	31,758	517	64,543	114,857
Accumulated depreciation	(9)	(1,088)	(1,265)	(4,102)	(27,946)	(188)	(6,002)	(40,600)
Net book amount	444	1,286	440	9,405	3,812	329	58,541	74,257

The net book amount of property, plant and equipment includes the net carrying amount of Nil, HK$23,238,000 and HK$20,664,000 as at 31st December, 2004, 2005 and 2006, respectively, in respect of assets held under finance leases.

15. PREPAID LAND LEASE PAYMENTS

	Group		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
At 1st January			
Cost	–	–	–
Accumulated amortisation	–	–	–
Net book amount	–	–	–
For the year ended 31st December			
Additions	–	–	1,055
Amortisation	–	–	(21)
Closing net book amount	–	–	1,034
At 31st December			
Cost	–	–	1,055
Accumulated amortisation	–	–	(21)
Net book amount	–	–	1,034

The Group's prepaid land lease payments represent up-front payments to acquire an interest in the usage of land situated in Hong Kong, which is held under a medium-term lease.

16. INVESTMENT PROPERTIES

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties. Details of the operating lease arrangements are set out in Note 33 of Section II to the Financial Information.

Changes to the carrying amounts presented in the balance sheet can be summarised as follows:

	Group		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount at 1st January	–	36,660	39,800
Additions	34,715	–	–
Net gain from fair value adjustments *(Note 8 of Section II)*	1,945	3,140	–
Disposals	–	–	(39,800)
Carrying amount at 31st December	36,660	39,800	–

The investment properties were revalued as at 31st December, 2004 and 2005 by an independent firm of professionally qualified valuers, Dynasty Premium Asset Valuation and Real Estate Consultancy Limited. Valuations were based on current prices in an active market for the properties.

Investment properties of the Group were situated in Hong Kong and held under medium-term operating leases.

The investment properties were disposed of during the year ended 31st December, 2006. Prior to the disposal of the investment properties, the Group had leased out the investment properties under an operating lease.

17. INVESTMENTS IN SUBSIDIARIES

	Company		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares, at cost	62,030	62,030	62,030
Less: Impairment losses	(62,029)	(62,030)	(62,030)
	1	–	–

Details of the subsidiaries at the date of this report are set out in Note 40 of Section II to the Financial Information.

18. INTERESTS IN ASSOCIATES

	Group			Company		
	2004	2005	2006	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares at cost, less impairment losses				–	–	–
Goodwill *(Note (a))*	–	–	1,411			
Share of net assets	–	–	–			
	–	–	1,411	–	–	–
Advances to associates *(Note (b))*						
– Trion Pacific Limited	70	70	70	70	70	70
– PPG Investments Limited ("PPGI")	16,022	14,036	27,649	–	–	–
	16,092	14,106	27,719	70	70	70
Less: Impairment losses	(8,741)	(8,741)	(8,741)	–	–	–
	7,351	5,365	18,978	70	70	70
	7,351	5,365	20,389	70	70	70
Less: Portion due within one year included under current assets	–	(5,365)	(18,978)	–	(70)	(70)
Non-current portion included under non-current assets	7,351	–	1,411	70	–	–

Notes:

(a) Goodwill above relates to the further acquisition of an indirect interest in PPGI from 20% to 50% on 11th December, 2006 by the Company. No impairment loss has been recognised at the balance sheet date.

PPGI serves as an investment vehicle and it has not been involved in any significant business transactions other than its investment of a 50% interest in Premier Printing Group Limited ("PPGL") which is engaged in printing business in Hong Kong and provides printing services to the Group (see Note 38 of Section II to the Financial Information). In view of the above, the directors of the Company carried out its impairment test for goodwill primarily based on the financial information of PPGL.

Impairment tests for goodwill

The recoverable amount of the goodwill is determined based on value-in-use calculation. The value-in-use calculation uses cash flow projection based on one-year financial budget approved by management and extrapolated to cover a period of five years. The key assumptions for the value-in-use calculation are those regarding the discount rate and growth rate during the period. Management estimates the discount rate using pre-tax rate that reflects current market assessments of the time value of money and the risks specific to PPGL. The growth rate is based on management's expectation for the market development. The discount rate used in the cash flow projection is 4 per cent. The growth rate used is assumed to be nil. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

(b) Advances to associates are unsecured, interest-free and repayable on demand.

(c) Particulars of the associates at the date of this report are as follows:

Name of company	Particulars of issued shares held	Country of incorporation/ operation and kind of legal entity	Percentage of interest held by the Company directly/ indirectly*	Principal activities
Oriental Touch China Limited	45 ordinary shares of US$1 each	British Virgin Islands/ Hong Kong, limited liability company	45%*	Stock photo sales
PPG Investments Limited	5,000 ordinary shares of US$1 each	British Virgin Islands/ Hong Kong, limited liability company	50%*	Investment holding
Trion Pacific Limited 三慧顧問有限公司	35 ordinary shares of HK$1 each	Hong Kong, limited liability company	35%	Inactive

(d) Summarised financial information in respect of the Group's associates is set out below:

	Assets	Liabilities	Equity	Revenues	Profit/ (Loss)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2004					
100 per cent	49,493	80,428	(30,935)	–	(3,933)
Group's effective interest	9,923	16,116	(6,193)	–	(790)
2005					
100 per cent	43,431	70,620	(27,189)	66	3,746
Group's effective interest	8,719	14,154	(5,435)	23	758
2006					
100 per cent	28,440	55,856	(27,416)	17	(221)
Group's effective interest	14,182	27,886	(13,704)	6	(116)

The financial information above is based on the unaudited management accounts during the Relevant Periods.

