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## THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in CASH Financial Services Group Limited, you should at once hand this Prospectus and the accompanying PAL (as defined herein) and EAF (as defined herein) (together "Prospectus Documents") to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

A copy of each of the Prospectus Documents has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (as defined herein). A copy of each of the Prospectus Documents has also been delivered to the Registrar of Companies in Bermuda for filing in accordance with the requirements of the Companies Act (as defined herein). The Registrar of Companies in Hong Kong, the Registrar of Companies in Bermuda and the Securities and Futures Commission take no responsibility as to the contents of any of these documents.

Dealings in the shares in CASH Financial Services Group Limited may be settled through CCASS (as defined herein) and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of the listings of, and permission to deal in, Rights Shares (as defined herein) in their nil-paid and fully-paid forms on the Stock Exchange (as defined herein) as well as the compliance with the stock admission requirements of HKSCC (as defined herein), Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in Rights Shares in their nil-paid and fully-paid forms or such other dates as determined by HKSCC. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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

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## CASH FINANCIAL SERVICES GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 8122)**

### **RIGHTS ISSUE OF NOT LESS THAN 593,420,579 RIGHTS SHARES OF HK\$0.10 EACH AT HK\$0.40 PER RIGHTS SHARE ON THE BASIS OF 2 RIGHTS SHARES FOR EVERY 5 EXISTING SHARES PAYABLE IN FULL ON ACCEPTANCE**

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It should be noted that the Shares (as defined herein) have been dealt in on an ex-rights basis as from 24 October 2007 and the Rights Shares will be dealt in their nil-paid form from 1 November 2007 to 9 November 2007 (both days inclusive). Such dealings will take place during a period when the Conditions (as defined herein) remain unfulfilled. Any Shareholders (as defined herein) or other persons dealing in the Shares from now up to the date on which all the Conditions are fulfilled and any person dealing in the nil-paid Rights Shares during the period from 1 November 2007 to 9 November 2007 will accordingly bear the risk that the Rights Issue (as defined herein) may not proceed. If in any doubt, any Shareholders or other persons are recommended to consult their professional advisers.

In particular, the Directors (as defined herein) would like to draw your attention to the fact that the Underwriting Agreement (as defined herein) contains provisions giving the Underwriter (as defined herein) the right to terminate its obligations thereunder in its reasonable opinion on the occurrence of certain events prior to 4:00 pm on the second business day after the latest time for acceptance of and payment for Rights Shares, being 16 November 2007, including:-

- (a) (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (ii) the occurrence of any local, national or international event or change of a political, military, financial, economic, currency or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflicts, or affecting local securities market or the occurrence of any combination of circumstances which materially adversely affects the business or financial or trading position or prospects of the Group (as defined herein) as a whole or materially adversely prejudices the success of the Rights Issue; or
- (b) any material change in market conditions or combination of circumstances in Hong Kong or elsewhere (including without limitation suspension or material restriction of trading in securities) occurs which may adversely and materially affect the success of the Rights Issue or the taking up of the Rights Shares by Shareholders.

If the Underwriter exercises such right and terminates the Underwriting Agreement, the Rights Issue will not proceed. Full details of the terms of the termination of the Underwriting Agreement provisions are set out on page 5 of this Prospectus.

The latest time for acceptance of and payment for the Rights Shares is 4:00 pm on Wednesday, 14 November 2007. The procedure for acceptance and/or transfer of the Rights Shares is set out on page 21 of this Prospectus.

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## CHARACTERISTIC OF GEM

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**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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## EXPECTED TIMETABLE

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2007

First day of dealings in nil-paid Rights Shares .....	Thursday, 1 November
Expected latest time for splitting nil-paid Rights Shares .....	4:00 pm on Tuesday, 6 November
Last day of dealings in nil-paid Rights Shares .....	Friday, 9 November
Expected latest time for acceptance of and payment for Rights Shares .....	4:00 pm on Wednesday, 14 November
Rights Issue and Underwriting Agreement to become unconditional on or before .....	Friday, 16 November
Publication of the announcement of result of acceptance of the Rights Issue .....	Monday, 19 November
Refund cheques in respect of unsuccessful or partially successful applications for excess Rights Shares expected to be despatched on or before .....	Wednesday, 21 November
Certificates for Rights Shares expected to be despatched on or before .....	Wednesday, 21 November
Expected commencement of dealings in Rights Shares .....	Friday, 23 November

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

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

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning

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## EXPECTED TIMETABLE

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- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the last acceptance date of 14 November 2007. Instead the latest time of acceptance of and payment for the Rights Shares will be extended to 5:00 pm on the same business day;
  
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 pm on the last acceptance date of 14 November 2007. Instead the latest time of acceptance of and payment for the Rights Shares will be rescheduled to 4:00 pm on the following business day which does not have either of those warnings in force at any time between 9:00 am and 4:00 pm.

If the latest time for acceptance of and payment for the Rights Shares does not take place on last acceptance date of 14 November 2007, the dates mentioned in the section headed “Expected timetable” in the Prospectus may be affected. A press announcement will be made by the Company in such event.

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## SUMMARY OF THE RIGHTS ISSUE

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*The following information is derived from, and should be read in conjunction with, the full text of this Prospectus:*

Amount to be raised in the Rights Issue .....	Approximately HK\$237.4 million, before expenses, and approximately HK\$236 million, after expenses
Number of Rights Shares to be issued.....	Not less than 593,420,579 Rights Shares
Basis of the Rights Issue .....	2 Rights Shares for every 5 Shares held on the Record Date
Record Date.....	Monday, 29 October 2007
Subscription Price and latest time for acceptance .....	HK\$0.40 per Rights Share, payable in full on acceptance by 4:00 pm on Wednesday, 14 November 2007
Right of application for excess Rights Shares .....	Qualifying Shareholders will have the right to apply for Rights Shares in excess of their provisional allotment

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## **RESPONSIBILITY STATEMENT**

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This Prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief,; (i) the information contained in this Prospectus is accurate and complete in all material aspects and not misleading; (ii) there are no other matters the omission of which would make any statement in this Prospectus misleading; and (iii) all opinions expressed in this Prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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## **TERMINATION OF THE UNDERWRITING AGREEMENT**

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If any of the following events happens before 4:00 pm on the second business day after the last day for acceptance of, and payment of, Rights Shares, being 16 November 2007, then the Underwriter may in its reasonable opinion terminate the Underwriting Agreement:

- (a) the success of the Rights Issue would be materially and adversely affected by:
  - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may materially adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
  - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which materially adversely affects the business or the financial or trading position or prospects of the Group as a whole or materially adversely prejudices the success of the Rights Issue or the taking up of the Rights Shares by the Shareholders or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Rights Issue; or
- (b) any material change in market conditions or combination of circumstances in Hong Kong or elsewhere (including without limitation suspension or material restriction or trading in securities) occurs which may adversely and materially affect the success of the Rights Issue or the taking up of the Rights Shares by Shareholders.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed.



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## DEFINITIONS

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*In this Prospectus, the following expressions have the following meanings unless the context requires otherwise:*

“Announcement”	the joint announcement made by the Company and CASH on 2 October 2007 in respect of, among other things, the Rights Issue and the entering into of the Underwriting Agreement between the Company and the Underwriter
“ARTAR”	Abdulrahman Saad Al-Rashid & Sons Company Limited, a substantial Shareholder
“Associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Branch Registrar”	Tricor Standard Limited, the branch registrars of the Company, and whose principle place of business is situate at 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“Cash Guardian”	Cash Guardian Limited, a substantial Shareholder of CASH, and is an Associate of Mr Kwan Pak Hoo Bankee, Chairman of the Company
“CASH” or “Underwriter”	Celestial Asia Securities Holdings Limited (stock code: 1049), a company incorporated in Bermuda with limited liability and which shares are listed on the main board of the Stock Exchange, and is the holding company of the Company
“CASH Group”	CASH and its subsidiaries
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Controlling Shareholder” or “CIGL”	Celestial Investment Group Limited, a company incorporated in the British Virgin Islands with limited liability and a 100% wholly-owned subsidiary of CASH, and as at the Latest Practicable Date, is interested in 671,586,570 Shares, representing approximately 45.27% of the existing issued share capital of the Company

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## DEFINITIONS

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“Company”	CASH Financial Services Group Limited (stock code: 8122), a company incorporated in Bermuda with limited liability and the Shares of which are listed on the GEM. The Company is also a non-wholly-owned subsidiary of CASH
“Companies Act”	the Companies Act 1981 of Bermuda
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Conditions”	the conditions of the Rights Issue as set out in the paragraph headed “Conditions of the Rights Issue”
“CRMG”	CASH Retail Management Group Limited (stock code: 996)
“Directors	the directors of the Company
“EAF(s)”	application form(s) for excess Rights Shares
“Excluded Overseas Shareholders”	Overseas Shareholder(s) in respect of whom the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Issue on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Last Trading Day”	27 September 2007, the last trading day for the Shares prior to the date of the Announcement
“Latest Practicable Date”	26 October 2007, being the latest practicable date prior to the printing of this Prospectus for ascertaining certain information referred to in this Prospectus

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## DEFINITIONS

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“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Netfield”	Netfield Technology Limited, a company incorporated with limited liability under the laws of the British Virgin Islands, and was formerly a wholly-owned subsidiary of the Company
“Netfield Group”	Netfield and its subsidiaries which operate and develop online games in the PRC and Taiwan
“Options”	share options granted or to be granted by the Directors under the share option schemes of the Company
“Overseas Shareholders”	Shareholders whose names appear on the register of members of the Company on the Record Date and whose addresses as shown on that register of members of the Company on that date situated outside Hong Kong
“PAL(s)”	provisional allotment letter(s)
“PRC”	the People’s Republic of China, which for the purpose of the Prospectus only, exclude Hong Kong, Macau and Taiwan
“Prospectus”	prospectus in relation to the Rights Issue
“Prospectus Documents”	documents comprising the Prospectus, the EAF and the PAL
“Qualifying Shareholders”	Shareholders whose names appear on the register of members of the Company as at the Record Date other than the Excluded Overseas Shareholders
“Record Date”	29 October 2007, the record date for ascertaining entitlements to the PALs and the EAFs
“Retail Group”	CASH Retail Management (HK) Limited, a wholly-owned subsidiary of the Group, and its subsidiaries whose principal activities are carrying on retail businesses in Hong Kong
“Rights Issue”	the issue of 2 Rights Shares for every 5 existing Shares in issue as at the Record Date at the Subscription Price

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## DEFINITIONS

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“Rights Share(s)”	new Share(s) to be issued under the Rights Issue
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the Company which are listed on the Stock Exchange
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.40 per Rights Share
“Undertaking Shareholders”	the Controlling Shareholder, certain CASH Directors (being Mr Kwan Pak Hoo Bankee, Mr Lin Che Chu George, Mr Law Ping Wah Bernard and Mr Wong Kin Yick Kenneth) who are parties acting in concert with the Controlling Shareholder, ARTAR and their respective Associates, and as at the Latest Practicable Date, are interested in an aggregate of 978,818,570 Shares, representing approximately 65.98% of the existing issued share capital of the Company
“Underwriting Agreement”	the underwriting agreement dated 27 September 2007 entered into between CASH and the Company in relation to the underwriting for the Rights Issue
“%”	per cent
“HK\$”	Hong Kong dollar(s), the currency of Hong Kong

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## LETTER FROM THE BOARD

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FINANCIAL SERVICES GROUP

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## CASH FINANCIAL SERVICES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 8122)

***Board of Directors:***

*Executive:*

KWAN Pak Hoo Bankee  
WONG Kin Yick Kenneth  
LAW Ping Wah Bernard  
CHENG Man Pan Ben  
CHAN Chi Ming Benson

*Independent non-executive:*

CHENG Shu Shing Raymond  
HUI Ka Wah Ronnie  
LO Kwok Hung John

***Registered Office***

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

***Principal Place of Business***

21/F The Center  
99 Queen's Road Central  
Hong Kong

31 October 2007

*To the Shareholders*

Dear Sir or Madam,

**RIGHTS ISSUE  
OF NOT LESS THAN 593,420,579 RIGHTS SHARES OF HK\$0.10 EACH  
AT HK\$0.40 PER RIGHTS SHARE  
ON THE BASIS OF 2 RIGHTS SHARES FOR EVERY 5 EXISTING SHARES  
PAYABLE IN FULL ON ACCEPTANCE**

**INTRODUCTION**

On 2 October 2007, the Board made the Announcement that (among other things), subject to the Conditions, the Company proposed to raise approximately HK\$237.4 million (before expenses) by issuing 2 Rights Shares for every 5 Shares held as at the Record Date at the Subscription Price by way of rights issue.

The purpose of this Prospectus is to give you further details of the Rights Issue, including information on dealings and transfer of Rights Shares in their nil-paid form and the procedure for acceptance of provisional allotments of Rights Shares. This Prospectus also contains certain financial and other information relating to the Group.

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## LETTER FROM THE BOARD

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### TERMS OF THE RIGHTS ISSUE

#### Rights Issue basis and Subscription Price

- Existing number of Shares in issue : 1,483,551,448 Shares
- Basis of the Rights Issue : 2 Rights Shares for every 5 Shares held on the Record Date
- Number of Rights Shares to be issued : Not less than 593,420,579 Rights Shares assuming the number of Shares in issue remains unchanged on the Record Date
- Subscription Price : HK\$0.40 per Rights Share in cash represents:–
- (i) a discount of approximately 40.3% to the closing price of HK\$0.670 per Share as quoted on the Stock Exchange on the Last Trading Day;
  - (ii) a discount of approximately 44.4% to the closing price of HK\$0.720 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
  - (iii) a discount of approximately 41.9% to the average of the closing prices as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to and including the Last Trading Day, being approximately HK\$0.689 per Share;
  - (iv) a discount of approximately 39.8% to the average of the closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to and including the Last Trading Day, being approximately HK\$0.665 per Share;

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## LETTER FROM THE BOARD

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- (v) a discount of approximately 32.5% to the theoretical ex-rights price of approximately HK\$0.593 per Share based on the closing price of HK\$0.670 as quoted on the Stock Exchange on the Last Trading Day; and
- (vi) equivalent to the unaudited consolidated net asset value of the Group as at 30 June 2007 of HK\$0.40 per Share.

The Subscription Price was determined after arm's length negotiation between the Company and the Underwriter with reference to the net asset value per Share. Although the Subscription Price represents discounts to the recent closing prices of Shares on the Last Trading Day and the average last 10 consecutive trading days, on the basis that (i) the Subscription Price is equivalent to the unaudited consolidated net asset value per Share as at 30 June 2007, (ii) all the Qualifying Shareholders have rights to participate in the Rights Issue and the discount of the Subscription Price would encourage them to participate in the Rights Issue, the Board is of the opinion that the Subscription Price is fair and reasonable and in the interests of the Company and Shareholders as a whole.

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

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

### **Despatch of Rights Share certificates and refund cheques**

Share certificates for all fully-paid Rights Shares and refund cheques in respect of wholly or partly unsuccessful applications for excess Rights Shares are expected to be posted by 21 November 2007 to those entitled thereto.

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## LETTER FROM THE BOARD

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### **Qualifying Shareholders and Excluded Overseas Shareholders**

The Prospectus Documents will not be registered and/or filed under the applicable securities or equivalent legislation of any jurisdictions other than Hong Kong and Bermuda.

As at the Latest Practicable Date, according to the register of members of the Company, the Overseas Shareholders have registered addresses in nine jurisdictions, namely, Macau, Taiwan, the PRC, Singapore, Malaysia, the United Kingdom, France, Australia and Spain. Pursuant to Rule 17.41(1) of the GEM Listing Rules, the Board has made enquiries regarding the legal restrictions under the applicable securities legislation of the relevant jurisdictions and the requirements of the relevant regulatory body or stock exchange with respect to the offer of the Rights Shares to such Overseas Shareholders.

The Rights Issue will be extended to the Overseas Shareholders in Macau, Taiwan, the PRC, Singapore, Malaysia, the United Kingdom, France and Spain as the Company has obtained legal advice that no local regulatory compliance is required to be made in these jurisdictions. The Company has also obtained legal advice from legal advisers in Australia that local legal and regulatory requirements have to be complied with if the Rights Issue is to be extended to the Overseas Shareholders in this jurisdiction. In this connection, the Company has considered that it would not be necessary or expedient to include the Overseas Shareholders in Australia in the Rights Issue because of the time and costs involved in complying with or addressing the relevant legal and regulatory requirements. The Company will therefore send the Prospectus, for information only, to such Excluded Overseas Shareholders. The PALs and EAFs will not be sent to such Excluded Overseas Shareholders.

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



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## LETTER FROM THE BOARD

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Arrangements will be made for Rights Shares which would otherwise be provisionally allotted to Excluded Overseas Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, will be distributed to the Excluded Overseas Shareholders on a pro rata basis and be sent to them, at their own risk, in Hong Kong dollars as soon as practicable. Individual amount of less than HK\$100 will be retained by the Company. Entitlements not sold in the market will be available for application by Qualifying Shareholders on EAFs.

### **Registration**

The Prospectus Documents have not been registered or filed under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda.

### **ADJUSTMENT OF SUBSCRIPTION PRICES OF OPTIONS**

As at the Latest Practicable Date, a total of 4,800,000 Options have been granted and remained outstanding. Upon full exercise of the subscription rights attaching to the Options, a maximum of 4,800,000 new Shares will be issued.

Options may be subject to adjustment in subscription prices and number of option shares, which adjustments shall be certified by the auditors of the Company. As soon as the certification is issued, the Company will inform each of the Option grantees.

Assuming no further Shares will be repurchased or issued upon exercise of the outstanding Options during the period from the Latest Practicable Date to the Record Date, the adjustments to be made to all outstanding Options are set out as below:

1. the subscription prices and number of option shares will be changed from HK\$0.296 per Share and 4,800,000 Shares to HK\$0.262 per Share (subject to adjustments) and 5,424,341 Shares respectively.

Save as disclosed above, there are no outstanding Options or any convertible loan securities of the Company or any capital of any member of the Group which is under option, or agreed conditionally or unconditionally to be put under option.

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## LETTER FROM THE BOARD

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### UNDERTAKING AND UNDERWRITING ARRANGEMENT

#### Undertaking by the Undertaking Shareholders

As at the Latest Practicable Date, the Undertaking Shareholders and their respective Associates are beneficially interested in an aggregate of 978,818,570 Shares representing approximately 65.98% of the total number of existing issued share capital of the Company. The Undertaking Shareholders have undertaken to the Company to take up or procure the taking up of the 391,527,428 Rights Shares which will be provisionally allotted to them and/or their respective Associates. In addition, CASH, the holding company of the Controlling Shareholder, has agreed with the Company to fully underwrite the balance of the Rights Shares pursuant to the Underwriting Agreement as disclosed below:

#### Underwriting Agreement

Date	:	27 September 2007
Underwriter	:	CASH
Issuer	:	the Company
Number of Rights Shares underwritten	:	Not less than 201,893,151 Rights Shares, being Rights Shares other than those undertaken to be taken up or procured to be taken up by the Undertaking Shareholders (assuming the number of Shares in issue remains unchanged on the Record Date)
Subscription Price	:	HK\$0.40 per Rights Share
Underwritten amount	:	Not less than HK\$80,757,260.40

CASH does not underwrite issues of securities in its ordinary course of business and will not receive any fee or underwriting commission under the Underwriting Agreement.