The Group has not recognised losses of HK$790,000, profits of HK$758,000 and losses of HK$116,000 for the Group's associates for the years ended 31st December, 2004, 2005 and 2006, respectively. As at 31st December, 2004, 2005 and 2006, the accumulated losses not recognised were HK$6,194,000, HK$5,436,000 and HK$5,552,000, respectively.

19. AMOUNTS DUE FROM SUBSIDIARIES

	Company		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Amounts due from subsidiaries			
– interest bearing at 7% (2005: 2%) per annum	–	34,715	33,047
– interest-free	99,524	95,023	119,717
	99,524	129,738	152,764
Less: Allowances for amounts due from subsidiaries	(16,054)	(3,244)	(6,329)
	83,470	126,494	146,435
Less: Portion due within one year included under current assets	–	(126,494)	(146,435)
	83,470	–	–

For each of the two years ended 31st December, 2005 and 2006, the amounts due from subsidiaries are unsecured and repayable on demand. Accordingly, the amounts are classified as current assets.

For the year ended 31st December, 2004, the amounts due from subsidiaries were unsecured and had no fixed terms of repayment. In the opinion of directors, no repayment would be demanded within twelve months from the balance sheet date. Accordingly, the amounts were classified as non-current assets.

20. AMOUNTS DUE TO SUBSIDIARIES

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

21. INVENTORIES

	Group		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	–	6,972	13,647
Work-in-progress	–	1,432	1,382
Finished goods	–	195	426
	–	8,599	15,455

All inventories were stated at cost.

22. TRADE AND OTHER RECEIVABLES AND DEPOSITS

	Group		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	18,071	64,210	65,374
Less: Impairment of receivables	(290)	(698)	(2,087)
Trade receivables – net	17,781	63,512	63,287
Other receivables and deposits	3,691	14,234	12,437
	21,472	77,746	75,724

As at the respective balance sheet dates, the ageing analysis of trade receivables based on sales invoice date and net of provisions, is as follows:

		Group	
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	6,153	13,355	19,792
31 – 60 days	5,191	12,310	13,385
61 – 90 days	2,436	11,982	8,602
91 – 120 days	2,689	16,969	12,280
121 – 150 days	1,062	6,647	6,623
Over 150 days	250	2,249	2,605
Total trade receivables	17,781	63,512	63,287

The Group allowed a credit period from 7 to 120 days, 7 to 150 days and 7 to 150 days to its customers for the years ended 31st December, 2004, 2005 and 2006 respectively.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		Group	
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Held for trading			
Equity securities, listed in Hong Kong	–	162	11,452
Market value of listed securities	–	162	11,452

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

		Group			Company	
	2004	2005	2006	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank and cash balances	36,245	20,534	27,707	3,923	226	775
Cash at brokers	–	–	16,450	–	–	39
Short-term bank deposits	–	24,400	11,000	–	–	10,000
	36,245	44,934	55,157	3,923	226	10,814

The effective interest rates of short-term bank deposits of the Group as at 31st December, 2005 and 2006 ranged from 3.56% to 4% and 3.3% to 3.8%, respectively. These deposits have maturity periods ranging from 3 to 13 days and 1 to 3 days as at 31st December, 2005 and 2006, respectively, on inception and are eligible for immediate cancellation without penalty but, any interest for the last deposit period would be forfeited.

Included in bank and cash balances of the Group is Nil, HK$2,031,000 and HK$3,798,000 of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC as at 31st December, 2004, 2005 and 2006, respectively. RMB is not a freely convertible currency. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. TRADE AND OTHER PAYABLES

	Group		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	172	33,067	20,516
Other payables	8,625	17,379	23,095
	8,797	50,446	43,611

As at the respective balance sheet dates, the ageing analysis of trade payables based on invoice date is as follows:

	Group		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	172	6,044	6,554
31 – 60 days	–	7,552	4,355
61 – 90 days	–	9,292	4,466
91 – 120 days	–	4,361	1,161
Over 120 days	–	5,818	3,980
Total trade payables	172	33,067	20,516

26. FINANCE LEASE LIABILITIES

The analysis of the obligations under finance leases is as follows:

	Group		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Due within one year	–	5,168	4,667
Due in the second to fifth years	–	18,954	15,181
	–	24,122	19,848
Future finance charges on finance lease	–	(3,728)	(2,443)
Present value of finance lease liabilities	–	20,394	17,405

The present value of finance lease liabilities is as follows:

	Group		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Due within one year	–	3,808	3,691
Due in the second to fifth years	–	16,586	13,714
	–	20,394	17,405
Less: Portion due within one year included under current liabilities	–	(3,808)	(3,691)
Non-current portion included non-current liabilities	–	16,586	13,714

The finance lease liabilities of HK$20,394,000 at 31st December, 2005 have been fully repaid in 2006. During the year ended 31st December, 2006, the Group entered into finance leases for various items of machinery. The lease runs for an initial period of five years. These leases do not have options to renew or any contingent rental provisions.