If none of the underwritten Rights Shares is accepted or applied for under PALs or EAFs other than those agreed to be applied for by the Undertaking Shareholders and the underwritten Rights Shares are hence taken up by the Underwriter pursuant to the Underwriting Agreement, the Undertaking Shareholders and the Underwriter and their respective Associates will then be ultimately interested in an aggregate of 1,572,239,149 Shares representing approximately 75.70% of the issued share capital of the Company as enlarged by the Rights Issue.

## LETTER FROM THE BOARD

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Rights Issue (assuming the number of Shares in issue remains unchanged on the Record Date):

Shareholders	As at the Latest Practicable Date		Immediately after completion of the Rights Issue (assuming all the underwritten Rights Shares are accepted or applied for under the PALs or EAFs)		Immediately after completion of the Rights Issue (assuming none of the underwritten Rights Shares are accepted or applied for under the PALs or EAFs)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Controlling Shareholder (Note 1)	671,586,570	45.27	940,221,198	45.27	940,221,198	45.27
CASH Directors and their Associates (Note 2)	99,596,000	6.71	139,434,400	6.71	139,434,400	6.71
CASH	–	–	–	–	201,893,151	9.72
Sub-total for the Controlling Shareholder and parties acting in concert:	771,182,570	51.98	1,079,655,598	51.98	1,281,548,749	61.70
ARTAR	207,636,000	14.00	290,690,400	14.00	290,690,400	14.00
Public	504,732,878	34.02	706,626,029	34.02	504,732,878	24.30
	1,483,551,448	100.00	2,076,972,027	100.00	2,076,972,027	100.00

*Notes:*

- (1) The Controlling Shareholder is wholly-owned by CASH.
- (2) The CASH Directors are Mr Kwan Pak Hoo Bankee, Mr Lin Che Chu George, Mr Law Ping Wah Bernard and Mr Wong Kin Yick Kenneth. The CASH Directors and their Associates are parties acting in concert with the Controlling Shareholder.

Assuming that CASH is required to take up all the underwritten 201,893,151 Rights Shares under the Rights Issue, the aggregate shareholding interest of the Controlling Shareholder, the directors of CASH, CASH and their respective Associates in the Company will be increased from existing 771,182,570 Shares (representing approximately 51.98% of the existing issued share capital of the Company) to 1,281,548,749 Shares (representing approximately 61.70% of the issued share capital of the Company as enlarged by the Rights Issue) immediately after completion of the Rights Issue. As the Controlling Shareholder and the directors of CASH (being parties acting in concert with the Controlling Shareholder) together with their respective Associates have already holding more than 50% of the voting rights of the Company before the Rights Issue, CASH is not aware of any obligation to make a mandatory general offer under Rules 26 and 32 of the Hong Kong Code on Takeovers and Mergers as a result of the Rights Issue.

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## LETTER FROM THE BOARD

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### TERMINATION OF THE UNDERWRITING AGREEMENT

If any of the following events happens before 4:00 pm on the second business day after the last day for acceptance of, and payment of, Rights Shares, then the Underwriter may in its reasonable opinion terminate the Underwriting Agreement:

- (a) the success of the Rights Issue would be materially and adversely affected by:
  - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may materially adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
  - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which materially adversely affects the business or the financial or trading position or prospects of the Group as a whole or materially adversely prejudices the success of the Rights Issue or the taking up of the Rights Shares by the Shareholders or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Rights Issue; or
- (b) any material change in market conditions or combination of circumstances in Hong Kong or elsewhere (including without limitation suspension or material restriction or trading in securities) occurs which may adversely and materially affect the success of the Rights Issue or the taking up of the Rights Shares by Shareholders.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed.

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## LETTER FROM THE BOARD

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### CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional upon, inter alia, each of the following events occurring on or before 16 November 2007 (or such later date as the Company and the Underwriter may agree):

- (a) the due filing and registration of the Prospectus Documents with the Registrar of Companies in Bermuda, if required;
- (b) the due registration of the Prospectus Documents with the Registrar of Companies in Hong Kong;
- (c) the Listing Committee of the GEM of the Stock Exchange granting the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms by no later than the date of despatch of the Prospectus Documents;
- (d) the despatch of the Prospectus Documents by the Company; and
- (e) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated in accordance with its terms.

The Rights Issue will not be completed if any of the above Conditions is not satisfied.

### FUND RAISING IN THE PAST 12 MONTHS

The Company had no fund raising activity in the past 12 months.

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

The Hong Kong stock market has been filled with strong investors' confidence in 2007. The Hang Seng Index broke record one after another in terms of market capitalisation and turnover. The IPO market is hot and a lot of recent IPO issues had been overwhelmingly received by the market because of investors' confidence and the abundance of liquidity. The Group has experienced the fastest growth in its financial services business in the past two years in line with the good performance of the Hong Kong stock market. Its market share has improved significantly and the brokerage turnover experienced significant growth and recorded successive new highs in 2007. In light of the prospect of a sustainable robust market environment and the stringent financial

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## LETTER FROM THE BOARD

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requirement imposed by the local governing bodies in the brokerage business, the Directors believe that it is in the interests of the Company to implement the Rights Issue with a view to strengthening its capital base so that the Group will be in the best position to capture business opportunities associated with its principal business engagements ahead. The Company intends to apply the net proceeds of the Rights Issues, which is expected to be approximately HK\$236 million, to support its expanding share margin financing portfolio and to facilitate correspondingly growth in its securities brokerage business in line with market development and for general working capital purposes.

### FINANCIAL AND TRADING PROSPECTS OF THE GROUP

#### Financial and trading prospects

For the six months ended 30 June 2007, the Group recorded revenue of HK\$253.5 million from financial services operations, as compared to HK\$173.2 million for the same period last year. The increase was attributable to the significant growth in securities brokerage income due to the continued speculation over appreciation of RMB as well as the continuous boom of initial public offerings (IPO) during the period, especially for mega China-related enterprises. A net profit attributable to shareholders of HK\$101.6 million was recorded for the period ended 30 June 2007 as compared with HK\$19.9 million recorded for the same period last year. The increase in net profit was mainly attributable to the improved performance of the Group's broking business.

The Group achieved favourable results for the first half of 2007. Revenue from financial services operations and net profit attributable to shareholders rose 46.4% and 410.5%, respectively.

The Group's market share has improved significantly as a result of the success of our marketing campaign launched at the end of last year and strategic alliances we formed with a number of Mainland brokerage firms for referring Mainland clients with funding outside of China. The efforts we made in previous years to optimise our trading platforms and broaden our delivery channels have allowed us to withstand the sudden increases in trading activities in this year and maintain our service level at all time.

The brokerage turnover experienced significant growth and recorded successive new highs in this year. This was attributable mainly to the inflow of funds ahead of the commencement of QDII investments during the third quarter of 2007. Another driver of growth came from income generated from IPO activities.

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## LETTER FROM THE BOARD

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Our wealth management division regained ground and experienced a steady growth after re-engineering its pricing strategy earlier this year. The competition in the financial planning business is stronger than ever. To solidify and expand its market share in the increasingly competitive environment, the division will continue to improve its product offerings, service level, and strengthen cross-selling synergy with the house-served brokerage clients.

The asset management business outperformed the Hang Seng index in a number of its portfolios and recorded attractive gains for the clients. Benefiting from the general market strength, it registered healthy growth in assets under management in the second quarter of this year. It will continue to focus on the expansion of client base and assets under management while maintaining its out-performance.

As corporate activities such as assets injections and M&As continued to increase locally and internationally, the investment banking unit was active in financial advisory for M&As and the special transaction markets in this year. It continued to lay ground for the growing IPO pipeline from medium-sized companies in the PRC. The division will remain a key revenue contributor for the Group and we anticipate to see its share of the contribution continue to rise.

The Group is generally optimistic about the business outlook for the rest of the year as Hong Kong's GDP is expected to show a strong growth of 4.5-5.5% and liquidity remains abundant in anticipation of Renminbi-asset appreciation. Granted, there are challenges and factors ahead that could affect the global and local investment sentiments, such as continued global assets inflation, the seemingly bumpy recovery of the US economy, the tension in the Middle East which has resulted in high energy prices, and China's macroeconomic tightening and its impact on the rest of the world.

Upon transfer of the Netfield Group to CASH in June this year, part of our strategy is to refocus on its financial services business. We have built a strong platform that positions us favourably as we aim to accelerate the pace of growth leading to significant value creation for our clients, employees, and shareholders. As the commencement of QDII scheme and that individual Mainland investors allowed to trade Hong Kong stocks directly are imminent, we expect trading volume of the Hong Kong stock market to be boosted up more drastically in the near future. This persistent sign of a strong market growth in the coming quarters poses a positive outlook for our broking and margin financing businesses. The Rights Issue will strengthen the Group's capital base for capturing future market opportunities in view of the current robust market situation and the stringent financial requirement imposed by the local governing bodies. We will continue to diversify our revenue mix through strengthening existing businesses and enriching product types. Our goal is to position the Company as clients' financial services house of choice that has comprehensive product offerings to meet their diverse financial needs, executes well and values their business relationships.

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## LETTER FROM THE BOARD

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### PROCEDURE FOR ACCEPTANCE AND TRANSFER

**Qualifying Shareholders will find enclosed with this Prospectus a PAL that entitles Qualifying Shareholders to take up the number of Rights Shares shown therein. If you wish to exercise your rights to take up all the Rights Shares specified in the PAL, you must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Branch Registrar by not later than 4:00 pm on Wednesday, 14 November 2007.** All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and banker's cashier orders must be issued by, a bank in Hong Kong and made payable to "CASH FINANCIAL SERVICES GROUP LIMITED – RIGHTS ISSUE ACCOUNT" and crossed "ACCOUNT PAYEE ONLY".

**It should be noted that unless the PAL, together with the appropriate remittance, has been lodged by 4:00 pm on Wednesday, 14 November 2007, whether by the original allottee or any person to whom the rights have been validly transferred, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.**

If you wish to accept only part of your provisional allotment and/or to transfer part of your rights to subscribe for the Rights Shares provisionally allotted to you or to transfer your rights to more than one person, the PAL must be surrendered by not later than 4:00 pm on 6 November 2007 at the Branch Registrar which will cancel the original PAL and issue new PALs, in the denominations required

The PAL contains further information regarding the procedure to be followed for acceptance and/or transfer of the whole or part of your provisional allotment.

All cheques and banker's cashier orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and lodgement of a PAL together with a cheque or banker's cashier order in payment for the Rights Shares accepted will constitute a warranty by the subscriber that the cheque or banker's cashier order will be honoured on first presentation. Any PAL in respect of which the accompanying cheque or banker's cashier order is dishonoured on first presentation is liable to be rejected, and, in any event, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled and will be available for application on EAFs.

If the Conditions are not fulfilled, the monies received in respect of applications for Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the nil-paid Rights Shares shall have been validly transferred without interest by means of cheques despatched in the ordinary post at the risk of such Qualifying Shareholders or such other persons on Wednesday, 21 November 2007.



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## LETTER FROM THE BOARD

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### APPLICATION FOR EXCESS RIGHTS SHARES

Qualifying Shareholders may apply for any unsold entitlements of Excluded Overseas Shareholders and any Rights Shares provisionally allotted but not accepted. Applications for excess Rights Shares can be made by completing the EAFs. The Directors will allocate the excess Rights Shares at their discretion but will give preference to topping-up odd lots to whole board lots and on a fair basis on the following principles:

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

The Shareholders with the Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually. The Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

If you are a Qualifying Shareholder and you wish to apply for any Rights Shares in addition to your provisional allotment under the Rights Issue, you must complete and sign the enclosed EAF as indicated therein and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Branch Registrar by not later than 4:00 pm on Wednesday, 14 November 2007. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and banker's cashier orders must be issued by, a bank in Hong Kong and made payable to **“CASH FINANCIAL SERVICES GROUP LIMITED – EXCESS APPLICATION ACCOUNT”** and crossed **“ACCOUNT PAYEE ONLY”**.

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## LETTER FROM THE BOARD

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If no excess Rights Shares are allotted to you, it is expected that the amount tendered on application will be refunded to you in full without interest by means of a cheque despatched in the ordinary post at your own risk on Wednesday, 21 November 2007. If the number of excess Rights Shares allotted to you is less than that applied for, it is expected that the surplus application monies will be refunded to you without interest by means of a cheque despatched in the ordinary post at your own risk on Wednesday, 21 November 2007.

All cheques and banker's cashier orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and lodgement of an EAF together with a cheque or banker's cashier order in payment for the Rights Shares applied for will constitute a warranty by the applicant that the cheque or banker's cashier order will be honoured on first presentation. Without prejudice to its rights in respect thereof (but subject to the terms of the Underwriting Agreement), the Company reserves the right to reject any EAF in respect of which the accompanying cheque or banker's cashier order is dishonoured on first presentation.

An EAF is for use only by the person(s) to whom it is addressed and is not transferable. All documents, including cheques or banker's cashier orders for amount due, will be posted at the risk of the persons entitled thereto to their registered addresses.

If the Conditions are not fulfilled, the monies received in respect of applications for excess Rights Shares will be returned to the applicants in full without interest by means of cheques despatched in the ordinary post at the risk of such applicants on 21 November 2007.

### **LISTING OF THE RIGHTS SHARES**

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

The Rights Shares in their nil-paid and fully-paid forms will be traded in board lots of 4,000 Rights Shares. Dealings in the Rights Shares in the nil-paid form will commence at 9:30 am on 1 November 2007 and will end at the close of business of the Stock Exchange on 9 November 2007 (both days inclusive). The latest time for splitting of nil-paid Rights Shares will be 4:00 pm on 6 November 2007. Dealings in the Rights Shares in their nil-paid and fully-paid forms will be subject to payment of stamp duty in Hong Kong. Dealings in the Rights Shares in their fully-paid form are expected to commence on 23 November 2007.

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## LETTER FROM THE BOARD

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The Rights Shares will not be listed or dealt in on any other stock exchange outside Hong Kong. None of the securities of the Company is listed or dealt in, nor is any listing of or permission to deal in securities of the Company being or proposed to be sought on any stock exchange other than the Stock Exchange.

Subject to the granting of listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **PERMISSION OF THE BERMUDA MONETARY AUTHORITY**

Pursuant to a public notice issued on 1 June 2005, permission under the Exchange Control Act 1972 of Bermuda (and regulations made thereunder) has been granted by the Bermuda Monetary Authority in respect of the issue of Shares (including the Rights Shares) to persons regarded as non-residents of Bermuda for exchange control purposes subject to the requirement that the Shares are listed on the Stock Exchange. In granting such permission and in accepting this Prospectus, the PAL and the EAF for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies of Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any statements made or opinions expressed in this Prospectus, the PAL or the EAF.

### **WARNING OF RISK OF DEALINGS IN SHARES AND NIL-PAID RIGHTS SHARES**

The Shares have been dealt in on an ex-rights basis from 24 October 2007. Dealings in the nil-paid Rights Shares are expected to take place from 1 November 2007 to 9 November 2007 (both dates inclusive). If the Underwriter terminates the Underwriting Agreement or any of the Conditions is not fulfilled, the Rights Issue will not proceed.

Any Shareholder or other person contemplating selling or purchasing Shares up to the date on which all the Conditions are fulfilled and the date on which the Underwriter's right of termination ceases who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholder or other person dealing in the Shares up to the date on which all the Conditions are fulfilled and the date on which the Underwriter's right of termination ceases, and

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## LETTER FROM THE BOARD

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any persons dealings in the nil-paid Rights Shares during the period from 1 November 2007 to 9 November 2007 will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. In particular, the Directors would like to draw your attention to the fact that the Underwriting Agreement may be terminated if prior to 4:00 pm on the second business day after the latest time for acceptance and payment of Rights Shares, in the reasonable opinion of the Underwriter that, inter alia, the success of the Rights Issue would be materially and adversely affected by, inter alia, any of the conditions mentioned under the sub-heading “Termination of the Underwriting Agreement” above.

### FURTHER INFORMATION

Your attention is drawn to the further information set out in the appendices to this Prospectus.

On behalf of the Board

**Bankee P Kwan**

*Chairman*

## 1. FINANCIAL INFORMATION

## A. SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 DECEMBER 2006

The following is a summary of the audited consolidated profits and losses accounts and financial positions for each of the three years ended 31 December 2006 as extracted from the annual reports of the Group for the respective years.

**Consolidated Profit and Loss Account**

	<b>For the year ended 31 December</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
Revenue	<u>383,228</u>	<u>213,557</u>	<u>239,972</u>
Profit before taxation	46,137	23,847	21,162
Taxation (charge) credit	<u>(5,939)</u>	<u>3,440</u>	<u>(350)</u>
Profit for the year	<u>40,198</u>	<u>27,287</u>	<u>20,812</u>
Attributable to:			
Equity holders of the Company	39,944	26,626	20,388
Minority interests	<u>254</u>	<u>661</u>	<u>424</u>
	<u>40,198</u>	<u>27,287</u>	<u>20,812</u>
Earnings per share			
– Basic	<u>2.9 HK cents</u>	<u>3.2 HK cents</u>	<u>3.2 HK cents</u>
– Diluted	<u>2.9 HK cents</u>	<u>3.0 HK cents</u>	<u>N/A</u>

*Note:* The 2004 figures were restated based on the latest Hong Kong Financial Reporting Standards.

**Consolidated Assets and Liabilities**

	<b>As at 31 December</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
Total assets	1,775,485	1,150,965	1,028,175
Total liabilities	(1,291,893)	(792,876)	(787,861)
Net assets	<u>483,592</u>	<u>358,089</u>	<u>240,314</u>

*Note:* There were no extraordinary items and exceptional items for the three years ended 31 December 2006.

**B. SUMMARY OF FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 30 JUNE 2006**

The following is a summary of the unaudited consolidated profit and loss account of the Group for the six months ended 30 June 2007 and 30 June 2006 as well as the financial position of the Group as at 30 June 2007 as extracted from the interim report of the Group for the respective periods.

**Consolidated Profit and Loss Account**

	<b>For the six months ended 30 June</b>	
	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i> (restated)
Continuing operations:		
Revenue	<u>253,479</u>	<u>173,193</u>
Profit before taxation	85,288	38,861
Taxation charge	<u>(10,300)</u>	<u>(4,090)</u>
Profit for the period from continuing operations	<u>74,988</u>	<u>34,771</u>
Discontinued operation:		
Profit (Loss) for the period from discontinued operation	<u>27,832</u>	<u>(14,578)</u>
Profit for the period	<u>102,820</u>	<u>20,193</u>
Attributable to:		
Equity holders of the Company	101,605	19,904
Minority interests		
– continuing operations	550	289
– discontinued operation	<u>665</u>	<u>–</u>
	<u>102,820</u>	<u>20,193</u>
Earnings per share		
From continuing and discontinued operations:		
– Basic	<u>7.3 HK cents</u>	<u>1.5 HK cents</u>
– Diluted	<u>7.2 HK cents</u>	<u>N/A</u>
From continuing operations:		
– Basic	<u>5.4 HK cents</u>	<u>2.5 HK cents</u>
– Diluted	<u>5.3 HK cents</u>	<u>N/A</u>

**Consolidated Assets and Liabilities**

	<b>As at</b> <b>30 June 2007</b> <i>HK\$'000</i>
Total assets	4,831,049
Total liabilities	(4,274,983)
	<hr/>
Net assets	<u>556,066</u>

*Note:* There were no extraordinary items and exceptional items for the six months ended 30 June 2007 and 30 June 2006.