27. LOANS FROM MINORITY SHAREHOLDERS

As at 31st December, 2005, loans from minority shareholders were unsecured, interest-free and had no fixed term of repayments. During the year ended 31st December, 2006, HK$997,000 of the loans from minority shareholders of a subsidiary were repaid and the remaining amount was deemed to be repaid by way of full capitalisation of the loans into the newly issued ordinary shares of the subsidiary. The new shares of the subsidiary rank pari passu with the existing shares in all respects.

28. DEFERRED TAX LIABILITIES

Deferred taxation is calculated on temporary differences under the liability method using the rates of taxation prevailing in the countries in which the Group operates.

Group

The movement on the deferred tax liabilities is as follows:

	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
At 1st January	–	–	1,060
Deferred taxation charged to income statement *(Note 11 of Section II)*	–	1,060	930
At 31st December	–	1,060	1,990

The following are the major deferred tax liabilities/(assets) recognised in the balance sheet and the movements during the Relevant Periods:

	Accelerated tax depreciation	**Fair value gains**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004	323	–	(323)	–
Charged/(Credited) to income statement	243	–	(243)	–
At 31st December, 2004 and 1st January, 2005	566	–	(566)	–
Charged/(Credited) to income statement	1,872	890	(1,702)	1,060
At 31st December, 2005 and 1st January, 2006	2,438	890	(2,268)	1,060
Charged/(Credited) to income statement	2,527	(890)	(707)	930
At 31st December, 2006	4,965	–	(2,975)	1,990

Company

No deferred tax has been provided in the financial statements of the Company during the Relevant Periods as there are no temporary differences.

At the respective balance sheet dates, the major components of unrecognised deductible temporary differences are as follows:

	Group			Company		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Difference between depreciation and depreciation allowance	874	1,176	1,448	–	–	–
Unutilised tax losses	48,623	15,446	6,974	2,189	1,042	2,720
Other temporary differences	440	–	–	–	–	–
	49,937	16,622	8,422	2,189	1,042	2,720

The deductible temporary differences have not been recognised in the financial statements as it is not probable that future taxable profit will be available against which these deductible temporary differences can be utilised. All tax losses and deductible temporary differences of the Group and the Company have no expiry dates under the current tax legislation except for the tax losses amounting to Nil, HK$7,622,000 and HK$4,222,000, for the years ended 31st December, 2004, 2005 and 2006, respectively, incurred by three subsidiaries in the PRC which will expire after 5 years from the year in which the tax losses were incurred.

29. SHARE CAPITAL

	Number of shares			Nominal value		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	'000	*'000*	*'000*	*HK$'000*	*HK$'000*	*HK$'000*
Authorised:						
Ordinary shares of HK$0.01, HK$0.20 and HK$0.20 each at beginning of year	10,000,000	500,000	500,000	100,000	100,000	100,000
Share consolidation	(9,500,000)	–	–	–	–	–
Ordinary shares of HK$0.20 each	500,000	500,000	500,000	100,000	100,000	100,000
Issued and fully paid:						
Ordinary shares of HK$0.01, HK$0.20 and HK$0.20 each at beginning of year	2,725,000	272,500	274,218	27,250	54,500	54,844
Rights shares issued at premium	2,725,000	–	–	27,250	–	–
Share consolidation	(5,177,500)	–	–	–	–	–
Shares issued on exercise of share options	–	1,718	582	–	344	116
Ordinary shares of HK$0.20 each	272,500	274,218	274,800	54,500	54,844	54,960

Rights issue

A special resolution was passed on 6th April, 2004 to approve a rights issue on the basis of one rights share for every share held by shareholders on the register of members on 6th April, 2004, at an issue price of HK$0.012 per right share, for the purposes of financing working capital and investment of the Group. The rights issue resulted in the issue of 2,725,000,000 shares of HK$0.010 each for a total cash consideration, before share issue expenses, of approximately HK$33 million.

Share consolidation

Pursuant to a special resolution passed on 26th August, 2004, a share consolidation on the basis that every twenty shares of HK$0.01 each in the issued and unissued share capital of the Company being consolidated into one consolidated share of HK$0.20 each was carried out ("Share Consolidation"). The authorised share capital of the Company remained at HK$100,000,000, but was divided into 500,000,000 shares of HK$0.20 each.

Shares issued on exercise of share options

The increase in share capital in 2005 and 2006 represented the shares issued on exercise of share options, granted under the Company's GEM share option scheme as stated in Note 30 of Section II to the Financial Information.

30. SHARE-BASED EMPLOYEE COMPENSATION

GEM share option scheme

The Company's GEM share option scheme (the "GEM Share Option Scheme") was adopted pursuant to a resolution passed on 3rd July, 2000 for the purpose of providing incentives to directors and eligible employees, and will expire on 2nd July, 2010. The committee of the board of directors constituted to administer the GEM Share Option Scheme may, at its discretion, offer to full time employees, including executive directors in the full time employment of the Company or any of its subsidiaries, options to subscribe for shares in the Company at a price not less than the highest of: (i) the closing price of the shares of the Company on the Stock Exchange on the date of offer of the option; (ii) the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options; and (iii) the nominal value of a share. A nominal consideration of HK$1 is payable on acceptance of the grant of option.