## C. FINANCIAL INFORMATION FOR THE TWO YEARS ENDED 31 DECEMBER 2006

The following financial information is extracted from the audited consolidated financial statements of the Group for each of the two years ended 31 December 2006.

**Consolidated Income Statement**

*For the year ended 31 December 2006*

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Revenue	6	383,228	213,557
Other operating income		2,397	2,721
Salaries, commission and related benefits	8	(163,465)	(108,303)
Depreciation and amortisation		(12,304)	(10,606)
Finance costs	9	(49,027)	(14,568)
Other operating and administrative expenses		(124,966)	(56,316)
(Allowance for) Reversal of allowance for bad and doubtful debts		(180)	702
(Loss) Gain on disposal of property and equipment		(98)	43
Net increase (decrease) in fair value of listed investments held for trading		10,261	(3,298)
Convertible loan note settlement income (expense)		291	(85)
Profit before taxation	12	46,137	23,847
Taxation (charge) credit	13	(5,939)	3,440
Profit for the year		40,198	27,287
Attributable to:			
Equity holders of the Company		39,944	26,626
Minority interests		254	661
		<u>40,198</u>	<u>27,287</u>
Dividend:			
Proposed final dividend of HK\$0.02 per share based on 1,382,051,448 shares (2005: nil)		27,641	–
Dividends recognised as distribution during the year			
– 2006 interim – HK\$0.03 per share (2005: nil)		41,462	–
– 2005 final – nil (2004: HK\$0.01 per share)		–	7,546
		<u>41,462</u>	<u>7,546</u>
Earnings per share	14		
– Basic		<u>2.9 HK cents</u>	<u>3.2 HK cents</u>
– Diluted		<u>2.9 HK cents</u>	<u>3.0 HK cents</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP****Consolidated Balance Sheet***At 31 December 2006*

		<b>2006</b>	<b>2005</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property and equipment	15	45,720	12,218
Investment property	16	5,000	–
Goodwill	17	114,878	4,933
Intangible assets	18	32,042	11,062
Other assets	20	16,241	7,564
Loan receivables	21	103	122
Deposits for acquisition of subsidiaries	22	–	56,095
Interests in associates	23	–	–
Deferred tax assets	13	2,346	3,940
		<u>216,330</u>	<u>95,934</u>
<b>Current assets</b>			
Inventories	24	674	–
Account receivables	26	781,721	469,528
Loan receivables	21	19,227	38,426
Prepayments, deposits and other receivables		23,764	16,074
Amounts due from associates	25	373	–
Amounts due from fellow subsidiaries	25	3,463	972
Listed investments held for trading	27	54,317	42,472
Derivative financial instrument	28	–	16
Bank deposits under conditions	29	27,813	17,125
Bank balances – trust and segregated accounts	25	574,577	352,902
Bank balances (general accounts) and cash	25	73,226	117,516
		<u>1,559,155</u>	<u>1,055,031</u>

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

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Current liabilities			
Account payables	30	931,865	555,565
Deferred revenue		8,027	–
Accrued liabilities and other payables		64,860	33,939
Taxation payable		4,428	1,084
Obligations under finance leases			
– amount due within one year	31	215	150
Bank borrowings – amount due within one year	32	278,521	171,737
Convertible loan note – amount due within one year	34	–	30,242
		<u>1,287,916</u>	<u>792,717</u>
Net current assets		<u>271,239</u>	<u>262,314</u>
		<u>487,569</u>	<u>358,248</u>
Capital and reserves			
Share capital	33	138,205	104,488
Reserves		<u>341,626</u>	<u>252,130</u>
Equity attributable to equity holders of the Company		479,831	356,618
Minority interests		<u>3,761</u>	<u>1,471</u>
Total equity		<u>483,592</u>	<u>358,089</u>
Non-current liabilities			
Deferred tax liabilities	13	2,615	–
Bank borrowings – amount due after one year	32	1,247	–
Obligations under finance leases			
– amount due after one year	31	<u>115</u>	<u>159</u>
		<u>3,977</u>	<u>159</u>
		<u>487,569</u>	<u>358,248</u>

# APPENDIX I

# FINANCIAL INFORMATION OF THE GROUP

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company									
	Share capital	Share premium	Contributed surplus	Convertible loan note equity reserve	Share-based payment reserve	Translation reserve	Accumulated losses	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	75,456	61,956	186,377	771	680	-	(85,736)	239,504	810	240,314
Profit for the year, representing total recognised income for the year	-	-	-	-	-	-	26,626	26,626	661	27,287
Recognition of employee share option benefits	-	-	-	-	203	-	-	203	-	203
Arising from partial repayment of convertible loan note (Note a(i))	-	-	-	(190)	-	-	151	(39)	-	(39)
2004 final dividend paid	-	-	-	-	-	-	(7,546)	(7,546)	-	(7,546)
Issue of new shares (Note b)	29,032	69,138	-	-	-	-	-	98,170	-	98,170
Transaction costs attributable to issue of new shares	-	(300)	-	-	-	-	-	(300)	-	(300)
Amount transferred to set off accumulated losses (Note c(i))	-	-	(12,827)	-	-	-	12,827	-	-	-
At 31 December 2005 and 1 January 2006	104,488	130,794	173,550	581	883	-	(53,678)	356,618	1,471	358,089
Exchange difference arising from translation of foreign operations, representing net expense recognised directly in equity	-	-	-	-	-	(288)	-	(288)	-	(288)
Profit for the year	-	-	-	-	-	-	39,944	39,944	254	40,198
Total recognised income and expense for the year	-	-	-	-	-	(288)	39,944	39,656	254	39,910
Recognition of employee share option benefits	-	-	-	-	1,613	-	-	1,613	-	1,613
Arising from conversion of convertible loan note (Note d(ii))	6,000	10,200	-	(308)	-	-	173	16,065	-	16,065
Arising from early repayment of convertible loan note (Note a(ii))	-	-	-	(273)	-	-	(79)	(352)	-	(352)
Issue of new shares (Notes d(i), (iii) and (iv))	27,717	82,976	-	-	-	-	-	110,693	-	110,693
2006 interim dividend paid	-	-	-	-	-	-	(41,462)	(41,462)	-	(41,462)
Transaction costs attributable to issue of new shares	-	(3,000)	-	-	-	-	-	(3,000)	-	(3,000)
Arising from acquisition of subsidiary	-	-	-	-	-	-	-	-	2,389	2,389
Dividend paid to minority interests	-	-	-	-	-	-	-	-	(353)	(353)
Amount transferred to set off accumulated losses (note c(ii))	-	-	(45,000)	-	-	-	45,000	-	-	-
At 31 December 2006	138,205	220,970	128,550	-	2,496	(288)	(10,102)	479,831	3,761	483,592

*Notes:*

- (a) (i) During the year ended 31 December 2005, the Group has made partial repayment of the convertible loan note issued on 1 September 2004 amounting to HK\$10,000,000. The consideration of HK\$10,000,000 was allocated into liability component and equity component. An equity component of approximately HK\$190,000 was released from the convertible loan note equity reserve.
- (ii) During the year ended 31 December 2006, the Group has made full repayment of the convertible loan note issued on 1 September 2004 that remained outstanding in June 2006 amounting to HK\$8,000,000 and HK\$6,300,000 on 1 June 2006 and 28 June 2006 respectively. The consideration of HK\$14,300,000 was allocated into liability component and equity component. An equity component of approximately HK\$273,000 was released from the convertible loan note equity reserve.
- (b) (i) On 15 September 2005, 132,000,000 shares of HK\$0.10 each were issued by way of subscription at a subscription price of HK\$0.27 each pursuant to a subscription agreement dated 16 August 2004. The gross proceeds of HK\$35,640,000 were raised for strengthening the funding support and capital base of the Company.
- (ii) In September 2005, 650,000 share options and 12,675,000 share options were exercised at an exercise price of HK\$0.34 each, resulting in the issue of 650,000 shares and 12,675,000 shares of HK\$0.10 each on 16 September 2005 and 26 September 2005 respectively. The proceeds before expenses were HK\$4,530,500.
- (iii) On 5 October 2005, 145,000,000 top up shares of HK\$0.10 each were issued to Celestial Investment Group Limited (“CIGL”), the controlling shareholder, at the price of HK\$0.40 each pursuant to the top up agreement dated 22 September 2005. The gross proceeds of HK\$58,000,000 were raised for settlement of part of the consideration for proposed acquisition of an online game business under the sale and purchase agreement dated 15 September 2005. The acquisition was completed on 10 January 2006.
- (c) (i) Pursuant to a minutes of a board of Directors’ meeting held on 30 May 2005, an amount of HK\$12,827,000 was transferred from the contributed surplus account to set off against the accumulated losses of the Company at 31 December 2004 of HK\$5,282,000 and the payment for final dividend of 2004 of HK\$7,546,000.
- (ii) Pursuant to a minutes of a board of Directors’ meeting held on 6 November 2006, an amount of HK\$45,000,000 was transferred from the contributed surplus account to set off against the accumulated losses of the Company for payment of 2006 interim dividend of HK\$41,462,000.

- (d) (i) On 10 January 2006, 155,000,000 placing shares of HK\$0.10 each were issued at a placing price of HK\$0.40 each to independent third parties. On the same date, 120,000,000 subscription shares of HK\$0.10 each were issued to CIGL at a price of HK\$0.40 each. The gross proceeds of the two transactions of HK\$62,000,000 and HK\$48,000,000 respectively were raised to settle part of the consideration of the acquisition of an online game business as mentioned in note 36(a)(i). These shares rank pari passu in all respects with other shares in issue.
- (ii) On 18 January 2006, convertible loan note amounting to HK\$16,200,000 was converted into 60,000,000 shares of the Company at a conversion price of HK\$0.27 each.
- (iii) In January 2006, 520,000 share options and 650,000 share options respectively were exercised at an exercise price of HK\$0.34 per share, resulting in the issue of 520,000 shares and 650,000 shares of HK\$0.10 each on 25 January 2006 and 26 January 2006 respectively for a total consideration (before expenses) of HK\$397,800. These shares rank pari passu in all respects with other shares in issue.
- (iv) In November 2006, 1,000,000 share options were exercised at an exercise price of HK\$0.296 each, resulting in the issue of 1,000,000 shares of HK\$0.10 each on 14 November 2006 for a total consideration (before expenses) of HK\$296,000.
- (e) The contributed surplus of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate of the nominal amount of the issued share capital and the reserves of CASH on-line Limited, the then holding company of the Group prior to the group reorganisation, pursuant to the group reorganisation after deducting the expenses in connection with the listing of the Company's shares and the acquisition of subsidiaries, and the net amount arising from the capital reduction, reduction of share premium account and amounts transferred to write off accumulated losses.

**Consolidated Cash Flow Statement***For the year ended 31 December 2006*

	<i>Note</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Operating activities			
Profit before taxation		46,137	23,847
Adjustments for:			
Convertible loan note settlement (income) expense		(291)	85
Advertising and telecommunication services expenses	35	4,933	–
Allowance for (Reversal of allowance for)			
bad and doubtful debts		180	(702)
Amortisation of intangible assets		4,131	–
Depreciation of property and equipment		8,173	10,606
Interest expenses		49,027	14,568
Employee share option benefits		1,613	203
Loss (Gain) on disposal of property and equipment		98	(43)
Net decrease (increase) in fair value of derivative financial instrument		16	(16)
		<hr/>	<hr/>
Operating cash inflows before movements			
in working capital		114,017	48,548
Decrease in loan receivables		19,016	701
Increase in account receivables		(306,408)	(106,533)
Increase in inventories		(349)	–
Increase in prepayments, deposits and other receivables		(2,563)	(3,296)
Increase in amount due from associates		(373)	–
(Increase) Decrease in amounts due from fellow subsidiaries		(2,491)	1,076
(Increase) Decrease in listed investments held for trading		(11,845)	4,560
(Increase) Decrease in bank balances			
– trust and segregated accounts		(221,675)	80,254
Increase (Decrease) in account payables		364,024	(61,341)
Increase in deferred income		8,027	–
Increase (Decrease) increase in accrued liabilities and other payables		4,053	(380)
		<hr/>	<hr/>
Cash used in operation		(36,567)	(36,411)
Income taxes paid		(845)	–
		<hr/>	<hr/>
Net cash used in operating activities		(37,412)	(36,411)
		<hr/>	<hr/>

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

	<i>Note</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
<b>Investing activities</b>			
Deposit payment for acquisition of online game business		–	(56,095)
Acquisitions of business	36(a)	(64,407)	–
Acquisition of assets and liabilities	36(b)	(736)	–
Increase in bank deposits under conditions		(10,688)	(343)
Statutory and other deposits paid		(8,677)	(947)
Purchase of intangible assets		(171)	–
Purchases of property and equipment		(20,306)	(1,650)
Proceeds on disposal of property and equipment		5	60
		<u>          </u>	<u>          </u>
Net cash used in investing activities		(104,980)	(58,975)
		<u>          </u>	<u>          </u>
<b>Financing activities</b>			
Increase in bank overdrafts		59,610	11,582
Increase in bank loans		48,421	64,000
Repayment of loan		(12,105)	–
Proceeds on issue of shares		110,693	98,170
Share issue expenses		(3,000)	(300)
Dividend paid		(41,462)	(7,546)
Dividend paid to minority interests		(353)	–
Interest paid on bank borrowings		(48,739)	(13,202)
Interest paid on obligations under finance leases		(14)	(15)
Interest paid on convertible loan note		(212)	(1,067)
Repayment of obligations under finance leases		(149)	(220)
Repayment of convertible loan note		(14,300)	(10,000)
		<u>          </u>	<u>          </u>
Net cash from financing activities		98,390	141,402
		<u>          </u>	<u>          </u>
Net (decrease) increase in cash and cash equivalents		(44,002)	46,016
Cash and cash equivalents at beginning of year		117,516	71,500
Effect of foreign exchange rate changes		(288)	–
		<u>          </u>	<u>          </u>
Cash and cash equivalents at end of year		<u>73,226</u>	<u>117,516</u>
		<u>          </u>	<u>          </u>
Bank balances (general accounts) and cash		<u>73,226</u>	<u>117,516</u>
		<u>          </u>	<u>          </u>



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

### 1. General

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (“Stock Exchange”). Its ultimate holding company is Celestial Asia Securities Holdings Limited (“CASH”), a company incorporated in Bermuda with its shares being listed on the Stock Exchange.

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

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 44.

### 2. Application of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“New HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the New HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating segments <sup>2</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>3</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>4</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>5</sup>
HK(IFRIC) – INT 10	Interim financial reporting and impairment <sup>6</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>7</sup>
HK(IFRIC) – INT 12	Service concession arrangements <sup>8</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1 June 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1 November 2006.

<sup>7</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2008.

**3. Significant Accounting Policies**

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

***Basis of consolidation***

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

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

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

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

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

***Business combinations***

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

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

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

### ***Goodwill***

#### *Goodwill arising on acquisition prior to 1 January 2005*

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

For previously capitalised goodwill, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

#### *Goodwill arising on acquisition on or after 1 January 2005*

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

Capitalised goodwill arising on acquisition of subsidiaries is presented separately in the balance sheet.

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

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

***Investments in associates***

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

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

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

***Income recognition***

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

- Trading investments such as securities, futures and options are accounted for under HKAS 39 as financial assets held for trading and the net increase or decrease in fair value are accounted for on a trade date basis and recognised directly in net profit or loss;
- Commission income for broking business is recorded as income on a trade date basis;
- Underwriting commission income, sub-underwriting income, placing commission and sub-placing commission are recognised as income in accordance with the terms of the underlying agreement or deal mandate when relevant significant act has been completed;
- Advisory and other fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered; and
- Interest income from clients are recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

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

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

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

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

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

#### ***Property and equipment***

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

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

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

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

#### ***Investment property***

Leasehold land held for undetermined future use is regarded as held for capital appreciation purpose and classified as an investment property. On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in the consolidated income statement for the period in which they arise.

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

#### ***Leasing***

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

*The Group as lessee*

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

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

*Foreign currencies*

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

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

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

***Retirement benefits costs***

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

***Borrowing costs***

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

***Taxation***

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

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

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

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

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

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

*Intangible assets**Intangible assets acquired separately*

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

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

*Intangible assets acquired in a business combination*

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

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

*Research and development expenditures*

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

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

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

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



### *Impairment*

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

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

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

### *Inventories*

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

### *Financial instruments*

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

### *Financial assets*

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

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

Financial assets at fair value through profit or loss represent listed investments held for trading. At each balance sheet date subsequent to initial recognition, listed investment held for a trading are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including account receivables, loan receivables, deposits and other receivables and amounts due from associates and fellow subsidiaries) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

#### Financial liabilities

Other financial liabilities (including account payables, other payables and bank borrowings) are subsequently measured at amortised cost, using the effective interest rate method.

#### Convertible loan note

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

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

#### Equity instruments

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

#### Derivative financial instruments

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

#### Embedded derivatives

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

#### *Derecognition*

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

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

#### *Provisions*

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

*Equity-settled share-based payment transactions (Share options granted to employees of the Company)*

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

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

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

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

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

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

**4. Key sources of estimation uncertainty**

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

*Income taxes*

As at 31 December 2006, a deferred tax asset of approximately HK\$2,346,000 in relation to unused tax losses has been recognised in the Group's consolidated balance sheet. No deferred tax asset was recognised in the Group's consolidated balance sheet in relation to the remaining unused tax losses of approximately HK\$294,808,000. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more than expected, further recognition of deferred tax asset in relation to unutilised tax losses may arise, which would be recognised in the income statement for the period in which such a recognition takes place.

***Reversal of allowance of bad and doubtful debts***

The policy for reversal of allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each client. If the financial conditions of client of the Group were improved and no impairment of their ability to make payments were noted, reversal of allowances may be required.

***Estimated impairment of goodwill and intangible assets***

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The discount rate represents rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. As at 31 December 2006, the carrying amount of goodwill is approximately HK\$114,878,000. Details of the recoverable amount calculation are disclosed in note 19.

Determining whether intangible asset relating to online game related intellectual property is impaired requires an estimation of the value in use of the online game related intellectual property. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the online game related intellectual property and a suitable discount rate in order to calculate the present value. The discount rate represents rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. As at 31 December 2006, the carrying amount of online game development cost is approximately HK\$12,292,000. Details of the recoverable amount calculation are disclosed in note 18.

Determining whether intangible asset relating to domain name is impaired requires an estimation of the fair value less costs to sell. The fair value less costs to sell is arrived at by market approach, which is to determine the desirability of the domain name through recent sales or offering of similar domain name currently on the market in order to arrive at an indication of the most probable selling price for the domain name. As at 31 December 2006, the carrying amount of the domain name is approximately HK\$5,460,000. Details of the recoverable amount calculation are disclosed in note 18.

**5. Financial instruments*****Financial risk management objectives and policies***

The Group's major financial instruments include equity investments, statutory and other deposits, bank balances and cash, bank borrowings, account receivables and account payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

## Equity price risk

The Group is exposed to equity price risk through its investments in equity securities. The board of Directors manages the exposure by closely monitoring the portfolio of equity investments.

## Cash flow interest rate risk

Most of the bank borrowings, that are matured within 3 months and are collateralised by margin clients' securities, carry interest at variable rate which exposes the Group to cash flow interest rate risk. The Group currently does not have a cash flow interest rate hedging policy. However, management closely monitors its exposure to future cash flow risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arises.

## Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

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

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Bank balances are placed in various authorised institutions and the Directors of the Company consider the credit risk of such authorised institutions is low.