Pursuant to Chapter 23 of the GEM Listing Rules, unless shareholders' prior approval is obtained, the maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued share capital of the Company and the maximum number of shares in respect of which options may be granted to any one employee in any 12 month period shall not exceed 1% of the issued share capital.

The share-based employee compensation will be settled by issue of the Company's ordinary shares. The Group has no legal or constructive obligation to repurchase or settle the options other than in the Company's ordinary shares.

Details of the share options granted under the GEM Share Option Scheme are as follows:

Share option type	Date of grant	Number of options granted	Vesting period	Exercisable period	Exercise price per share
					HK$
2003	2.7.2003	1,875,000	2.7.2003 to 1.7.2004	2.7.2004 to 2.7.2013	0.24 *(Note)*
2004(a)	17.5.2004	3,000,000	17.5.2004 to 16.5.2005	17.5.2005 to 2.7.2013	0.28 *(Note)*
2004(b)	9.12.2004	250,000	9.12.2004 to 8.12.2005	9.12.2005 to 2.7.2013	0.43
2005	7.7.2005	1,250,000	7.7.2005 to 6.7.2006	7.7.2006 to 2.7.2013	0.80

Note: Following the Share Consolidation in 2004, the exercise prices of the share options were adjusted to HK$0.24 and HK$0.28 from the initial exercise price of HK$0.012 and HK$0.014 respectively. The number of share options was also adjusted as a result of Share Consolidation.

The following table discloses movements in the outstanding options granted under the GEM Share Option Scheme:

			Number of share options					
Year	Grantees	Share option type	Outstanding at 1st January	Granted during the year	Forfeited during the year	Consolidation during the year	Exercised during the year	Outstanding at 31st December
2004	Director	2004(a)	–	5,000,000	–	(4,750,000)	–	250,000
		2004(b)	–	250,000	–	–	–	250,000
			–	5,250,000	–	(4,750,000)	–	500,000
	Employees	2003	22,500,000	–	–	(21,375,000)	–	1,125,000
		2004(a)	–	55,000,000	(5,000,000)	(47,500,000)	–	2,500,000
	Sub-total		22,500,000	55,000,000	(5,000,000)	(68,875,000)	–	3,625,000
	Total		22,500,000	60,250,000	(5,000,000)	(73,625,000)	–	4,125,000
2005	Director	2004(a)	250,000	–	–	–	–	250,000
		2004(b)	250,000	–	–	–	–	250,000
			500,000	–	–	–	–	500,000
	Employees	2003	1,125,000	–	–	–	(540,000)	585,000
		2004(a)	2,500,000	–	–	–	(1,178,000)	1,322,000
		2005	–	1,250,000	(100,000)	–	–	1,150,000
	Sub-total		3,625,000	1,250,000	(100,000)	–	(1,718,000)	3,057,000
	Total		4,125,000	1,250,000	(100,000)	–	(1,718,000)	3,557,000

Year	Grantees	Share option type	Number of share options: Outstanding at 1st January	Granted during the year	Forfeited during the year	Consolidation during the year	Exercised during the year	Outstanding at 31st December
2006	Director	2004(a)	250,000	–	–	–	–	250,000
		2004(b)	250,000	–	–	–	–	250,000
			500,000	–	–	–	–	500,000
	Employees	2003	585,000	–	–	–	(260,000)	325,000
		2004(a)	1,322,000	–	(1,000)	–	(322,000)	999,000
		2005	1,150,000	–	–	–	–	1,150,000
	Sub-total		3,057,000	–	(1,000)	–	(582,000)	2,474,000
	Total		3,557,000	–	(1,000)	–	(582,000)	2,974,000

Note:

(i) No new share options were granted during the year ended 31st December, 2006. Total consideration received from employees and directors for taking up the options granted during the years ended 31st December, 2004 and 2005 amounted to HK$15 and HK$7, respectively.

(ii) There are 351,000 ordinary shares, which represent 0.1% of the issued share capital, available for issue under the GEM Share Option Scheme at the date of this report.

(iii) The closing price of the shares of HK$0.20 each of the Company quoted on the Stock Exchange on 30th June, 2003, 14th May, 2004, 8th December, 2004 and 6th July, 2005, being the business date immediately before the date on which share options were granted, was HK$0.24 (adjusted), HK$0.28 (adjusted), HK$0.43 and HK$0.75 respectively.

(iv) The closing price of the shares of HK$0.20 each of the Company quoted on the Stock Exchange on 14th March, 2005, 19th May, 2005, 31st August, 2005, 12th September, 2005, 26th September, 2005, 5th October, 2005, 31st October, 2005, 1st February, 2006 and 11th September, 2006, being the business date immediately before the date on which the options were exercised, was HK$1.39, HK$0.93, HK$0.9, HK$0.72, HK$0.8, HK$0.75, HK$0.72, HK$0.82 and HK$1.15 respectively.