## Liquidity risk

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

*Fair value*

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, the fair value of a non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Black-Scholes pricing model).

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

**6. Revenue**

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees and commission income	263,032	178,719
Interest income	82,945	34,838
Online game subscription income	25,316	–
Sales of online game auxiliary products	9,459	–
Licensing income	2,476	–
	<u>383,228</u>	<u>213,557</u>

**7. Business and geographical segments***Business segments*

For management purposes, the Group is currently organised into four main operating divisions, namely, broking, financing, corporate finance and online game services. The online game services division arose from acquisition of online game business on 10 January 2006 as mentioned in note 36(a). These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

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

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

**Income statement for the year ended 31 December 2006**

	<b>Broking</b>	<b>Financing</b>	<b>Corporate finance</b>	<b>Online game services</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>247,547</u>	<u>85,054</u>	<u>13,376</u>	<u>37,251</u>	<u>383,228</u>
<b>RESULT</b>					
Segment profit (loss)	<u>64,917</u>	<u>15,277</u>	<u>2,219</u>	<u>(27,527)</u>	54,886
Other operating income					2,397
Unallocated corporate expenses					<u>(11,146)</u>
Profit before taxation					46,137
Taxation charge					<u>(5,939)</u>
Profit for the year					<u><u>40,198</u></u>



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**Balance sheet as at 31 December 2006**

	<b>Broking</b>	<b>Financing</b>	<b>Corporate</b>	<b>Online</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>finance</i>	<i>game</i>	
			<i>HK\$'000</i>	<i>services</i>	<i>HK\$'000</i>
				<i>HK\$'000</i>	
<b>ASSETS</b>					
Segment assets	<u>984,705</u>	<u>540,658</u>	<u>12,542</u>	<u>182,249</u>	1,720,154
Unallocated corporate assets					<u>55,331</u>
Consolidated total assets					<u>1,775,485</u>
<b>LIABILITIES</b>					
Segment liabilities	<u>846,541</u>	<u>383,479</u>	<u>358</u>	<u>38,932</u>	1,269,310
Unallocated corporate liabilities					<u>22,583</u>
Consolidated total liabilities					<u>1,291,893</u>

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

	<b>Broking</b>	<b>Financing</b>	<b>Corporate</b>	<b>Online game</b>	<b>Unallocated</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>finance</i>	<i>services</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>HK\$'000</i>	<i>HK\$'000</i>		
Additions of property and equipment	-	-	-	10,890	9,416	20,306
Allowance for bad and doubtful debts	53	27	100	-	-	180
Depreciation of property and equipment	125	-	1	1,117	6,930	8,173
Loss on disposal of property and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>98</u>	<u>-</u>	<u>98</u>

## Income statement for the year ended 31 December 2005

	<b>Broking</b> <i>HK\$'000</i>	<b>Financing</b> <i>HK\$'000</i>	<b>Corporate finance</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Revenue	<u>171,628</u>	<u>34,838</u>	<u>7,091</u>	<u>213,557</u>
<b>RESULT</b>				
Segment profit (loss)	<u>29,847</u>	<u>7,281</u>	<u>(5,337)</u>	31,791
Other operating income				2,721
Unallocated corporate expenses				<u>(10,665)</u>
Profit before taxation				23,847
Taxation credit				<u>3,440</u>
Profit for the year				<u>27,287</u>

## Balance sheet as at 31 December 2005

	<b>Broking</b> <i>HK\$'000</i>	<b>Financing</b> <i>HK\$'000</i>	<b>Corporate finance</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	<u>624,276</u>	<u>404,049</u>	<u>16,601</u>	1,044,926
Unallocated corporate assets				<u>106,039</u>
Consolidated total assets				<u>1,150,965</u>
<b>LIABILITIES</b>				
Segment liabilities	<u>478,417</u>	<u>248,885</u>	<u>3,337</u>	730,639
Unallocated corporate liabilities				<u>62,237</u>
Consolidated total liabilities				<u>792,876</u>

## Other information for the year ended 31 December 2005

	<b>Broking</b>	<b>Financing</b>	<b>Corporate finance</b>	<b>Unallocated</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Additions of property and equipment	–	–	–	2,116	2,116
(Reversal of allowance)					
Allowance for bad and doubtful debts	(104)	(898)	300	–	(702)
Depreciation of property and equipment	769	–	19	9,818	10,606
Gain on disposal of property and equipment	–	–	–	(43)	(43)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(43)</u>	<u>(43)</u>

*Geographical segments*

The Group's operations are located in Hong Kong, the People's Republic of China ("PRC") and Taiwan. For the activities of broking, financing and corporate finance, they are based in Hong Kong and the revenue of these activities for the year ended 31 December 2006 are derived from Hong Kong. The online game services are mainly based in PRC and Taiwan and the relevant revenue for the year ended 31 December 2006 are derived mainly from PRC and Taiwan.

The following table provides an analysis of the Group's revenue by geographical market:

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	345,977	213,557
PRC	25,525	–
Taiwan	11,726	–
	<u>383,228</u>	<u>213,557</u>

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

**Carrying amount of segment assets**

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	1,537,905	1,044,926
PRC	143,023	–
Taiwan	39,226	–
	<u>1,720,154</u>	<u>1,044,926</u>

**Additions to property and equipment**

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	–	–
PRC	10,290	–
Taiwan	600	–
	<u>10,890</u>	<u>–</u>

**8. Salaries, commission and related benefits**

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and commission represent the amounts paid and payable to the Directors and employees and comprises of:		
Salaries, allowances and commission	158,417	106,050
Contributions to retirement benefits scheme	3,435	2,050
Employee share option benefits	1,613	203
	<u>163,465</u>	<u>108,303</u>

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**9. Finance costs**

	2006 HK\$'000	2005 HK\$'000
Interest on:		
Bank overdrafts and loans wholly repayable within five years	48,739	13,202
Finance leases	14	15
Effective interest expense on convertible loan note	274	1,351
	<u>49,027</u>	<u>14,568</u>

**10. Directors' remuneration**

The remuneration paid or payable to each of the eight (2005: nine) Directors were as follows:

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

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	Kwan Pak Hoo Bankee HK\$'000	Law Ping Wah Bernard HK\$'000	Wong Kin Yick Kenneth HK\$'000	Cheng Man Pan Ben HK\$'000	Kwok Oi Kuen Joan Elmond HK\$'000	Cheng Shu Shing Raymond HK\$'000	Hui Ka Wah Ronnie HK\$'000	Lo Kwok Hung John HK\$'000	Wong Kwong Chi Simon HK\$'000	2005 Total HK\$'000
Fees:										
Executive Directors	-	-	-	-	-	-	-	-	-	-
Independent non-executive Directors	-	-	-	-	-	100	100	30	70	300
Other remuneration paid to executive Directors:										
Salaries, allowances and benefits in kind	120	600	1,160	640	-	-	-	-	-	2,520
Employee share option benefits	17	17	17	18	17	2	2	2	-	92
Contributions to retirement benefits scheme	6	30	58	27	-	-	-	-	-	121
Total remuneration	<u>143</u>	<u>647</u>	<u>1,235</u>	<u>685</u>	<u>17</u>	<u>102</u>	<u>102</u>	<u>32</u>	<u>70</u>	<u>3,033</u>

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

During the year ended 31 December 2005, Mr Wong Kwong Chi Simon resigned as an independent non-executive Director and Mr Lo Kwok Hung John was appointed as an independent non-executive Director.

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

## 11. Employees' remuneration

Of the five individuals with the highest emoluments in the Group, one (2005: one) was Director of the Company whose emolument is included in the disclosures in note 10 above. The emoluments of the remaining four (2005: four) individuals were as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries, allowances and benefits in kind	3,400	5,487
Contributions to retirement benefits scheme	180	146
Performance related incentive payments	4,747	102
Discretionary bonus	260	-
Employee share option benefits	75	12
	<u>8,662</u>	<u>5,747</u>

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Their remuneration were within the following bands:

	<b>2006</b>	<b>2005</b>
	<i>Number of employees</i>	<i>Number of employees</i>
HK\$1,000,001 to HK\$1,500,000	1	3
HK\$1,500,001 to HK\$2,000,000	2	1
HK\$3,500,001 to HK\$4,000,000	1	–
	<u>1</u>	<u>–</u>

**12. Profit before taxation**

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	1,800	1,550
Amortisation of intangible assets (included in depreciation and amortisation)	4,131	–
Depreciation of property and equipment		
Owned assets	8,077	10,471
Leased assets	96	135
	8,173	10,606
Advertising and promotion expenses	24,967	6,134
Operating lease rentals in respect of land and buildings	13,099	9,415
Loss (Gain) on disposal of property and equipment	98	(43)
Net foreign exchange (gain) loss	(131)	645
Unrealised gain on derivative financial instrument	–	(16)
Dividends from investments	(471)	(143)
	<u>(471)</u>	<u>(143)</u>

**13. Taxation charge (credit)**

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
– Hong Kong	4,140	500
– PRC	143	–
Overprovision in prior years	(94)	–
Deferred taxation	1,750	(3,940)
	<u>1,750</u>	<u>(3,940)</u>
	<u>5,939</u>	<u>(3,440)</u>

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

Certain subsidiaries of the Group are operating in PRC. They are subject to tax with rate of 15% because they were registered in 張江高科技園區 (translated as Shanghai Zhang Jiang High Technological Zone).

No provision for taxation has been made for subsidiary located in Taiwan as no assessable profit is arisen during the year.

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

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Profit before taxation	<u>46,137</u>	<u>23,847</u>
Taxation at income tax rate of 17.5%	8,074	4,173
Overprovision in respect of prior years	(94)	–
Tax effect of expenses not deductible for tax purpose	3,319	1,499
Tax effect of income not taxable for tax purpose	(3,008)	(936)
Utilisation of estimated tax losses previously not recognised	(5,708)	(5,492)
Tax effect of estimated tax losses not recognised	2,685	1,207
Tax effect of estimated tax losses in previous years now recognised	–	(3,940)
Effect of different tax rates of subsidiaries operating in other jurisdictions	587	–
Other difference	<u>84</u>	<u>49</u>
Taxation charge (credit) for the year	<u>5,939</u>	<u>(3,440)</u>

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

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Estimated tax losses</b> <i>HK\$'000</i>	<b>Intangible asset</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2005	(1,945)	1,945	–	–
Credit to consolidated income statement	<u>1,169</u>	<u>2,771</u>	<u>–</u>	<u>3,940</u>
At 31 December 2005 and 1 January 2006	(776)	4,716	–	3,940
Deferred tax liability on intangible assets arising from acquisition of subsidiaries (note 36(a)(i))	–	–	(2,459)	(2,459)
Credit (Charge) to consolidated income statement	<u>5</u>	<u>(2,370)</u>	<u>615</u>	<u>(1,750)</u>
At 31 December 2006	<u>(771)</u>	<u>2,346</u>	<u>(1,844)</u>	<u>(269)</u>



For the purpose of balance sheet presentation, deferred tax assets and liabilities of approximately HK\$771,000 (2005: HK\$776,000) have been offset. Same amount of movement amounting to HK\$5,000 (2005: HK\$1,169,000) have been credited and charged to the current year consolidated income statement for accelerated tax depreciation and estimated tax losses respectively. HK\$2,365,000 (2005: HK\$3,940,000) estimated tax losses have been debited (2005: credited) to the consolidated income statement for recognising the utilisation of deferred tax assets.

At the balance sheet date, the Group had unused estimated tax losses of HK\$308,213,000 (2005: HK\$325,487,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$13,405,000 (2005: HK\$26,949,000) of such losses. No deferred tax asset has been recognised in respect of remaining HK\$294,808,000 (2005: HK\$298,538,000) due to the unpredictability of future profit streams.

#### 14. Earnings per share

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the year ended 31 December 2006 together with the comparative figures for 2005 are based on the following data:

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit</b>		
Profit for the purpose of basic earnings per share	39,944	26,626
Effect of dilutive potential ordinary shares:		
Interest on convertible loan note	274	1,351
	<u>          </u>	<u>          </u>
Profit for the purpose of diluted earnings per share	<u>40,218</u>	<u>27,977</u>
	<b>2006</b>	<b>2005</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,371,527,475	832,131,859
Effect of dilutive potential ordinary shares assumed exercise of share options	4,107,008	N/A
Effect of dilutive potential ordinary shares assumed conversion of convertible loan note	21,765,601	112,962,963
	<u>          </u>	<u>          </u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,397,400,084</u>	<u>945,094,822</u>

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options were higher than the average market price for shares for the relevant period.

## 15. Property and equipment

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Computer and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
At 1 January 2005	34,291	21,607	25,684	1,723	83,305
Additions	197	136	1,317	466	2,116
Disposals	–	(8)	–	(350)	(358)
At 31 December 2005	34,488	21,735	27,001	1,839	85,063
Additions	7,526	133	12,647	–	20,306
Arising on acquisition of subsidiaries <i>(see note 36)</i>	8,561	79	12,662	170	21,472
Disposals/written off	(154)	(507)	(5,437)	–	(6,098)
At 31 December 2006	50,421	21,440	46,873	2,009	120,743
ACCUMULATED DEPRECIATION					
At 1 January 2005	21,306	17,713	22,042	1,519	62,580
Provided for the year	5,548	3,030	1,834	194	10,606
Eliminated on disposals	–	(8)	–	(333)	(341)
At 31 December 2005	26,854	20,735	23,876	1,380	72,845
Provided for the year	4,841	572	2,594	166	8,173
Eliminated on disposals/written off	(56)	(507)	(5,432)	–	(5,995)
At 31 December 2006	31,639	20,800	21,038	1,546	75,023
CARRYING VALUES					
At 31 December 2006	<u>18,782</u>	<u>640</u>	<u>25,835</u>	<u>463</u>	<u>45,720</u>
At 31 December 2005	<u>7,634</u>	<u>1,000</u>	<u>3,125</u>	<u>459</u>	<u>12,218</u>

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

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

The carrying values of property and equipment included fully depreciated property and equipment with cost amounting to HK\$48,771,000 (2005: HK\$49,981,000).

The carrying values of motor vehicles included amounts of HK\$463,000 (2005: HK\$389,000) in respect of assets held under finance leases.

#### 16. Investment property

	<i>HK\$'000</i>
FAIR VALUE	
At 1 January 2005 and 31 December 2005	–
Acquired on an acquisition of a subsidiary ( <i>see note 36(b)</i> )	5,000
	<hr/>
At 31 December 2006	5,000
	<hr/> <hr/>

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

The fair value of the Group's investment property at 31 December 2006 has been arrived at on the basis of a valuation carried out at that date by Knight Frank Hong Kong Limited, independent qualified professional valuer not connected with the Group. Knight Frank Hong Kong Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Valuation Standards on Properties, was arrived at by reference to market evidence of transaction prices for similar properties.

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

#### 17. Goodwill

	<i>HK\$'000</i>
COST	
At 1 January 2005 and at 31 December 2005	4,933
Arising on acquisitions of subsidiaries ( <i>see note 36(a)</i> )	109,945
	<hr/>
At 31 December 2006	114,878
	<hr/> <hr/>

Particulars regarding impairment testing on goodwill are disclosed in note 19.

## 18. Intangible assets

	Trading rights HK\$'000	Club membership HK\$'000	Online game related intellectual property HK\$'000	Domain name HK\$'000	Total HK\$'000
<b>COST</b>					
At 1 January 2005	15,039	–	–	–	15,039
Reclassified from other assets	–	1,970	–	–	1,970
Elimination of accumulated amortisation upon the application of HKAS 38	(5,947)	–	–	–	(5,947)
At 31 December 2005	9,092	1,970	–	–	11,062
Arising on acquisitions of subsidiaries ( <i>see note 36</i> )	–	3,090	16,390	5,460	24,940
Additions	–	–	171	–	171
At 31 December 2006	9,092	5,060	16,561	5,460	36,173
<b>AMORTISATION</b>					
At 1 January 2005	5,947	–	–	–	5,947
Elimination of accumulated amortisation upon the application of HKAS 38	(5,947)	–	–	–	(5,947)
At 31 December 2005	–	–	–	–	–
Charge for the year	–	–	4,131	–	4,131
At 31 December 2006	–	–	4,131	–	4,131
<b>CARRYING VALUES</b>					
At 31 December 2006	9,092	5,060	12,430	5,460	32,042
At 31 December 2005	9,092	1,970	–	–	11,062

Intangible assets amounting to HK\$9,092,000 represent trading rights in the exchanges in Hong Kong. Until 31 December 2004, the trading rights had been amortised on a straight-line basis over 10 years. In accordance with the transitional provisions in HKAS 38, the Group reassessed the useful lives of the trading rights on 1 January 2005 and concluded that the trading rights have indefinite useful lives and discontinued amortising the trading rights from 1 January 2005 onwards. Particulars regarding impairment testing on the trading rights are disclosed in note 19.

Intangible assets amounting to HK\$5,060,000 represent club memberships. Until 31 December 2004, the club memberships were classified as other assets. On 1 January 2005, in the opinion of the Directors, club memberships were reclassified to intangible assets with indefinite useful life.

For the purpose of impairment testing on club memberships, the recoverable amount has been determined based on fair value less costs to sell. The fair value less costs to sell is the second-hand market price less costs of disposal. During the year ended 31 December 2006, management of the Group determines that there is no impairment of the club membership since the recoverable amount of the club memberships exceeds its carrying amount.

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

Intangible assets of online game related intellectual property amounting to HK\$12,292,000 represent online game development cost and licensing fee, website development cost and software technology copyrights arising from acquisition of online game business in PRC as mentioned in note 36(a)(i). These intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over four years.

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

Intangible assets amounting to HK\$5,460,000 represent domain name. It is purchased from acquisitions of subsidiaries as disclosed in note 36(a)(ii). It represents the legal and beneficial ownership of domain name "www.shanghai.com" and has indefinite useful life.

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

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

**19. Impairment testing on goodwill and trading rights**

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill and trading rights set out in notes 17 and 18 respectively have been allocated to three individual cash generating units (“CGUs”) respectively, including two subsidiaries in broking, one subsidiary in corporate finance and the newly acquired online game business. The carrying amounts of goodwill and trading rights as at 31 December 2006 allocated to these units are as follows:

	<b>Goodwill</b> <i>HK\$'000</i>	<b>Trading rights</b> <i>HK\$'000</i>
Broking – Broking of securities	–	9,092
Broking – Mutual funds and insurance-linked investment products	2,272	–
Corporate finance	2,661	–
Online game services	109,945	–
	<u>114,878</u>	<u>9,092</u>

During the year ended 31 December 2006, management of the Group determines that there are no impairments of any of its CGUs containing goodwill or trading rights.

The recoverable amounts of the CGUs of broking and corporate finance have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 1-year period, and discount rate of 7.75%. A key assumption for the value in use calculations is the budgeted growth rate, which is determined based on past performance and management’s expectations for the market development. Management believes that any reasonably possible change in any of the assumption would not cause the aggregate carrying amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs.

The recoverable amount of the CGU of online game services has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a four-year period, and discount rate of 15%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted active concurrence user, peak concurrence user and payment subscribers, such estimation is based on the CGU’s past performance and management’s expectations for the market development. There is no impairment of goodwill since the recoverable amount of the above CGU exceeds its carrying value.

**20. Other assets**

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Statutory and other deposits	<u>16,241</u>	<u>7,564</u>

Statutory and other deposits represent deposits with various exchanges and clearing houses. They are non-interest bearing.

## 21. LOAN RECEIVABLES

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Variable-rate loan receivables denominated in Hong Kong dollar	45,900	76,684
<i>Less: Allowance for bad and doubtful debts</i>	<u>(26,570)</u>	<u>(38,136)</u>
	<b><u>19,330</u></b>	<b><u>38,548</u></b>
Carrying amount analysed for reporting purposes:		
Current assets (receivable within 12 months from the balance sheet date)	19,227	38,426
Non-current assets (receivable after 12 months from the balance sheet date)	<u>103</u>	<u>122</u>
	<b><u>19,330</u></b>	<b><u>38,548</u></b>

Loan receivables with an aggregate carrying value of approximately HK\$4,968,000 (2005: HK\$25,756,000) are secured by pledged marketable securities.

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

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Within one year	19,227	38,426
In more than one year but not more than two years	23	23
In more than two years but not more than three years	25	25
In more than three years but not more than four years	27	26
In more than four years but not more than five years	28	28
In more than five years	<u>–</u>	<u>20</u>
	<b><u>19,330</u></b>	<b><u>38,548</u></b>

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

**22. Deposits for acquisition of subsidiaries**

Pursuant to the circular of the Company dated 30 November 2005 (“Circular”), the Group underwent several fund raising transactions and a major acquisition transaction of Netfield Technology Limited and its subsidiaries (hereinafter collectively referred to as the “Netfield Group”).

Under the terms of acquisition, deposit of HK\$55,000,000 had been paid as well as related costs of approximately HK\$1,095,000 were incurred before 31 December 2005. This sum is presented as “Deposits for acquisition of subsidiaries” as at 31 December 2005.

The acquisition was completed on 10 January 2006.

**23. Interests in associates**

	2006 HK\$'000	2005 HK\$'000
Cost of investments in an associate:		
Unlisted	8	–
Share of post-acquisition loss	(8)	–
	<u>          </u>	<u>          </u>
	–	–
	<u>          </u>	<u>          </u>

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

Name of entity	Form of business structure	Country of incorporation/ date of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital/ registered capital held by the Group %	Proportion of voting power held %	Principal activity
RACCA Capital Inc	Incorporated	British Virgin Islands 24 April 2006	Hong Kong	Ordinary	33	33	Investment holding
RACCA Capital Limited	Incorporated	Hong Kong 17 May 2006	Hong Kong	Ordinary	33	33	Introducing agent



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

	<b>2006</b>
	<i>HK\$</i>
Total assets	1,776,020
Total liabilities	<u>(3,318,494)</u>
Net liabilities	<u><u>(1,542,474)</u></u>
Group's share of net assets of associates	<u><u>–</u></u>
Revenue	<u><u>600,000</u></u>
Loss for the year	<u><u>1,542,498</u></u>
Group's share of loss of associates for the year	<u><u>8</u></u>

#### 24. Inventories

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Consumables:		
Online game auxiliary products (at cost)	<u><u>674</u></u>	<u><u>–</u></u>

#### 25. Other financial assets and liabilities

##### *Amounts due from associates/fellow subsidiaries*

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

##### *Bank balances – trust and segregated accounts*

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

*Bank balances (general accounts) and cash*

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

**26. Account receivables**

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Account receivables arising from the business of dealing in securities and equity options:		
Clearing houses, brokers and dealers	125,450	29,894
Cash clients	112,334	94,958
Margin clients	443,524	270,707
Account receivables arising from the business of dealing in futures and options:		
Clearing houses, brokers and dealers	83,847	70,662
Commission receivables from brokerage of mutual funds and insurance-linked investment plans and products	3,479	2,275
Account receivables arising from the business of provision of corporate finance services	372	1,032
Account receivables arising from the business of provision of online game services	12,715	–
	<u>781,721</u>	<u>469,528</u>

Account receivables are netted off by allowance for bad and doubtful debts of HK\$20,086,000 (2005: HK\$27,872,000).

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

Except for the loans to margin clients as mentioned below, all the account receivables arising from the business of dealing in securities and equity options aged within 30 days.

Loans to margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

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Included in account receivables from margin clients arising from the business of dealing in securities is an amount due from an entity in which Mr Kwan Pak Hoo Bankee has a controlling interest and is a Director. Details of the amount due from the entity are as follows:

<b>Name of company</b>	<b>Balance at 31.12.2006 HK\$'000</b>	<b>Balance at 1.1.2006 HK\$'000</b>	<b>Maximum amount outstanding during the year HK\$'000</b>
Cash Guardian Limited ("Cash Guardian")	–	11,569	12,720

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

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

	<b>2006 HK\$'000</b>	<b>2005 HK\$'000</b>
0-30 days	10,849	2,373
31-60 days	2,387	436
61-90 days	1,690	5
Over 90 days	1,640	493
	<u>16,566</u>	<u>3,307</u>

**27. Listed investments held for trading**

Listed investments held for trading include:

	<b>2006 HK\$'000</b>	<b>2005 HK\$'000</b>
Equity securities listed in Hong Kong	<u>54,317</u>	<u>42,472</u>

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

**28. Derivative financial instrument**

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Interest rate swap	–	16

The above derivative financial instrument is held for trading purpose and is measured at fair value at each balance sheet date. Its fair value is determined based on the agreed interest rate with authorised institutions for equivalent instrument at the balance sheet date. It has already been matured on 25 August 2006.

**29. Bank deposits under conditions**

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Other bank deposits ( <i>note (a)</i> )	16,685	16,207
Pledged bank deposits ( <i>note (b)</i> )	11,128	918
	<u>27,813</u>	<u>17,125</u>

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

*Notes:*

- (a) Pursuant to a letter of undertaking given by the Group to a bank, the Group covenants to maintain deposits of not less than HK\$15,000,000 (2005: HK\$15,000,000) with a bank as a condition precedent to an overdraft facility granted by the bank. The bank deposits will mature within one year or at an earlier date when the overdraft facility is withdrawn.
- (b) The Group's bank deposits of HK\$11,128,000 (2005: HK\$918,000) were pledged to secure the general banking facilities granted by banks. The bank deposits will mature when the banking facilities are withdrawn.

## 30. Account payables

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Account payables arising from the business of dealing in securities and equity options:		
Cash clients	679,498	347,961
Margin clients	106,132	77,148
Account payables to clients arising from the business of dealing in futures and options	142,500	127,446
Account payables to clients arising from the business of dealing in leveraged foreign exchange contracts	2,798	3,010
Account payables arising from the online game services	937	–
	<u>931,865</u>	<u>555,565</u>

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

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

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

The account payables amounting to approximately HK\$574,577,000 (2005: HK\$352,902,000) was payable to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

Account payables arising from the online game services are payable for production of online game auxiliary products. The whole account payables are aged within 30 days.

**31. Obligations under finance leases**

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 2 to 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 5.1% to 6% per annum. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Amount payable under finance leases				
Within one year	243	164	215	150
In more than one year but not more than two years	119	177	115	159
	<u>362</u>	<u>341</u>	<u>330</u>	<u>309</u>
Less: future finance charges	<u>(32)</u>	<u>(32)</u>	<u>–</u>	<u>–</u>
Present value of lease obligations	<u><u>330</u></u>	<u><u>309</u></u>	<u>330</u>	<u>309</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)			<u>(215)</u>	<u>(150)</u>
Amount due for settlement after 12 months			<u><u>115</u></u>	<u><u>159</u></u>

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

**32. Bank borrowings**

	2006 HK\$'000	2005 HK\$'000
Bank overdrafts, secured	89,347	29,737
Bank loans, secured	<u>190,421</u>	<u>142,000</u>
	<u><u>279,768</u></u>	<u><u>171,737</u></u>

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

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	278,521	171,737
More than one year but not exceeding two years	1,247	–
	<u>279,768</u>	<u>171,737</u>
<i>Less: Amount due within one year shown under current liabilities</i>	<u>(278,521)</u>	<u>(171,737)</u>
Amount due after one year under non-current liabilities	<u>1,247</u>	<u>–</u>

At 31 December 2006, bank borrowings of HK\$277,347,000 (2005: HK\$171,737,000) used to finance the financing business of the Group were secured by:

- (a) corporate guarantees from the Company; and
- (b) marketable securities of the Group's clients (with client's consent).

The bank loan amounting to HK\$2,421,000 as at 31 December 2006 is secured by personal guarantee from a Director of a subsidiary, Fugleman Entertainment Company.

In addition, pursuant to a letter of undertaking given by the Group to a bank, the Group covenants to maintain deposits of not less than HK\$15,000,000 (2005: HK\$15,000,000) with a bank as a condition precedent to an overdraft facility granted by the bank (see note 29).

Bank overdrafts amounting to HK\$89,347,000 (2005: HK\$29,737,000) carry interest at either HIBOR plus a spread or Prime rate plus a spread. Bank loans amounting to HK\$188,000,000 (2005: HK\$142,000,000) are at variable-rate borrowings which carry interest at either HIBOR plus a spread or Prime rate plus a spread. In addition, bank loans amounting to HK\$2,421,000 (2005: nil) are at fixed rate borrowing of 6%. The fixed-rate borrowing is denominated in New Taiwan dollar, a currency other than its functional currency of Hong Kong dollar.

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

As at the balance sheet date, the Group has undrawn borrowing facility amounting to HK\$1,642,653,000 (2005: HK\$675,500,000) with floating rate and expiring within one year.

## 33. Share capital

	<i>Notes</i>	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each			
Authorised:			
At 1 January 2005		2,000,000	200,000
Increase during the year	<i>(a)</i>	1,000,000	100,000
At 31 December 2005 and 31 December 2006		3,000,000	300,000
Issued and fully paid:			
At 1 January 2005		754,556	75,456
Issue of subscription shares	<i>(d)</i>	132,000	13,200
Exercise of share options	<i>(c)</i>	13,325	1,332
Issue of top up shares	<i>(d)</i>	145,000	14,500
At 31 December 2005 and 1 January 2006		1,044,881	
Issue of placing shares	<i>(d)</i>	155,000	104,488
Issue of subscription shares	<i>(d)</i>	120,000	15,500
Issue of conversion shares	<i>(b)</i>	60,000	6,000
Exercise of share options	<i>(c)</i>	2,170	217
At 31 December 2006		1,382,051	138,205

*Notes:*

**(a) Increase of authorised share capital**

Pursuant to an ordinary resolution passed on 20 December 2005, the authorised share capital of the Company was increased from HK\$200,000,000 to HK\$300,000,000 by the creation of an additional 1,000,000,000 shares of HK\$0.10 each.

**(b) Conversion of convertible loan note**

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



**(c) Exercise of share options**

In September 2005, 650,000 share options and 12,675,000 share options respectively were exercised at an exercise price of HK\$0.34 each, resulting in the issue of 650,000 shares and 12,675,000 shares of HK\$0.10 each on 16 September 2005 and 26 September 2005 respectively for a total consideration (before expenses) of HK\$4,530,000. These shares rank pari passu in all respects with other shares in issue.

In January 2006, 520,000 share options and 650,000 share options respectively were exercised at an exercise price of HK\$0.34 per share, resulting in the issue of 520,000 shares and 650,000 shares of HK\$0.10 each on 25 January 2006 and 26 January 2006 respectively for a total consideration (before expenses) of HK\$397,800. These shares rank pari passu in all respects with other shares in issue.

In November 2006, 1,000,000 share options were exercised at an exercise price of HK\$0.296 each, resulting in the issue of 1,000,000 shares of HK\$0.10 each on 14 November 2006 for a total consideration (before expenses) of HK\$296,000. These shares rank pari passu in all respects with other shares in issue.

**(d) Issue of new shares**

Pursuant to the subscription agreement dated 16 August 2004, a total of 132,000,000 shares of HK\$0.10 each were issued to CIGL at the price of HK\$0.27 each on 15 September 2005. The gross proceeds of HK\$35,640,000 were used to strengthen the funding support and capital bases of the Company. These shares rank pari passu in all respects with other shares in issue.

Pursuant to the top up agreement dated 22 September 2005, a total of 145,000,000 top up shares of HK\$0.10 each were issued to CIGL at the price of HK\$0.40 each on 5 October 2005. The gross proceeds of HK\$58,000,000 were used to pay part of the consideration for proposed acquisition of an online game business under the sale and purchase agreement dated 15 September 2005. The acquisition was completed on 10 January 2006. These shares rank pari passu in all respects with other shares in issue.

On 10 January 2006, 155,000,000 placing shares of HK\$0.10 each were issued at a placing price of HK\$0.40 each to independent third parties. On the same date, 120,000,000 subscription shares of HK\$0.10 each were issued to CIGL at a price of HK\$0.40 per share. The gross proceeds of the two transactions of HK\$62,000,000 and HK\$48,000,000 respectively were raised to settle part of the consideration of the acquisition of an online game business as mentioned in note 36(a)(i). These shares rank pari passu in all respects with other shares in issue.

**34. Convertible loan note**

The Company issued convertible loan note amounting to HK\$40,500,000 to Abdulrahman Saad Al-Rashid & Sons Company Limited (“ARTAR”), an independent third party, at the date of issuances on 1 September 2004. It bears interest at a rate of 3% per annum and is matured on 31 December 2006 or any other date mutually agreed between the Company and ARTAR. The holder of the note does not have the right to demand for repayment of any principal amount of the note prior to its maturity and the accrued interest of the note prior to the interest payment date, and is not entitled to vote at general meetings of the Company. The Company has the right to repay early part or all of the amount and the accrued interest of the note at any time prior to the maturity date. The note is transferable to persons who are not a connected person of the Company with the consent of the Company provided that such consent is not required for transfer to the wholly-owned subsidiaries of ARTAR. During the year ended 31 December 2005, the Company had made partial repayment of the convertible loan note in a total amount of HK\$10,000,000. At 31 December 2005, the outstanding amount of the convertible loan note was HK\$30,500,000 convertible into a total number of 112,962,962 shares at the initial conversion price of HK\$0.27 per share.

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

The convertible loan note contains three components, embedded derivative for early redemption right, liability and equity elements. The Directors had assessed the fair value of the early redemption right and considered the fair value is insignificant. Upon the application of HKAS 32 Financial instruments: Disclosure and Presentation, the convertible loan note was split between the liability (including embedded derivative for early redemption) and equity elements, on a retrospective basis. The equity element is presented in equity heading “convertible loan note equity reserve”. The effective interest rate of the liability component is HIBOR plus a spread determined at date of initial recognition.

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

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Liability component at the beginning of the year	30,242	39,834
Interest paid	59	284
Conversion to ordinary shares	(16,062)	–
Early partial repayment	(14,239)	(9,876)
	<u>          </u>	<u>          </u>
Liability at the end of the year	<u>          </u> –	<u>          </u> 30,242

The partial repayment was allocated to the fair value of the liability component as at the date of early redemption determined on the same basis as initial recognition. The difference between the amount of partial repayment allocated to the liability component and the carrying amount of the liability component at that point in time is recognised directly in the income statement. During the year ended 31 December 2006, a partial repayment of HK\$14,300,000 (2005: HK\$10,000,000) was made and a corresponding settlement income of HK\$291,000 (2005: expenses of HK\$85,000) was recognised in the income statement directly.

The fair value of the liability component of the convertible loan note at the balance sheet date, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan note at the balance sheet date, approximates its carrying amount.

### 35. Major non-cash transactions

- (a) Pursuant to the agreement entered into between CASH and a third party, the third party agreed to procure its group companies to provide advertising and telecommunication services to CASH and its subsidiaries, including the Group. The fee for these services will be used to offset the prepayment for advertising and telecommunication services which the Group paid. During the year, the Group has utilised approximately HK\$4,933,000 advertising and telecommunication services (2005: nil).
- (b) During the year ended 31 December 2006, the principal amount of convertible loan note of HK\$16,200,000 was converted into 60,000,000 shares of HK\$0.10 each at a conversion price of HK\$0.27 each.

### 36. Acquisitions of subsidiaries

#### (a) Acquisitions of business

##### (i) Netfield Group

On 10 January 2006, the Group acquired 100% of the equity interest of Netfield Technology Limited from an independent third party with an aggregate consideration of approximately HK\$116,484,000. This acquisition has been accounted for using the purchase method. The amounts of goodwill and intangible assets arising as a result of the acquisition were HK\$102,491,000 and HK\$16,390,000 respectively.

	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:			
Property and equipment	2,615	–	2,615
Prepayments, deposits and other receivables	1,496	–	1,496
Bank balances and cash	2,300	–	2,300
Accrued liabilities and other payables	(6,349)	–	(6,349)
Amount due to a shareholder	(24,694)	–	(24,694)
Intangible assets in relation to online game related intellectual property	–	16,390	16,390
Deferred tax liabilities	–	(2,459)	(2,459)
	(24,632)	13,931	(10,701)

	<b>Acquiree's carrying amount before combination</b>	<b>Fai value adjustment</b>	<b>Fair value</b>
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to a shareholder assigned to the Group			24,694
Goodwill			102,491
			<u>116,484</u>
Cash consideration			116,484
			<u>116,484</u>
Total consideration satisfied by:			
Deposit paid	22		56,095
Cash consideration paid			60,389
			<u>116,484</u>
Net cash outflow arising on acquisition:			
Total cash payment			(60,389)
Bank balances and cash acquired			2,300
			<u>(58,089)</u>

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

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

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

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

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

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

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

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

**(b) Acquisition of assets and liabilities from CASH**

During the year, through the acquisition of equity interest of certain subsidiaries of CASH, the Group has, in substance, acquired the following assets and related liabilities at a total consideration of HK\$852,000:

	<i>HK\$'000</i>
Property and equipment	12,303
Club memberships	3,090
Investment property	5,000
Prepayment	1,589
Bank balances and cash	116
Accounts payable and accruals	(9,141)
Loan payable	(12,105)
	<hr/>
Net assets acquired	852
	<hr/>
Cash consideration	852
	<hr/> <hr/>
Net cash outflow arising on acquisition:	
Total cash payment	(852)
Bank balances and cash	116
	<hr/>
Net cash outflow arising on acquisition of assets and related liabilities	(736)
	<hr/> <hr/>

**37. Share option schemes**

**(A) Share option schemes of the Company**

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

- (i) The purpose was to provide incentives to:
- award and retain the participants who have made contributions to CASH and its subsidiaries including the Group ("CASH Group"); or
  - attract potential candidates to serve the CASH Group for the benefit of the development of the CASH Group.

- (ii) The participants included any employee, Director, consultant, adviser or agent of any member of the CASH Group.
- (iii) The maximum number of shares in respect of which options might be granted under the Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the Option Scheme and such limit might be refreshed by shareholders in general meeting. The maximum number of shares was 138,105,144 shares, representing 9.99% of the issued share capital of the Company, as at the date of the Annual Report. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.
- (v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the Board of Directors of the Company and provided in the offer of grant of option.
- (vi) The exercise period should be any period fixed by the Board of Directors of the Company upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.
- (vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to the Company.
- (viii) The exercise price of an option must be the highest of:
- the closing price of the shares on the date of grant which day must be a trading day;
  - the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
  - the nominal value of the share.
- (ix) The life of the Option Scheme is effective for 10 years from the date of adoption until 18 February 2012.