(v) The fair values of options granted under the relevant GEM Share Option Scheme on 2nd July, 2003, 17th May, 2004, 9th December, 2004 and 7th July, 2005, measured at the date of grant, were approximately HK$170,000, HK$467,000, HK$69,000 and HK$663,000 respectively. The following significant assumptions were used to derive the fair values, using the Black-Scholes option pricing model:

Date of grant	7.7.2005	9.12.2004	17.5.2004	2.7.2003
Expected volatility (based on the annualised historical volatility of the closing price of the shares in the Company from 1st July, 2000 to the date of grant)	80.80%	77.90%	80.52%	74.33%
Expected life (in years)	5	5	5	5
Risk-free interest rate (being the approximate yield of 5-year Exchange Fund on the grant date)	3.32%	2.68%	3.77%	2.95%
Expected dividend yield	Nil	Nil	Nil	Nil

In total, HK$382,000, HK$569,000 and HK$332,000 of share-based employee compensation expense has been included in the consolidated income statement for the years ended 31st December, 2004, 2005 and 2006, respectively, with a corresponding credit in equity. No liabilities were recognised as they were all equity-settled share-based payment transactions.

31. RESERVES

		Group	
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Share premium	53,970	54,065	54,097
Employee compensation reserve	382	951	1,283
Exchange reserve	5	65	45
Merger reserve	(43,897)	(43,897)	(43,897)
Contributed surplus	45,000	34,031	7,925
Goodwill reserve	13,440	–	–
Capital contribution	–	521	–
(Accumulated losses)/Retained earnings	(25,061)	25,473	80,575
	43,839	71,209	100,028

Details of the movements in the above reserves during the Relevant Periods are set out in the consolidated statements of changes in equity on pages 141–142 to this document.

Company

	Share premium	**Employee compen-sation reserve**	**Con-tributed surplus**	**(Accu-mulated losses)**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004	49,724	–	62,919	(107,951)	4,692
Issue of rights shares	5,450	–	–	–	5,450
Share issue expenses	(1,204)	–	–	–	(1,204)
Equity-settled share-based payment expenses	–	382	–	–	382
Profit for the year	–	–	–	23,812	23,812
At 31st December, 2004 and 1st January, 2005	53,970	382	62,919	(84,139)	33,132
Shares issued on exercise of share options	116	–	–	–	116
Share issue expenses	(21)	–	–	–	(21)
Equity-settled share-based payment expenses	–	569	–	–	569
Profit for the year	–	–	–	38,590	38,590
Proposed final 2005 dividend *(Note 12 of Section II)*	–	–	(10,969)	–	(10,969)
At 31st December, 2005 and 1st January, 2006	54,065	951	51,950	(45,549)	61,417
Shares issued on exercise of share options	35	–	–	–	35
Share issue expenses	(3)	–	–	–	(3)
Equity-settled share-based payment expenses	–	332	–	–	332
Profit for the year	–	–	–	33,607	33,607
Additional final dividend paid relating to 2005 *(Note 12 of Section II)*	–	–	(8)	–	(8)
Interim 2006 dividend paid *(Note 12 of Section II)*	–	–	(5,488)	–	(5,488)
Proposed final and special 2006 dividends *(Note 12 of Section II)*	–	–	(20,610)	–	(20,610)
At 31st December, 2006	54,097	1,283	25,844	(11,942)	69,282

The contributed surplus of the Company comprises:

(i) an amount of HK$17,919,000 arose as a result of a group reorganisation in 2000 and represents the difference between the excess of the value of the consolidated shareholders' funds of Recruit (BVI) Limited at the date when the group reorganisation became effective over the nominal amount of the share capital of the Company issued under the group reorganisation, and

(ii) an amount of HK$45,000,000 which represents reduction in share capital in accordance with the Company's capital reorganisation in 2003, which involved (a) a reduction of the nominal value of the shares from HK$0.05 each to HK$0.01 each by cancelling the issued capital to the extent of HK$0.04 paid up on each of the issued shares and the sub-division of each unissued share into five unissued new shares; and (b) maintaining, after implementation of the reduction in nominal value of each share as referred to above, the authorised share capital of the Company at HK$100,000,000 but divided into 10,000,000,000 new shares of HK$0.01 each;

and is reduced by:

(iii) an amount of Nil, HK$10,969,000 and HK$35,701,000 representing the accumulated proposed dividend to be distributed or dividend distributed as at 31st December, 2004, 2005 and 2006, respectively.

The Company's reserves available for distribution comprise its contributed surplus and retained earnings.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

32. OPERATING LEASE COMMITMENTS

Group

As at the respective balance sheet dates, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	Rented premises and production facilities			Internet access line		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,128	5,419	5,117	84	49	276
In the second to fifth years inclusive	501	13,333	12,444	42	–	172
After five years	–	22,589	8,921	–	–	–
	1,629	41,341	26,482	126	49	448

The Group leases a number of properties and production facilities and internet access line under operating leases or leases as defined under HK(IFRIC)-Int 4. The leases run for an initial period from one to ten years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors.

Company

The Company had no commitments under non-cancellable operating leases as at 31st December, 2004, 2005 and 2006.

33. OPERATING LEASE ARRANGEMENTS

Group

As at the respective balance sheet dates, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Within one year	1,335	953	–
In the second to fifth years inclusive	238	–	–
	1,573	953	–

The Group leased its investment properties, as set out in Note 16 of Section II to the Financial Information, under operating lease arrangements which ran for an initial period of two years, without an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and the respective tenants. The terms of the leases generally also required the tenants to pay security deposits.

Company

The Company had no operating lease arrangements under non-cancellable operating leases as at 31st December, 2004, 2005 and 2006.