# APPENDIX I

# FINANCIAL INFORMATION OF THE GROUP

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

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of options								
					outstanding as at 1.1.2005	exercised in 2005 (Note 3)	granted in 2005 (Note 4)	lapsed in 2005 (Note 6)	outstanding as at 31.12.2005 and 1.1.2006	granted in 2006 (Note 5)	exercised in 2006 (Note 3)	lapsed in 2006 (Note 6)	outstanding as at 31.12.2006
<b>Directors</b>													
Option Scheme	2.12.2003	0.340	2.12.2003-30.11.2005		12,740,000	-	-	(12,740,000)	-	-	-	-	-
	2.12.2003	0.340	1.6.2004-31.5.2006	(1)	650,000	-	-	-	650,000	-	-	(650,000)	-
	6.10.2005	0.380	6.10.2005-31.10.2006	(4)	-	-	42,000,000	-	42,000,000	-	-	(42,000,000)	-
	7.7.2006	0.296	7.7.2006-31.7.2008	(5)	-	-	-	-	-	27,000,000	-	-	27,000,000
					<u>13,390,000</u>	<u>-</u>	<u>42,000,000</u>	<u>(12,740,000)</u>	<u>42,650,000</u>	<u>27,000,000</u>	<u>-</u>	<u>(42,650,000)</u>	<u>27,000,000</u>
<b>Employees</b>													
Option Scheme	2.12.2003	0.340	2.12.2003-30.11.2005		9,555,000	-	-	(9,555,000)	-	-	-	-	-
	2.12.2003	0.340	1.6.2004-31.5.2006	(1)&(3)	20,540,000	(13,325,000)	-	(2,795,000)	4,420,000	-	(1,170,000)	(3,250,000)	-
	6.10.2005	0.380	6.10.2005-31.10.2006	(4)	-	-	33,000,000	-	33,000,000	-	-	(33,000,000)	-
	7.7.2006	0.296	7.7.2006-31.7.2008	(3)&(5)	-	-	-	-	-	74,300,000	(1,000,000)	-	73,300,000
	7.7.2006	0.296	7.7.2006-31.7.2010	(2)&(5)	-	-	-	-	-	6,000,000	-	-	6,000,000
					<u>30,095,000</u>	<u>(13,325,000)</u>	<u>33,000,000</u>	<u>(12,350,000)</u>	<u>37,420,000</u>	<u>80,300,000</u>	<u>(2,170,000)</u>	<u>(36,250,000)</u>	<u>79,300,000</u>
					<u>43,485,000</u>	<u>(13,325,000)</u>	<u>75,000,000</u>	<u>(25,090,000)</u>	<u>80,070,000</u>	<u>107,300,000</u>	<u>(2,170,000)</u>	<u>(78,900,000)</u>	<u>106,300,000</u>

## Notes:

- The options are vested in 2 tranches as to (i) 50% exercisable from the commencement of the exercise period; and (ii) 50% exercisable from the expiry of 12 months from the commencement of the exercise period.
- The options are vested in 4 tranches as to (i) 25% exercisable from the commencement of the exercise period; (ii) 25% exercisable from the expiry of 12 months from the commencement of the exercise period; (iii) 25% exercisable from the expiry of 24 months from the commencement of the exercise period; and (iv) 25% exercisable from the expiry of 36 months from the commencement of the exercise period.
- On 16 September 2005 and 26 September 2005, 650,000 share options and 12,675,000 shares options were exercised at the exercise price of HK\$0.34 per share. The weighted average closing price of the Company's shares immediately before the respective date of exercise was HK\$0.495 per share and HK\$0.470 per share.

On 25 January 2006 and 26 January 2006, 520,000 share options and 650,000 share options were exercised at the exercise price of HK\$0.34 per share respectively. The weighted average closing prices of the Company's shares immediately before the date of exercise were HK\$0.41 per share and HK\$0.42 per share respectively.

On 14 November 2006, 1,000,000 share options were exercised at the exercise price of HK\$0.296 per share. The weighted average closing price of the Company's shares immediately before the date of exercise was HK\$0.34 per share.



- (4) The closing price of the share immediately before the date of grant on 6 October 2005 was HK\$0.335.
- (5) The closing price of the share immediately before the date of grant on 7 July 2006 was HK\$0.29.
- (6) The lapsed options were due to expiry or cessation of employment of participants with the Group.
- (7) No option was cancelled during the year.

The exercise in full of the outstanding 106,300,000 share options at 31 December 2006 would, under the present capital structure of the Company, result in the issue of 106,300,000 additional shares for a total cash consideration, before expenses, of approximately HK\$31,464,800.

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

During the year ended 31 December 2005, options were granted on 6 October 2005 and are fully vested at the same date. The estimated fair values of the options granted on that date are HK\$162,500.

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

	<b>Share option grant date</b>	
	<b>6 October 2005</b>	<b>7 July 2006</b>
Weighted average share price	HK\$0.32	HK\$0.29
Exercise price	HK\$0.38	HK\$0.30
Expected volatility	20%	74%
Expected life	1 year	2 years
Risk-free rate	3.86%	4.59%
Expected dividend yield	3.125%	3.125%

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

The Group recognised the total expenses of approximately HK\$1,613,000 (2005: HK\$203,000) for the year ended 31 December 2006 in relation to share options granted by the Company.

**(B) Share option scheme of CASH**

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

- (i) The purpose was to provide incentives to:
  - award and retain the participants who have made contributions to the CASH Group; or
  - attract potential candidates to serve the CASH Group for the benefit of the development of the CASH Group.
- (ii) The participants included any employee, Director, consultant, adviser or agent of any member of the CASH Group.
- (iii) The maximum number of shares in respect of which options might be granted under the CASH Option Scheme must not exceed 10% of the issued share capital of CASH as at the date of approval of the CASH Option Scheme and such limit might be refreshed by shareholders in general meeting. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the CASH Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the CASH Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.
- (v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of Directors of CASH and provided in the offer of grant of option.
- (vi) The exercise period should be any period fixed by the board of Directors of CASH upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.
- (vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee to CASH.

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

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

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

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

Name of scheme	Date of grant	Exercise price per share HK\$	Exercise period	Number of options				
				outstanding as at 1.1.2005	lapsed in 2005	outstanding as at 31.12.2005 and 1.1.2006	granted in 2006	outstanding as at 31.12.2006
<b>Directors</b>								
CASH Option Scheme	2.12.2003	0.502	2.12.2003-30.11.2005	10,000,000	(10,000,000)	-	-	-
	13.11.2006	0.323	13.11.2006-12.11.2008	-	-	-	12,000,000	12,000,000
				<u>10,000,000</u>	<u>(10,000,000)</u>	<u>-</u>	<u>12,000,000</u>	<u>12,000,000</u>
<b>Employees</b>								
CASH Option Scheme	13.11.2006	0.323	13.11.2006-12.11.2008	-	-	-	20,000,000	20,000,000
				<u>10,000,000</u>	<u>(10,000,000)</u>	<u>-</u>	<u>32,000,000</u>	<u>32,000,000</u>

### 38. Retirement benefits scheme

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

The employer's contributions to the retirement benefits scheme charged to the income statement and the forfeited voluntary contributions credited to the income statements amounted to approximately HK\$3,528,000 (2005: HK\$2,366,000) and HK\$93,000 (2005: HK\$316,000) respectively for the year ended 31 December 2006.

During the year ended 31 December 2006, the Group has acquired a subsidiary in Taiwan. The subsidiary operates pension plan under the Labor Pension Act ("Act").

The Act provides for a defined contribution benefit plan. Under the Act, the subsidiary make monthly contributions at 6% of basic salaries (i.e. net of bonuses and benefits) to the employees' individual pension accounts. During the year ended 31 December 2006, the Group recognised pension costs of HK\$88,000.

The Group operates various benefits schemes for its full-time employees in PRC in accordance with the relevant PRC regulations and rules, including provision of housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury insurance and pregnancy insurance. Pursuant to the existing schemes, the Group contributes 7%, 5%, 17%, 2%, 0.5% and 0.5% of the basic salary of its employees to the housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury and pregnancy insurance respectively. During the year ended 31 December 2006, the Group recognised contribution to the above benefit schemes of HK\$1,086,000.

### 39. Related party transactions

The Group had the following significant transactions with related parties:

- (a) During the year ended 31 December 2006, the Group received right issue underwriting fee of approximately HK\$705,000 from CASH. The fee was calculated at 2.5% on the total proceeds from the placement received by CASH.
- (b) During the year ended 31 December 2006, the Group received interest from margin financing of approximately HK\$1,199,000 (2005: HK\$928,000) from Cash Guardian, in which Mr Kwan Pak Hoo Bankee, a Director of the Company has a controlling interest and is also a Director. The interest was calculated at commercial rates which were similar to the rates offered to other margin clients.
- (c) During the year ended 31 December 2006, the Group received interest from margin financing of approximately HK\$39,525 (2005: HK\$8,700) from certain wholly-owned subsidiaries of CASH. The interest was calculated at commercial rates which were similar to the rates offered to other margin clients.
- (d) During the year ended 31 December 2006, the Group acquired three subsidiaries from CASH at a total consideration of HK\$852,000 (see note 36(b)).
- (e) During the year ended 31 December 2006, the Group paid introducing fee to an associate amounting to HK\$600,000.
- (f) At 31 December 2006, the Group had amounts of approximately HK\$3,463,000 (2005: HK\$972,000) due from fellow subsidiaries. The amounts were unsecured, non-interest bearing and had no fixed repayment terms.
- (g) During both years, compensation of key management personnel represents Directors' remuneration, as stated in note 10. The Directors' remuneration is determined by the remuneration committee having regard to the performance, responsibilities and experiences of individuals and market trends.

**40. Commitments***Capital commitment*

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of the acquisition of subsidiaries contracted for but not provided in the financial statements	–	55,000
	<u>          </u>	<u>          </u>

The acquisition of subsidiaries was duly passed at the special general meeting by shareholders and independent shareholders of the Company on 20 December 2005. The acquisition was completed on 10 January 2006 upon the completion of all conditions as stated in the share purchase agreement dated 15 September 2005.

**41. Operating lease commitments**

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

	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	8,590	6,582
In the second to fifth year inclusive	918	4,826
	<u>          </u>	<u>          </u>
	<u>9,508</u>	<u>11,408</u>

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

**42. Contingent liabilities**

In 2002, Pang Po King Cannie (“Pang”) filed a statement of claim against Celestial Securities Limited (“CSL”), a wholly-owned subsidiary of the Company, alleging that CSL, without knowledge or authority of or instructions from Pang, had misused the account opened by Pang with CSL to buy 1,046,000 shares of Takson Holdings Limited. The Directors confirmed that the subject transactions were made with knowledge and authority of Pang. The Directors do not envisage the claim by Pang will be held to be valid. The case was in progress and it was in the discovery stage as at 31 December 2006 and 2005. Accordingly, no provision was made in the financial statements.

**43. Post balance sheet events**

Subsequent to 31 December 2006, the Group announced a connected and discloseable transaction on 9 January 2007 for the proposed disposal of the entire interest in Netfield Technology Limited to CASH at a consideration (“Consideration”) of the higher of HK\$120 million or the valuation of the online game business operated by Netfield Technology Limited as at 31 December 2006. The transaction will be subject to the approval of the independent shareholders of the Company at a special general meeting to be convened.

Pursuant to the option deed dated 9 January 2007, CASH has agreed to grant an option, which is subjected to certain precedent conditions, to Mr Lin Che Chu George, a common Director of both CASH and Netfield Technology Limited. Under such option, Mr Lin Che Chu George has a right to require CASH to transfer such number of shares in Netfield Technology Limited as representing 10% of the entire issued share capital of Netfield Technology Limited for 10% of the Consideration.

#### 44. Particulars of principal subsidiaries of the company

Name	Place of incorporation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
CASH Asset Management Limited	Hong Kong	HK\$200,000	100	Provision of asset management services
CASH E-Trade Limited	Hong Kong	HK\$4,000,000	100	Provision of management services for group companies
CASH Payment Services Limited	Hong Kong	HK\$2	100	Provision of payment gateway services for group companies
Celestial Capital Limited	Hong Kong	HK\$27,000,000	100	Provision of corporate finance services
Celestial Commodities Limited	Hong Kong	HK\$10,000,000	100	Futures and options broking and trading
Celestial Investments (HK) Limited	Hong Kong	HK\$10,000,000	100	Money lending
Celestial Securities Limited	Hong Kong	HK\$140,000,000	100	Securities, equity options broking and trading, leveraged foreign exchange contracts and provision of share margin financing
icoupon Limited	British Virgin Islands	US\$1	100	Investment holding

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<b>Name</b>	<b>Place of incorporation</b>	<b>Nominal value of issued and fully paid ordinary share capital/ registered capital</b>	<b>Proportion of nominal value of issued share capital held by the Company %</b>	<b>Principal activities</b>
CASH Frederick Taylor Limited	Hong Kong	HK\$1,000,000	70	Financial advisory consultancy
富格曼科技股份有限公司 (translated as Fugleman Entertainment Company)	Taiwan	NTD40,820,000	51	Online game operator
摩力游(上海)信息科技有限公司 (translated as MOLI China Information Technology Limited)	PRC	US\$3,000,000	100	Online game developer
上海摩力游數字娛樂有限公司 (previously known as 上海嘉思華數字娛樂有限公司) (translated as Shanghai Moliyo Digital Entertainment Limited)	PRC	RMB1,000,000	100	Online game operator

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

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	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i> (restated)
Non-current assets		
Investments in subsidiaries	470,800	466,279
Deposit for acquisition	–	56,095
	<u>470,800</u>	<u>522,374</u>
Current assets		
Amounts due from subsidiaries	235,861	127,772
Bank balances (general accounts)	72	691
	<u>235,933</u>	<u>128,463</u>
Current liabilities		
Accrued liabilities and other payables	1,920	1,499
Amounts due to subsidiaries	323,273	323,273
Convertible loan note – amount due within one year	–	30,242
	<u>325,193</u>	<u>355,014</u>
Net current liabilities	<u>(89,260)</u>	<u>(226,551)</u>
	<u>381,540</u>	<u>295,823</u>
Capital and reserves		
Share capital	138,205	104,488
Reserves	243,335	191,335
Total equity	<u>381,540</u>	<u>295,823</u>



**D. FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 30 JUNE 2006**

The following financial information is extracted from the unaudited interim reports of the Group for the six months ended 30 June 2007 and 30 June 2006, together with accompanying notes to the accounts extracted from the interim report of the Group for the six months ended 30 June 2007.

**Consolidated Income Statement**

The unaudited consolidated results of the Company and its subsidiaries (“Group”) for the three months and the six months ended 30 June 2007 together with the comparative figures for the last corresponding periods are as follows:

	<i>Notes</i>	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
		2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (restated)	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (restated)
<b>Continuing operations:</b>					
Revenue	(3)	145,292	86,310	253,479	173,193
Other operating income		340	307	670	580
Salaries, commission and related benefits		(54,147)	(33,671)	(100,167)	(76,304)
Depreciation and amortisation		(1,338)	(1,602)	(2,674)	(3,285)
Finance costs		(24,801)	(12,705)	(37,004)	(22,822)
Other operating, selling and administrative expenses		(28,230)	(21,394)	(43,339)	(37,030)
Net increase (decrease) in fair value of listed investments held for trading		15,624	(498)	14,323	4,529
Profit before taxation		52,740	16,747	85,288	38,861
Taxation charge	(5)	(6,000)	(1,470)	(10,300)	(4,090)
Profit for the period from continuing operations		46,740	15,277	74,988	34,771
<b>Discontinued operation:</b>					
Profit (Loss) for the period from discontinued operation	(6)	26,869	(10,565)	27,832	(14,578)
Profit for the period		<u>73,609</u>	<u>4,712</u>	<u>102,820</u>	<u>20,193</u>

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	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000 (restated)	2007 HK\$'000	2006 HK\$'000 (restated)
Notes				
Attributable to:				
Equity holders of the Company	73,054	4,593	101,605	19,904
Minority interests				
– continuing operations	250	119	550	289
– discontinued operation	305	–	665	–
	<u>73,609</u>	<u>4,712</u>	<u>102,820</u>	<u>20,193</u>
Dividend:				
Proposed interim dividend of HK\$0.02 per share based on 1,448,351,448 shares (2006: Nil)	<u>28,967</u>	<u>–</u>	<u>28,967</u>	<u>–</u>
Earnings per share (7)				
From continuing and discontinued operations:				
– Basic	<u>5.3 HK cents</u>	<u>0.3 HK cent</u>	<u>7.3 HK cents</u>	<u>1.5 HK cents</u>
– Diluted	<u>5.1 HK cents</u>	<u>N/A</u>	<u>7.2 HK cents</u>	<u>N/A</u>
From continuing operations:				
– Basic	<u>3.4 HK cents</u>	<u>1.1 HK cents</u>	<u>5.4 HK cents</u>	<u>2.5 HK cents</u>
– Diluted	<u>3.3 HK cents</u>	<u>N/A</u>	<u>5.3 HK cents</u>	<u>N/A</u>

## Consolidated Balance Sheet

		<b>30 June 2007 (Unaudited) HK\$'000</b>	<b>31 December 2006 (Audited) HK\$'000</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property and equipment	(8)	25,525	45,720
Investment property		5,000	5,000
Goodwill		4,933	114,878
Intangible assets	(9)	14,152	32,042
Other assets		8,948	16,241
Interest in associate	(10)	28,860	–
Shareholder's loan to associate		10,296	–
Loan receivables	(13)	90	103
Proceeds receivable on disposal of Netfield Technology Limited and its subsidiaries ("Game Group")	(11)	172,557	–
Deferred tax assets		1,575	2,346
		<u>271,936</u>	<u>216,330</u>
<b>Current assets</b>			
Inventories		–	674
Account receivables	(12)	3,577,388	781,721
Loan receivables	(13)	19,676	19,227
Prepayments, deposits and other receivables		42,959	23,764
Amounts due from associate		–	373
Amounts due from fellow subsidiaries		459	3,463
Listed investments held for trading		27,367	54,317
Bank deposits under conditions		28,242	27,813
Bank balances – trust and segregated accounts		778,763	574,577
Bank balances (general accounts) and cash		84,259	73,226
		<u>4,559,113</u>	<u>1,559,155</u>

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		<b>30 June 2007 (Unaudited) HK\$'000</b>	<b>31 December 2006 (Audited) HK\$'000</b>
	<i>Notes</i>		
<b>Current liabilities</b>			
Account payables	<i>(14)</i>	1,089,775	931,865
Deferred revenue		–	8,027
Accrued liabilities and other payables		54,045	64,860
Taxation payable		13,996	4,428
Obligations under finance leases			
– amount due within one year		80	215
Bank borrowings			
– amount due within one year	<i>(15)</i>	3,103,382	278,521
		<u>4,261,278</u>	<u>1,287,916</u>
Net current assets		<u>297,835</u>	<u>271,239</u>
Total assets less current liabilities		<u><u>569,771</u></u>	<u><u>487,569</u></u>
<b>Capital and reserves</b>			
Share capital	<i>(17)</i>	138,305	138,205
Reserves		416,054	341,626
Equity attributable to equity holders of the Company		554,359	479,831
Minority interests		1,707	3,761
Total equity		556,066	483,592
<b>Non-current liabilities</b>			
Loan from minority shareholder		13,705	–
Deferred tax liabilities		–	2,615
Bank borrowings			
– amount due after one year	<i>(15)</i>	–	1,247
Obligations under finance leases			
– amount due after one year		–	115
		<u>569,771</u>	<u>487,569</u>

## Condensed Consolidated Cash Flow Statement

	Unaudited	
	six months ended	
	30 June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(2,730,448)	(66,917)
Net cash used in investing activities	(69,274)	(64,365)
Net cash from financing activities	<u>2,810,755</u>	<u>161,383</u>
Net increase in cash and cash equivalents	11,033	30,101
Cash and cash equivalents at beginning of period	<u>73,226</u>	<u>117,516</u>
Cash and cash equivalents at end of period	<u><u>84,259</u></u>	<u><u>147,617</u></u>
Bank balances (general accounts) and cash	<u><u>84,259</u></u>	<u><u>147,617</u></u>

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## Consolidated Statement of Changes in Equity

Unaudited six months ended 30 June 2007

Note	Attributable to equity holders of the Company								
	Share capital	Share premium	Contributed surplus	Share-based payment reserve	Translation reserve	Retained profits (Accumulated losses)	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	138,205	220,970	128,550	2,496	(288)	(10,102)	479,831	3,761	483,592
Profit for the period, representing total recognised income for the period	-	-	-	-	-	101,605	101,605	1,215	102,820
Amount transferred from share premium account to contributed surplus account	-	(100,000)	100,000	-	-	-	-	-	-
Amount transferred to set off accumulated losses	-	-	(28,000)	-	-	28,000	-	-	-
Reduction arising from disposal of subsidiaries	-	-	-	-	288	-	288	(3,269)	(2,981)
2006 final dividend paid	-	-	-	-	-	(27,661)	(27,661)	-	(27,661)
Issue of new shares (a)	100	196	-	-	-	-	296	-	296
At 30 June 2007	<u>138,305</u>	<u>121,166</u>	<u>200,550</u>	<u>2,496</u>	<u>-</u>	<u>91,842</u>	<u>554,359</u>	<u>1,707</u>	<u>556,066</u>

Unaudited six months ended 30 June 2007

Notes	Attributable to equity holders of the Company									
	Share capital	Share premium	Contributed surplus	Convertible loan note equity reserve	Share-based payment reserve	Translation reserve	Accumulated losses	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	104,488	130,794	173,550	581	883	-	(53,678)	356,618	1,471	358,089
Profit for the period, representing total recognised income for the period	-	-	-	-	-	-	19,904	19,904	289	20,193
Conversion of convertible loan note arising from partial repayment of convertible loan note (b)	6,000	10,508	-	(308)	-	-	-	16,200	-	16,200
Issue of new shares (c)(i), (ii) and (iii)	27,617	82,781	-	-	-	-	-	110,398	-	110,398
Transaction costs attributable to issue of new shares (c)(i), (ii) and (iii)	-	(3,000)	-	-	-	-	-	(3,000)	-	(3,000)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(353)	(353)
Exchange difference arising from translation of foreign operations	-	-	-	-	-	64	-	64	-	64
At 30 June 2006	<u>138,105</u>	<u>221,083</u>	<u>173,550</u>	<u>-</u>	<u>883</u>	<u>64</u>	<u>(33,774)</u>	<u>499,911</u>	<u>1,407</u>	<u>501,318</u>

*Notes:*

- (a) Please refer to the note (17) of share capital for details of the issue of 1,000,000 new shares of HK\$0.10 each in the Company during the period.
- (b) On 18 January 2006, a total of 60,000,000 new shares of HK\$0.10 each were issued upon partial exercise of conversion right attaching to the convertible loan note issued on 1 September 2004 in the sum of HK\$16,200,000 at the conversion price of HK\$0.27 each. These shares rank pari passu in all respects with other shares in issue.
- (c)(i) Pursuant to the placing agreement dated 15 September 2005, a total of 155,000,000 new shares of HK\$0.10 each were issued to placees at a placing price of HK\$0.40 each on 10 January 2006. The gross proceeds from the placing were HK\$62,000,000. These shares rank pari passu in all respects with other shares in issue.
- (c)(ii) Pursuant to the subscription agreement dated 15 September 2005, a total of 120,000,000 new shares of HK\$0.10 each were issued to Celestial Investment Group Limited (“CIGL”), the controlling shareholder of the Company, at a subscription price of HK\$0.40 each on 10 January 2006. The gross proceeds from the subscription were HK\$48,000,000. These shares rank pari passu in all respects with other shares in issue.
- (c)(iii) On 26 January 2006, 1,170,000 share options were exercised at an exercise price of HK\$0.34 each, resulting in the issue of a total of 1,170,000 new shares of HK\$0.10 each for a total consideration (before expenses) of HK\$397,800. These shares rank pari passu in all respects with other shares in issue.

Notes:

**(1) Basis of preparation**

The unaudited consolidated results of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants. In addition, the unaudited consolidated accounts include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

The unaudited consolidated results for the six months ended 30 June 2007 have not been audited by the Company’s auditors, but have been reviewed by the Company’s audit committee.

**(2) Significant accounting policies**

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2006.

The new standards, amendment or interpretations which become effective and therefore are adopted in 2007 have no material impact on the results and financial position of the Group.

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

HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC) – INT 12	Service concession arrangements <sup>3</sup>

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

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

<sup>3</sup> *Effective for annual periods beginning on or after 1 January 2008.*



## (3) Revenue

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000 (restated)	2007 HK\$'000	2006 HK\$'000 (restated)
<b>Continuing operations:</b>				
Fees and commission income	108,953	64,078	195,923	133,264
Interest income	36,339	22,232	57,556	39,929
	<u>145,292</u>	<u>86,310</u>	<u>253,479</u>	<u>173,193</u>
<b>Discontinued operation:</b>				
Online game subscription income	12,098	4,170	42,702	5,728
Sales of online game auxiliary products	4,556	–	33,463	–
Licensing income	58	–	195	–
	<u>16,712</u>	<u>4,170</u>	<u>76,360</u>	<u>5,728</u>

## (4) Business and geographical segments

For management purposes, the Group is currently organised into three (2006: three (restated)) main operating divisions, namely, broking, financing and corporate finance. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

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

The Group was also involved in the provision of online game services, sales of online game auxiliary products and licensing services. This online game services division arose from acquisition of online game business on 10 January 2006 and was disposed of on 1 June 2007 (please refer to note (6) of discontinued operation below for details). Therefore, this operation was discontinued at the beginning of June 2007.

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

***Income statement for the six months ended 30 June 2007***

	Continuing operations			Discontinued operation		Consolidated HK\$'000
	Broking HK\$'000	Financing HK\$'000	Corporate	Total HK\$'000	Online game	
			finance HK\$'000		services HK\$'000	
Revenue	195,079	53,356	5,044	253,479	76,360	329,839
<b>RESULT</b>						
Segment profit (loss)	84,419	6,078	(385)	90,112	(7,278)	82,834
Other operating income				670	339	1,009
Profit on disposal of discontinued operation				–	34,715	34,715
Unallocated corporate expenses				(5,494)	–	(5,494)
Profit before taxation				85,288	27,776	113,064
Taxation (charge) credit				(10,300)	56	(10,244)
Profit for the period				74,988	27,832	102,820

***Income statement for the six months ended 30 June 2006***

	Continuing operations			Discontinued operation		Consolidated HK\$'000
	Broking HK\$'000	Financing HK\$'000	Corporate	Total HK\$'000 (restated)	Online game	
			finance HK\$'000		services HK\$'000 (restated)	
Revenue	134,235	35,501	3,457	173,193	5,729	178,922
<b>RESULT</b>						
Segment profit (loss)	40,527	3,454	(2,550)	41,431	(14,578)	26,853
Other operating income				581	7	588
Net increase in fair value of listed investments held for trading				4,529	–	4,529
Unallocated corporate expenses				(7,687)	–	(7,687)
Profit before taxation				38,854	(14,571)	24,283
Taxation charge				(4,090)	–	(4,090)
Profit for the period				34,764	(14,571)	20,193

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

The following table provides an analysis of the Group's revenue by geographical market:

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Continuing operations:				
– Hong Kong	<u>145,292</u>	<u>86,310</u>	<u>253,479</u>	<u>173,193</u>
Discontinued operation:				
– PRC	11,035	4,170	42,897	5,728
– Taiwan	5,677	–	33,463	–
	<u>16,712</u>	<u>4,170</u>	<u>76,360</u>	<u>5,728</u>

**(5) Taxation charge**

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Continuing operations:				
Profits tax:				
– Hong Kong	6,000	1,470	10,300	1,590
Deferred taxation charge	–	–	–	2,500
	<u>6,000</u>	<u>1,470</u>	<u>10,300</u>	<u>4,090</u>

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

Part of the deferred tax asset of HK\$2,500,000 had been utilised in 2006 due to assessable profit was expected to be earned by certain subsidiaries. No other deferred tax asset has been recognised in the financial statements due to the unpredictability of future taxable profit streams.

Certain subsidiaries of the Group under discontinued operation are operating in overseas. Taxes on profits assessable elsewhere have been calculated at the rates prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

**(6) Discontinued operation**

Pursuant to an ordinary resolution passed by the independent shareholders at the special general meeting of the Company held on 23 April 2007, the disposal of the entire equity interest in Netfield Technology Limited and its subsidiaries (“Game Group”) was completed on 1 June 2007. Accordingly, the online game services previously engaged by the Game Group was reclassified as discontinued operation under HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The comparative figures for 2006 have been reclassified to conform with the current period presentation.

The profit (loss) for the period from discontinued operation is analysed as follows:

	Unaudited		Unaudited	
	period from 1.4.2007 to 31.5.2007 HK\$'000	three months ended 30 June 2006 HK\$'000 (restated)	period from 1.1.2007 to 31.5.2007 HK\$'000	six months ended 30 June 2006 HK\$'000 (restated)
Loss from discontinued operation for the period	(6,721)	(10,565)	(5,758)	(14,578)
Profit on disposal of discontinued operation	33,590	–	33,590	–
	<u>26,869</u>	<u>(10,565)</u>	<u>27,832</u>	<u>(14,578)</u>

The results of the Game Group for the current period, which have been included in the consolidated income statement, were as follows:

	Unaudited		Unaudited	
	period from 1.4.2007 to 31.5.2007 HK\$'000	three months ended 30 June 2006 HK\$'000 (restated)	period from 1.1.2007 to 31.5.2007 HK\$'000	six months ended 30 June 2006 HK\$'000 (restated)
Revenue	16,712	4,170	76,360	5,728
Other operating income	253	7	339	7
Salaries, commission and related benefits	(4,747)	(2,974)	(8,149)	(4,845)
Depreciation and amortisation	(917)	(3,828)	(4,071)	(3,893)
Finance costs	–	(14)	–	(14)
Other operating, selling and administrative expenses	(18,424)	(7,671)	(70,293)	(11,306)
Allowance for bad and doubtful debts	–	(255)	–	(255)
	<u>(7,123)</u>	<u>(10,565)</u>	<u>(5,814)</u>	<u>(14,578)</u>
Taxation credit	402	–	56	–
Loss for the period	<u>(6,721)</u>	<u>(10,565)</u>	<u>(5,758)</u>	<u>(14,578)</u>

**(7) Earnings per share**

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the three months and the six months ended 30 June 2007 together with the comparative figures for the prior periods are based on the following data:

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Profit for the purpose of basic and diluted earnings per share				
From continuing and discontinued operations	<u>73,054</u>	<u>4,593</u>	<u>101,605</u>	<u>19,904</u>
From continuing operations	<u>46,490</u>	<u>15,158</u>	<u>74,438</u>	<u>34,482</u>

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2007	2006	2007	2006
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,382,809,690	1,381,051,448	1,382,432,663	1,361,580,454
Effect of dilutive potential ordinary shares assumed exercise of share options	<u>41,113,839</u>	<u>N/A</u>	<u>31,159,182</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,423,923,529</u>	<u>1,381,051,448</u>	<u>1,413,591,845</u>	<u>1,361,580,454</u>

The computation of diluted earnings per share for the six months ended 30 June 2006 does not assume the exercise of the Company's outstanding share options as the exercise prices of those options were higher than the average market price for shares for that period.

**(8) Property and equipment**

During the period, the Group spent approximately HK\$1,300,000 (2006: HK\$1,741,000) on the acquisitions of property and equipment.

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP****(9) Intangible assets**

	<b>30 June 2007 (Unaudited) HK\$'000</b>	<b>31 December 2006 (Audited) HK\$'000</b>
Trading rights in the exchanges in Hong Kong	9,092	9,092
Club memberships	5,060	5,060
Online game related intellectual property*	–	12,430
Domain name*	–	5,460
	<u>14,152</u>	<u>32,042</u>

\* Intangible assets as at 31 December 2006 included the following components which were arising from the acquisition of subsidiaries of online game business during 2006:

- Online game related intellectual property which represents online game development cost and licensing fee, website development cost and software technology copyrights arising from acquisition of online game business in PRC.
- Domain name which represents the legal and beneficial ownership of domain name “www.shanghai.com”.

Both of them have been disposed of on disposal of the Game Group during the current period.

**(10) Interest in associate**

	<b>30 June 2007 (Unaudited) HK\$'000</b>	<b>31 December 2006 (Audited) HK\$'000</b>
Cost of investment in an associate	<u>28,860</u>	<u>–</u>

As the associate is newly incorporated, there is no post-acquisition result up to period-end date.

## APPENDIX I

## FINANCIAL INFORMATION OF THE GROUP

As at 30 June 2007, the Group had interests in the following associate:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital/ registered capital held by the Group %	Proportion of voting power held %	Principal activity
China Able Limited	Incorporated	British Virgin Islands	PRC	Ordinary	33	33	Investment holding

### (11) Proceeds receivable on disposal of the Game Group

As explained in note (6) above, the Group had disposed of the Game Group to CIGL (the controlling shareholder of the Company) at a consideration of HK\$120 million. Up to the completion date on 1 June 2007, total deposits of HK\$50.0 million had been received from CIGL. The remaining balance of the consideration as well as the amounts originally due from the Game Group as at the completion date of approximately HK\$172,557,000 became due from CIGL.

According to the sales and purchase agreement entered into between CIGL and the Group, the abovementioned balance will be paid on or before the second anniversary of the date of completion with interest at the prime lending rate being offered by The Hongkong and Shanghai Banking Corporation Limited from time to time.

### (12) Account receivables

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Account receivables arising from the business of dealing in securities and equity options:		
Clearing houses, brokers and dealers	191,398	125,450
Cash clients	154,101	112,334
Margin clients	456,179	443,524
Clients of subscription for initial public offerings ("IPOs")	2,693,267	–
Account receivables arising from the business of dealing in futures and options:		
Clearing houses, brokers and dealers	77,811	83,847
Commission receivables from brokerage of mutual funds and insurance-linked investment plans and products	3,455	3,479
Account receivables arising from the business of provision of corporate finance services	1,177	372
Account receivables arising from the business of provision of online game services	–	12,715
	3,577,388	781,721

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

Loans to clients of subscriptions for IPOs is due when the corresponding allotment result of related IPOs have been public announced.

Except for the two kinds of loans as mentioned below, all the account receivables arising from the business of dealing in securities and equity options aged within 30 days.

Loans to margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

In previous period, included in account receivables from margin clients arising from the business of dealing in securities was an amount due from an entity in which Mr Kwan Pak Hoo Bankee has a controlling interest and is a Director. However, no such advance of this kind was outstanding during any time of the current period.

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

	<b>30 June</b> <b>2007</b> <b>(Unaudited)</b> <i>HK\$'000</i>	<b>31 December</b> <b>2006</b> <b>(Audited)</b> <i>HK\$'000</i>
0 – 30 days	2,843	10,849
31 – 60 days	559	2,387
61 – 90 days	50	1,690
Over 90 days	1,180	1,640
	<u>4,632</u>	<u>16,566</u>



## (13) Loan receivables

	<b>30 June 2007 (Unaudited) HK\$'000</b>	<b>31 December 2006 (Audited) HK\$'000</b>
Variable-rate loan receivables denominated in Hong Kong dollar	46,336	45,900
<i>Less:</i> Allowance for bad and doubtful debts	(26,570)	(26,570)
	<u>19,766</u>	<u>19,330</u>
Carrying amount analysed for reporting purposes:		
Current assets (receivable within 12 months from the balance sheet date)	19,676	19,227
Non-current assets (receivable after 12 months from the balance sheet date)	90	103
	<u>19,766</u>	<u>19,330</u>

Loan receivables with an aggregate carrying value of HK\$Nil (31 December 2006: HK\$4,968,000) are secured by pledged marketable securities.

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

	<b>30 June 2007 (Unaudited) HK\$'000</b>	<b>31 December 2006 (Audited) HK\$'000</b>
Within one year	19,676	19,227
In more than one year but not more than two years	25	23
In more than two years but not more than three years	27	25
In more than three years but not more than four years	28	27
In more than four years but not more than five years	10	28
	<u>19,766</u>	<u>19,330</u>

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

## (14) Account payables

	30 June 2007 (Unaudited) <i>HK\$'000</i>	31 December 2006 (Audited) <i>HK\$'000</i>
Account payables arising from the business of dealing in securities and equity options:		
Cash clients	780,910	679,498
Margin clients	168,213	106,132
Account payables to clients arising from the business of dealing in futures and options	136,218	142,500
Account payables to clients arising from the business of dealing in leveraged foreign exchange contracts	4,434	2,798
Account payables arising from the business of the online game services	–	937
	<u>1,089,775</u>	<u>931,865</u>

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

Amounts due to margin clients are repayable on demand.

Account payables to clients arising from the business of dealing in futures, options and leveraged foreign exchange contracts are margin deposits received from clients for their trading of these contracts. The excesses of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand.

Account payables arising from the online game services are payable for production of online game auxiliary products. The whole account payables are aged within 30 days.

No aged analysis for the above account payables is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of these businesses.

## (15) Bank borrowings

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Bank loans and overdrafts in relation to financing businesses	441,282	277,347
Bank borrowings for financing IPOs clients	2,662,100	–
Bank loans in relation to online game business	–	2,421
	<u>3,103,382</u>	<u>279,768</u>

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

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Total bank borrowings	3,103,382	279,768
Less: Amount due within one year shown under current liabilities	<u>(3,103,382)</u>	<u>(278,521)</u>
Amount due after one year shown under non-current liabilities	<u>–</u>	<u>1,247</u>

## (16) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, statutory and other deposits, bank balances and cash, bank borrowings, account receivables and account payables. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk***Equity price risk*

The Group is exposed to equity price risk through its investments in equity securities. The board of Directors manages the exposure by closely monitoring the portfolio of equity investments.

*Cash flow interest rate risk*

Most of the bank borrowings, that are matured within 3 months and are collateralised by margin clients' securities, carry interest at variable rate which exposes the Group to cash flow interest rate risk. The Group currently does not have a cash flow interest rate hedging policy. However, management closely monitors its exposure to future cash flow risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arises.

*Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 30 June 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk on brokerage and financing operations, the Credit and Risk Management Committee is set up to compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. With regard to provision of online game services, the Group has delegated a team responsible for determination of credit limits and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Bank balances are placed in various authorised institutions and the Directors of the Company consider the credit risk of such authorised institutions is low.

*Liquidity risk*

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

**(17) Share capital**

	<i>Note</i>	<b>Number of shares '000</b>	<b>Amount HK\$'000</b>
Ordinary shares of HK\$0.10 each			
<i>Authorised:</i>			
At 1 January 2007 and 30 June 2007		<u>3,000,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>			
At 1 January 2007		1,382,051	138,205
Exercise of share options	<i>(a)</i>	<u>1,000</u>	<u>100</u>
At 30 June 2007		<u>1,383,051</u>	<u>138,305</u>

*Note:*

*(a) Exercise of share options*

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

**(18) Contingent liability**

With regard to the litigation with Pang Po King Cannie (“Pang”) as disclosed in the annual report for the year ended 31 December 2006, as at the period-end date, the Directors do not envisage the claim made by Pang will be held to be valid. The case was in progress and the date of trial was fixed on 8 to 11 and 14 January 2008. Accordingly, no provision was made in the financial statements. Besides that, the Group has no other material contingent liability outstanding.