34. CAPITAL COMMITMENTS

	Group			Company		
	2004	2005	2006	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure in respect of:						
Acquisition of property, plant and equipment contracted but not provided for in the financial statements	–	1,884	499	–	–	–
Capital investments in subsidiary to be established	–	–	–	4,680	–	–
	–	1,884	499	4,680	–	–

35. CORPORATE GUARANTEES

	Group			Company		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Corporate guarantees given and utilised*	–	–	–	–	16,000	14,000

* *As at 31st December, 2005 and 2006, the Company has given corporate guarantees to its non wholly owned subsidiary to the extent of HK$33,060,000 and HK$24,700,000, respectively, in relation to payments for certain finance leases to financial institutions as set out in Note 26 of Section II to the Financial Information, HK$16,000,000 and HK$14,000,000 of which was utilised, respectively.*

In the opinion of the directors of the Company, no material liabilities will arise from the above guarantees which arose in the ordinary course of business and the fair value of the corporate guarantees granted by the Company is immaterial.

36. RETIREMENT BENEFIT SCHEMES

The amount of retirement benefit contributions for the Group's employees, net of forfeited contributions, which has been dealt with in the income statement of the Group for the Relevant Periods are as follows:

	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Gross retirement benefits scheme contributions	610	1,329	1,872
Less: Forfeited contributions for the year	(286)	(47)	–
Net retirement benefits scheme contributions *(Note 10 of Section II)*	324	1,282	1,872

There was no significant amount of forfeited contributions available to reduce future contributions payable by the Group as at 31st December, 2004, 2005 and 2006.

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(a) During the years ended 31st December, 2004, 2005 and 2006, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of Nil, HK$23,834,000 and HK$22,340,000, respectively.

(b) Details of the capitalisation of the loans from minority shareholders are set out in Note 27 of Section II to the Financial Information.

38. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Save as disclosed in Notes 18, 19 and 20 of Section II to the Financial Information, details of the other significant transactions between the Group and other related parties during the Relevant Periods are disclosed as follows:

(a) Related party transactions

The Group paid printing costs of Nil, HK$12,861,000 and HK$12,536,000 to Premier Printing Group Limited ("PPGL"), a related company in which an associate company of the Group (PPGI) holds a 50% (2005 and 2004: 20%) interest, for the years ended 31st December, 2004, 2005 and 2006, respectively.

During the year ended 31st December, 2004, the Group received service income and rental income of HK$150,000 and HK$90,000, respectively, from the ultimate holding company of the Company, ER2 Holdings Limited, in which the directors, Mr. Lau Chuk Kin and Mr. Wan Siu Kau, had beneficial interests.

In the opinion of the directors, the transactions were carried out in the normal course of the Group's business and were charged at prices mutually agreed by the Group and the contracting parties. The directors also confirmed that, except for the printing costs to PPGL, the above related party transactions will not continue after the listing of the Company on the Main Board of the Stock Exchange by way of introduction.

(b) Compensation of key management personnel

The key management personnel of the Group are the directors of the Company. The remuneration of the key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends. Details of the remuneration paid to them are set out in Note 9(a) of Section II to the Financial Information.

39. HOLDING COMPANIES

As at 31st December, 2004, 2005 and 2006 and at the date of this report, the Company's ultimate holding company is ER2 Holdings Limited which was incorporated in Hong Kong and the Company's immediate holding company is City Apex Limited, which was incorporated in British Virgin Islands.

40. PARTICULARS OF SUBSIDIARIES

Name of company	Date of incorporation/ establishment	Place/Country of incorporation/ establishment and kind of legal entity	Class of shares	Issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company	Principal activities	*Notes*
1010 Group Limited	10th January, 2005	Hong Kong, limited liability company	Ordinary	HK$33,000,000	73%^	Investment holding	*(iii)*
1010 Printing International Limited 匯星印刷國際有限公司	10th January, 2005	Hong Kong, limited liability company	Ordinary	HK$1	73%^	Printing	*(iii)*
1010 Printing (UK) Limited	2nd January, 2007	United Kingdom, limited liability company	Ordinary	GBP1,000	54%^	Printing agency	*(x)*
Anson Worldwide Limited	8th November, 2002	British Virgin Islands, limited liability company	Ordinary	US$1	100%^	Inactive	*(iv)*

Name of company	Date of incorporation/ establishment	Place/Country of incorporation/ establishment and kind of legal entity	Class of shares	Issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company	Principal activities	*Notes*
Central Publisher Limited 卓越出版社有限公司	26th September, 1997	Hong Kong, limited liability company	Ordinary	HK$1,000	100%^	Publishing and investment trading	*(i)*
Chinavantage Group Limited 先傳媒集團有限公司	5th July, 2006	British Virgin Islands, limited liability company	Ordinary	US$1	100%^	Investment holding	*(iv)*
Easking Limited 宜勁有限公司	15th September, 2004	Hong Kong, limited liability company	Ordinary	HK$1	100%^	Investment holding	*(ii)*
Eastern Inflight Magazine Productions Limited 中國香港航機雜誌製作有限公司	12th February, 2004	British Virgin Islands, limited liability company	Ordinary	US$100	100%^	Investment holding	*(iv)*
Naturbest Investments Limited	15th August, 2006	British Virgin Islands, limited liability company	Ordinary	US$1	100%^	Investment holding	*(iv)*
Pandacareer.com Company Limited 才庫媒體集團有限公司	14th February, 2001	Hong Kong, limited liability company	Ordinary	HK$10,000	100%^	Inactive	*(i)*
Recruit Advertising Limited 才庫廣告有限公司	23rd April, 1991	Hong Kong, limited liability company	Ordinary	HK$105,000	76%^	Provision of advertising services	*(i)*
Recruit (BVI) Limited	15th March, 2000	British Virgin Islands, limited liability company	Ordinary	US$10,000	100%	Investment holding	*(iv)*
Recruit (China) Holdings Limited 才庫(中國)控股有限公司	3rd November, 2004	British Virgin Islands, limited liability company	Ordinary	US$1	95%^	Investment holding	*(iv)*
Recruit Company Limited 才庫媒體有限公司	18th January, 1994	Hong Kong, limited liability company	Ordinary	HK$213,536	100%^	Investment holding	*(i)*
Recruit Group Limited	8th January, 2007	British Virgin Islands, limited liability company	Ordinary	US$10,000	76%^	Investment holding	*(xi)*
Recruit Human Resources Group Limited 才庫招聘資源有限公司	7th April, 2005	British Virgin Islands, limited liability company	Ordinary	US$2,564,102	95%^	Investment holding	*(iv)*
Recruit Information Technology Limited 才庫資訊科技有限公司	7th November, 2003	Hong Kong, limited liability company	Ordinary	HK$1,000	76%^	Provision of website development and information technology services	*(i)*
Recruit Management Services Limited 才庫管理有限公司	13th April, 2006	Hong Kong, limited liability company	Ordinary	HK$1	100%^	Provision of corporate management services	*(xi)*

Name of company	Date of incorporation/ establishment	Place/Country of incorporation/ establishment and kind of legal entity	Class of shares	Issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company	Principal activities	Notes
Recruit Media Limited (formerly known as Recruit (China Investment) Limited 才庫(中國投資)有限公司)	26th July, 2004	Hong Kong, limited liability company	Ordinary	HK$1	100%^	Provision of advertising services	*(ii)*
Recruit Online Advertising Limited 才庫網絡廣告有限公司 (formerly known as The Recruit Publishing Company Limited 才庫出版有限公司)	30th April, 1999	Hong Kong, limited liability company	Ordinary	HK$52,000,000	76%^	Publishing and advertising business and investment holding	*(i)*
SAR Media Limited 文化特區出版有限公司	4th June, 1997	Hong Kong, limited liability company	Ordinary	HK$10,000	100%^	Provision of advertising services	*(i)*
Southern Inflight Magazine Production Limited 東南航機雜誌製作有限公司	19th April, 2005	Anguilla, limited liability company	Ordinary	US$1	100%^	Investment holding	*(iv)*
Shanghai Haifan Advertising Company Limited* 上海海帆廣告有限公司	23rd November, 2004	PRC, limited liability company	N/A	RMB1,000,000 (registered capital)	N/A**	Advertising business	*(v)*
Shanghai Decai Human Resources Company Limited* 上海德才人力資源有限公司	14th July, 2003	PRC, limited liability company	N/A	RMB1,000,000 (registered capital)	N/A**	Provision of staffing service	*(vi)*
Arabesque Advertising Limited* 廣州海螢廣告有限公司	1st February, 2005	PRC, limited liability company	N/A	HK$1,900,000 (registered capital)	100%^	Provision of advertising services	*(vii)*
Recruit Management Consulting (Shanghai) Company Limited* 才庫企業管理顧問(上海)有限公司	5th January, 2005	PRC, limited liability company	N/A	US$2,000,000 (registered capital)	95%^	Investment holding and provision of corporate management service	*(viii)*
Shanghai Lieying Human Resources Services Limited* 上海獵英人才服務有限公司	27th September, 2006	PRC, limited liability company	N/A	RMB100,000 (registered capital)	N/A**	Inactive	*(ix)*

^ *These subsidiaries are indirectly held by the Company.*

* *The English translation of Chinese names is included for identification only and should not be regarded as their official English translations.*

** *The Group does not have any direct equity interest in these entities. In the opinion of the directors of the Company, these entities are controlled by the Company by way of a series of contractual agreements entered between these entities and their respective shareholders in order to enable the Group to enjoy 95% of the economic benefits of these entities.*

None of the subsidiaries had any debt securities subsisting as at 31st December, 2004, 2005 and 2006 or at any time during the Relevant Periods.

Notes:

(i) The accounts of these companies for the year ended 31st December, 2004 were audited by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong and for each of the two years ended 31st December, 2005 and 2006 were audited by Grant Thornton, Certified Public Accountants, Hong Kong. These accounts were prepared in accordance with accounting principles generally accepted in Hong Kong and in compliance with all applicable Hong Kong Financial Reporting Standards issued by the HKICPA.

(ii) Newly incorporated in 2004. There is no statutory audit requirement for these companies from their dates of incorporation to 31st December, 2004. The accounts of these companies from their dates of incorporation to 31st December, 2005 and for the year ended 31st December, 2006 were audited by Grant Thornton, Certified Public Accountants, Hong Kong. These accounts were prepared in accordance with accounting principles generally accepted in Hong Kong and in compliance with all applicable Hong Kong Financial Reporting Standards issued by the HKICPA.