**(19) Commitment**

*Capital commitment*

	<b>30 June</b>	<b>31 December</b>
	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Committed capital contribution to associate not yet due and not provided in the financial statements	<u>114,000</u>	<u>–</u>

**(20) Post balance sheet date event**

There is no material post balance sheet event subsequent to 30 June 2007.

**2. STATEMENT OF INDEBTEDNESS**

As at the close of business on 30 September 2007, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this document, the Group had the following indebtedness.

**Borrowings**

As at 30 September 2007, the Group had total bank borrowings of approximately HK\$3,956.9 million, comprising bank loans of HK\$3,802.0 million and overdrafts of HK\$154.9 million. The bank borrowings of HK\$498.9 million, which were drawn to fund securities margin financing to its clients, were collateralised by its margin clients' securities pledged to the Group for seeking financing. The bank loans of HK\$3,283.0 million were drawn to finance IPO of new shares to its clients.

As at 30 September 2007, a cash deposit of approximately HK\$10.5 million was pledged as collateral for a loan facility of HK\$10.0 million which was fully drawdown at 30 September 2007. Another deposit of HK\$44.0 million was pledged to facilitate a letter of credit of HK\$44.0 million granted to a subsidiary of the Company. A further deposit of HK\$1.0 million was pledged to secure a general banking facility granted to a subsidiary of the Company. In addition, pursuant to a letter of undertaking provided by the Group to a bank, the Group covenant to maintain deposits of not less than HK\$15.0 million with the bank as a pre-condition for an overdraft facility of HK\$15.0 million granted by the bank. Therefore, a bank deposit of approximately HK\$16.9 million was held for this purpose.

In addition, the Group had outstanding obligations under finance leases of approximately HK\$0.1 million as at 30 September 2007.

**Contingent liabilities**

As at 30 September 2007, the Group had litigations as disclosed in the paragraph "Litigations" in Appendix III to this document.

Save as aforesaid, the Group had no other material contingent liabilities as at 30 September 2007.

**Disclaimers**

Save as disclosed above, as at the close of business on 30 September 2007, the Group did not have any bank overdrafts or loans, or other similar indebtedness, mortgages, charges, hire purchase commitments, or guarantees or other material contingent liabilities.

**3. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE****Net current assets**

As at 30 September 2007 the Group recorded an unaudited consolidated net current assets of approximately HK\$312.8 million. As at 30 September 2007, the Group's total current assets of approximately HK\$5,774.3 million mainly comprised bank balances (trust and segregated accounts) of approximately HK\$936.8 million, bank balances (general accounts) and cash of approximately HK\$109.4 million, bank deposits under conditions of approximately HK\$72.4 million, and account receivables, loan receivables, prepayments and deposits and other receivables of a total of approximately HK\$4,655.7 million. As at 30 September 2007, the Group's total current liabilities of approximately HK\$5,461.5 million comprised account payables of approximately HK\$1,413.5 million and accrued liabilities and other payables of approximately HK\$91.1 million.

**Capital commitments**

On 27 June 2007, the Company, through its subsidiary, formed a joint venture with maximum commitment of the Group of up to RMB150 million (approximately HK\$156.8 million) with other parties to invest in a property in Shanghai which comprises a 11-storey office tower, a single-storey retail podium and a single-storey car parking basement, and part of property may be used as the Company's offices. Up to 30 September 2007, HK\$53.6 million had been paid and outstanding capital commitment was HK\$103.2 million.

Save as disclosed herein, the Group currently does not have any future plans for material investments or capital assets.

**Foreign currency exposure**

As at the end of 30 September 2007, the Group did not have any material unhedged foreign exchange exposure or interest rate mismatch.

**4. WORKING CAPITAL**

The Directors are of the opinion that taking into account the Group's existing cash and bank balances as well as the present available banking facilities, the Group has sufficient working capital for its present requirements for the next twelve months from the date of publication of the Prospectus.

**5. MATERIAL ADVERSE CHANGES**

As at the Latest Practicable Date, the Directors confirm that there is no material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.



## (A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared in accordance with rule 7.31 of the GEM Listing Rules to illustrate the effect of the Rights Issue on the unaudited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2007, as if it had taken place on 30 June 2007. The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group following the Rights Issue.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 30 June 2007 is based on unaudited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2007, as shown in the unaudited consolidated balance sheet of the Company as at 30 June 2007 as set out in Appendix I to the Prospectus and the adjustment described below:

	<b>Unaudited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2007 HK\$'000 (Note 1)</b>	<b>Adjustment HK\$'000 (Note 2)</b>	<b>Unaudited pro forma consolidated net tangible assets attributable to equity holders of the Company HK\$'000</b>	<b>Unaudited pro forma consolidated net tangible assets attributable to equity holders of the Company per Share HK\$ (Note 3)</b>
Based on 593,420,579 Rights Shares issued	<u>535,274</u>	<u>236,000</u>	<u>771,274</u>	<u>0.37</u>

*Notes:*

1. The unaudited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2007 of HK\$535,274,000 represents the net assets attributable to equity holders of the Company of HK\$554,359,000, net of goodwill and intangible assets amounted to an aggregate of HK\$19,085,000 as shown in the unaudited consolidated balance sheet of the Company as at 30 June 2007 as set out in Appendix I to the Prospectus.
2. The adjustment represents the estimated net proceeds from the Rights Issue of approximately HK\$236 million calculated based on 593,420,579 Rights Shares to be issued at the subscription price of HK\$0.40 per Rights Share and after deduction of estimated related expenses, including printing and translation costs, registration fees, legal and accountancy charges and other fees, of approximately HK\$1.4 million.
3. The calculation of the unaudited pro forma consolidated net tangible assets attributable to equity holders of the Company per Share is based on 2,076,972,027 Shares in issue, comprising 1,483,551,448 Shares in issue before the completion of the Rights Issue and 593,420,579 Rights Shares to be issued.
4. The net tangible assets value per Share attributable to equity holders of the Company as at 30 June 2007 before the completion of the Rights Issue is HK\$0.39. The calculation is based on HK\$535,274,000 unaudited consolidated net tangible assets value attributable to equity holders of the Company as at 30 June 2007 and 1,383,051,448 issued Shares of the Company as at 30 June 2007. The unaudited consolidated net tangible assets value attributable to equity holders of the Company and the issued Shares as at 30 June 2007 have not taken into account the effect of the exercise of 100,500,000 share options in July and August 2007.

**(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

*The following is the full text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus:*

**Deloitte.**  
**德勤**

德勤•關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

**Deloitte Touche Tohmatsu**  
35/F One Pacific Place  
88 Queensway  
Hong Kong

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION  
TO THE DIRECTORS OF CASH FINANCIAL SERVICES GROUP LIMITED**

We report on the unaudited pro forma financial information of CASH Financial Services Group Limited (“Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 118 and 119 under the heading of “Unaudited pro forma financial information of the Group” in section (A) of Appendix II to the prospectus issued by the Company dated 31 October 2007 (“Prospectus”). The unaudited pro forma financial information has been prepared by the Directors of the Company for illustrative purpose only, to provide information about how the rights issue of not less than 593,420,579 rights shares at HK\$0.40 per rights share (“Right Issue”) of the Company might have affected the financial information presented, for inclusion in Appendix II of the Prospectus. The basis of preparation of the unaudited pro forma financial information is set out on pages 118 and 119 of the Prospectus.

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

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

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

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the Directors of the Company, and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2007 or any future date.

**Opinion**

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

31 October 2007

## 1. PARTICULARS OF DIRECTORS

### Executive Directors

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

Mr Kwan has extensive experience in corporate management, strategic planning, marketing management, financial advisory and banking. He is responsible for the overall business strategy of the Group. Prior to joining the Group and CASH, he held several senior executive positions in other listed companies and several leading international banks in Hong Kong. He is a John Harvard fellow of Harvard University, US; a member of the Harvard University Asia Center Advisory Committee; an honorary university fellow of The Open University of Hong Kong, a trustee of New Asia College of the Chinese University of Hong Kong; an honorary member of the Board of Trustees of Nanjing University, the PRC; and appointed as an honorary advisor of China Charity Federation. He is also an honorary advisor to LiPACE of The Open University of Hong Kong and the Academy of Oriental Studies of Peking University, the PRC; and an advisory professor of Nanjing University, the PRC. Mr Kwan is a member of the 10th Chinese People's Political Consultative Conference, Shanghai Committee. At present, Mr Kwan is the chairman of the Hong Kong Retail Management Association; a member of the Central Policy Unit of the Government of the Hong Kong; an advisor of the Quality Tourism Services Association; a general committee member of the Hong Kong Brand Development Council and an honorary advisor of the CEPA Business Opportunities Development Alliance. Mr Kwan graduated from the Chinese University of Hong Kong, Hong Kong in 1984 with a Bachelor's degree in Business Administration and from the Murdoch University of Perth, Australia in 1998 with a Master's degree of Business Administration. Mr Kwan is also a fellow membership of the Institute of Financial Accountants' of the United Kingdom since 1999 and a member of the Hong Kong Securities Institute since 1999.

Mr Kwan joined CASH's board of directors on 7 March 1998. He was an executive director of CRMG during the period from 11 April 2000 to 15 November 2006. He was a director of Meritz Securities Company Limited, which is listed on the Korean Stock Exchange, during the period from 28 May 2004 to 1 December 2005. Save as herein disclosed, Mr Kwan has not held any directorship in any other listed company during the three years preceding the Latest Practicable Date.

The business address of Mr Kwan is 21/F The Center, 99 Queen's Road Central, Hong Kong.

**Mr WONG Kin Yick Kenneth**, *MBA, BAsC*, aged 49, joined the Board on 11 August 2000 and is in charge of the Group's businesses development and business management. Mr Wong is also the deputy Chief Executive Officer of CASH in charge of its business development within Greater China. Mr Wong graduated from the University of Toronto, Canada in 1979 with a Bachelor's degree in Applied Science and from the Queen's University at Kingston, Canada in 1981 with a Master's degree of Business Administration. He has extensive experience in banking and finance. Prior to joining the Group, he held senior management positions in global financial institutions where he was responsible for overseeing the development of various businesses within the Greater China region, and where he gained broad based experience in credit, capital markets, and commercial and institutional banking.

Mr Wong is a responsible officer of Celestial Securities Limited licensed to engage in type 1 (dealing in securities) regulated activities under the SFO. Mr Wong joined CASH's board of directors on 3 November 2003. Save as herein disclosed, Mr Wong has not held any directorship in any other listed company during the three years preceding the Latest Practicable Date.

The business address of Mr Wong is 21/F Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.

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

Mr Law joined CASH's board of directors on 9 March 1998. He was an executive director of CRMG during the period from 3 May 2001 to 15 November 2006. Save as herein disclosed, Mr Law has not held any directorship in any other listed company during the three years preceding the Latest Practicable Date.

The business address of Mr Law is 21/F The Center, 99 Queen's Road Central, Hong Kong.

**Mr CHENG Man Pan Ben**, *BA, FCCA, CPA*, aged 38, joined the Board on 7 June 2004. He acts as the Chief Operating Officer of the Group in charge of monitoring the Group's day-to-day operation. Mr Cheng graduated from the City University of Hong Kong in 1992 with a Bachelor's degree in Accountancy. Mr Cheng has been admitted as a fellow of The Association of Chartered Certified Accountants since 2001 and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants since 1995. Mr Cheng has extensive experience in auditing, accounting, financial controlling and project management. Before joining the Group and CASH, he held a senior position in an international accounting firm and assumed a senior financial executive position in a local Company in Hong Kong. Mr Cheng is also the Company's compliance officer. Mr Cheng is a responsible officer of Celestial Securities Limited and Celestial Commodities Limited licensed to engage in type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the SFO.

Mr Cheng has not held any directorship in any other listed company during the three years preceding the Latest Practicable Date.

The business address of Mr Cheng is 7/F Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.

**Mr CHAN Chi Ming Benson**, *BA, MBA, FCCA, CPA, HKSI*, Managing Director and Head of Investment Banking Group, aged 40, joined the Board on 5 October 2007. He is a holder of Master Degree of Business Administration from The Hong Kong University of Science and Technology and is a fellow of The Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr Chan joined the Group in June 1998 and has extensive experience in the field of auditing, accounting, investment banking and corporate finance. He is the Managing Director and Head of Investment Banking Group of the Group, and a responsible officer of Celestial Capital Limited. He is in charge of the operation of the Group's corporate finance business, including investment banking advisory.

Mr Chan has not held any directorship in any other listed company during the three years preceding the Latest Practicable Date.

The business address of Mr Chan is 21/F Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.



**Independent non-executive Directors**

**Mr CHENG Shu Shing Raymond**, aged 51, joined the Board on 18 September 2002. Mr Cheng has been admitted as a fellow of The Professional Validation Centre of Hong Kong Business Sector in 2005. Mr Cheng was the winner of The Young Industrialist Awards for the year 1992 of and has been a member of Young Industrialists Council Ltd. since 1996. Mr Cheng has extensive experience in watch manufacturing industry and is the managing director of a watch manufacturing and trading company in Hong Kong. Mr Cheng is also a member of The Watches and Clocks Advisory Committee of Hong Kong Trade Development Council and an advisor of The Federation of Hong Kong Watch Trades and Industries Limited. Mr Cheng is also the chairman of the Audit Committee and the Remuneration Committee of the Company.

Save as herein disclosed, Mr Cheng has not held any directorship in any other listed company during the three years preceding the Latest Practicable Date.

The business address of Mr Cheng is Flat D, 16/F Gee Chang Hong Centre, 65 Wong Chuk Hang Road, Aberdeen, Hong Kong.

**Dr HUI Ka Wah Ronnie**, *MBBS, MRCP, DCH, FHKAM, FHKCP, CFA*, aged 44, joined the Board on 3 November 2004. Dr Hui graduated from the University of Hong Kong in 1986 with Bachelor's degree in Medicine and Bachelor's degree in Surgery. Dr Hui has obtained Diploma in Child Health respectively from the Royal College of Physicians of Ireland and Royal College of Surgeons in Ireland in 1989 and from the Royal College of Physicians and Surgeons of Glasgow in 1990 in United Kingdom. Dr Hui is a member of the Royal Colleges of Physicians of the United Kingdom since 1990. He is a fellow member of the Hong Kong Academy of Medicine in the Specialty of Paediatrics since 1998 and the Hong Kong College of Paediatricians since 1999 respectively. He is also appointed as co-chairman of the finance committee of the Hong Kong Medical Association.

Dr Hui is a specialist in Paediatrics and is the principal of a private medical clinic in Hong Kong. He is a Chartered Financial Analyst (CFA) charterholder and is currently the head of corporate investment of a listed company in Hong Kong and Vice President of a metal trading company. Dr Hui is also a member of Committee on Social Development and Quality of Life of the Commission on Strategic Development, Hong Kong SAR Government, a member of the Energy Advisory Committee of Hong Kong SAR Government and a member of the executive committee of the Liberal Party. Dr Hui is a member of the Audit Committee and the Remuneration Committee of the Company.

Dr Hui also has held the directorships in the following companies which are listed on the Stock Exchange:–

- (i) Dr Hui was an independent non-executive director and a member of the audit committee of CRMG during the period from 30 March 2004 to 28 February 2006 and a member of the remuneration committee of CRMG during the period from 13 June 2005 to 28 February 2006;
- (ii) Dr Hui is an independent non-executive director, a member of the audit committee and a member of the remuneration committee of E2-Capital (Holdings) Limited (stock code: 378);
- (iii) Dr Hui is an independent non-executive director, a member of the audit committee and a member of the remuneration committee of Winbox International (Holdings) Limited (stock code: 474); and
- (iv) Dr Hui is an executive director of Hong Kong Health Check and Laboratory Holdings Company Limited (stock code: 397).

Save as herein disclosed, Dr Hui has not held any directorship in any other listed company during the three years preceding the Latest Practicable Date.

The business address of Dr Hui is G/F 6 Tung Sing Road, Aberdeen, Hong Kong.

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

Mr Lo had also held the directorships in the following companies which are listed on the Stock Exchange:

- (i) Mr Lo was an independent non-executive Director and a member of the Audit Committee of the Company during the period from 11 September 2002 to 3 November 2004;
- (ii) Mr Lo was an independent non-executive director and a member of the audit committee of CRMG (stock code: 996) during the period from 3 May 2001 to 3 November 2004; and
- (iii) Mr Lo was an independent non-executive director of New Times Group Holdings Limited (stock code: 166) during the period from 20 November 2002 to 6 September 2004.

Save as herein disclosed, Mr Lo has not held any directorship in any other listed company during the three years preceding the Latest Practicable Date.

The business address of Mr Lo is Room 1102, Pacific Plaza, 418 Des Voeux Road West, Hong Kong.

## **2. FUNCTION OF AUDIT COMMITTEE**

The primary functions of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

## **3. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE**

<b>Registered office</b>	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
<b>Head office and principal place of business</b>	21/F The Center 99 Queen's Road Central Hong Kong

<b>Authorised representatives</b>	<p>Kwan Pak Hoo Bankee (alternate: Law Ping Wah Bernard)</p> <p>Wong Kin Yick Kenneth (alternate: Luke Wing Sheung Suzanne, <i>a fellow of the Institute of Chartered Secretaries and Administrators</i>)</p> <p>The addresses of Mr Kwan, Mr Law and Ms Luke are 21/F The Center, 99 Queen's Road Central, Hong Kong. The address of Mr Wong is 21/F Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.</p>
<b>Compliance officer</b>	<p>Cheng Man Pan Ben, <i>a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants</i></p>
<b>Company secretary</b>	<p>Luke Wing Sheung Suzanne, <i>a fellow member of the Institute of Chartered Secretaries and Administrators</i></p>
<b>Qualified accountant</b>	<p>Wong Hon Ming Wallace, <i>a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants</i></p>
<b>Audit committee</b>	<p>Cheng Shu Shing Raymond (<i>chairman</i>) Hui Ka Wah Ronnie Lo Kwok Hung John</p>
<b>Remuneration committee</b>	<p>Cheng Shu Shing Raymond (<i>chairman</i>) Hui Ka Wah Ronnie Kwan Pak Hoo Bankee</p>
<b>Auditors</b>	<p>Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 26/F Wing On Centre 111 Connaught Road Central Hong Kong</p>

<b>Underwriter</b>	Celestial Asia Securities Holdings Limited 21/F The Center 99 Queen's Road Central Hong Kong
<b>Principal share registrar and transfer office</b>	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda
<b>Hong Kong branch share registrar and transfer office</b>	Tricor Standard Limited 26/F Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Principal bankers</b>	Standard Chartered Bank (Hong Kong) Limited 88 Des Voeux Road Central Central Hong Kong  Wing Hang Bank, Limited 161 Queen's Road Central Hong Kong  DBS Bank (Hong Kong) Limited Ground Floor, The Center 99 Queen's Road Central Hong Kong  Industrial and Commercial Bank of China (Asia) Limited 33/F ICBC Tower 3 Garden Road Central Hong Kong  The Bank of East Asia, Limited 10 Des Voeux Road Hong Kong  Nanyang Commercial Bank, Limited 151 Des Voeux Road Central Hong Kong

**Legal advisors**  
(as to Hong Kong law)

Sidley Austin Brown & Wood  
Level