(iii) Newly incorporated in 2005. The accounts of these companies from their dates of incorporation to 31st December, 2005 and for the year ended 31st December, 2006 were audited by Grant Thornton, Certified Public Accountants, Hong Kong. These accounts were prepared in accordance with accounting principles generally accepted in Hong Kong and in compliance with all applicable Hong Kong Financial Reporting Standards issued by the HKICPA.

(iv) No audited financial statements have been prepared for these companies as there are no statutory or local audit requirements.

(v) Newly established in 2004 but acquired by the Group in 2005. The accounts of this company from its date of incorporation to 31st December, 2005 and for the year ended 31st December, 2006 were audited by certified public accountants registered in the PRC, Shanghai Xiao Tian Cheng Certified Public Accountants Co., Ltd. 上海驍天誠聯合會計師事務所. These accounts were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC.

(vi) Newly established in 2003 but acquired by the Group in 2005. The accounts of this company for each of the three years ended 31st December, 2004, 2005 and 2006 were audited by certified public accountants registered in the PRC, Shanghai Xiao Tian Cheng Certified Public Accountants Co., Ltd. 上海驍天誠聯合會計師事務所. These accounts were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC.

(vii) Newly established in 2005. The accounts of this company from its date of incorporation to 31st December, 2005 and for the year ended 31st December, 2006 were audited by certified public accountants registered in the PRC, Guangzhou Huijian Certified Public Accountants 廣州華天會計師事務所有限公司. These accounts were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC.

(viii) Newly established in 2005. The accounts of this company from its date of incorporation to 31st December, 2005 and for the year ended 31st December, 2006 were audited by certified public accountants registered in the PRC, Shanghai Xiao Tian Cheng Certified Public Accountants Co., Ltd. 上海驍天誠聯合會計師事務所. These accounts were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC.

(ix) Newly established in 2006. The accounts of this company from its date of incorporation to 31st December, 2006 were audited by certified public accountants registered in the PRC, Shanghai Xiao Tian Cheng Certified Public Accountants Co., Ltd. 上海驍天誠聯合會計師事務所. These accounts were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC.

(x) Newly incorporated in 2007.

(xi) Newly acquired in 2007.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage and monitor the Group's exposure to a variety of risks associated with financial instruments. Generally, the Group employs conservative strategies regarding its risk management to ensure appropriate measures are implemented on a timely and effective manner. The risks associated with these financial instruments and the policies on how to mitigate these risks are briefly described as follows:

(a) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2004, 2005 and 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the respective consolidated balance sheets. The Group limits its exposure to credit risk by prudently selecting its customers. The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk. The Group also continually evaluates the credit risk of its customers to ensure appropriateness of the amount of credit granted. Credit is extended to customers based on the evaluation of individual customer's financial conditions. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider the Group's credit risk is significantly reduced.

The Group has deposited their cash with various banks and brokers. The credit risk on cash and bank balances is limited because most of the Group's bank deposits are deposited with major banks and financial institutions located in Hong Kong and the PRC.

(b) Currency risk

The sales transactions of the Group are denominated in United States Dollars, Australian Dollars, RMB and Hong Kong Dollars and there are expenses and acquisition of plant and machinery that are required to be settled in United States Dollars, RMB and Hong Kong Dollars. Certain trade receivables and trade payables of the Group are denominated in foreign currencies, mainly United States Dollars, Australian Dollars and RMB. The Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(c) Interest rate risk

The Group does not have any significant exposure to interest rate risk, as the Group has no financial assets and liabilities with floating interest rates except for certain finance lease contracts for each of the two years ended 31st December, 2005 and 2006. The Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Group's overall interest expense. The terms of repayment of obligations under finance leases are set out in Note 26 of Section II to the Financial Information.

(d) Liquidity risk

The Group manages its funds conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet its operational needs.

(e) **Other pricing risk**

The Group is exposed to commodity price risk such as for paper and ink. The management monitors commodity price exposure and will consider hedging significant commodity price exposure when the need arises.

The Group has invested in listed equity securities and they are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity price risk. The Group will monitor the price movements and take appropriate actions when it is required.

(f) **Fair values**

The directors of the Company consider the fair values of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial instruments.

III. SUBSEQUENT EVENTS

The following events took place subsequent to 31st December, 2006:

Subsequent to the year end, the Group entered into a Subscription and Sale and Purchase agreement with Jobstreet Corporation Berhad ("Jobstreet"), a Malaysian listed company, which would acquire a 20% interest in Recruit Group Limited ("RGL"), an indirect non wholly-owed subsidiary of the Company, for a total cash consideration of HK$15,000,000 (the "Acquisition"). The Acquisition comprised two parts: (1) Jobstreet purchased 10% of equity interest of RGL from a subsidiary of the Company at a consideration of HK$7,500,000, and (2) Jobstreet subscribed for 10% share capital of RGL at a subscription price of HK$7,500,000. The net proceeds from the Acquisition was intended to be used as the Group's general working. Upon completion of the Acquisition, effective interest held by the Company in RGL was decreased from 95% to 75.5%. The Acquisition was completed on 15th February, 2007. Further details of the transaction are set out in the Company's announcement dated 7th February, 2007.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company nor any of the companies now comprising the Group in respect of any period subsequent to 31st December, 2006.

Yours faithfully,
Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong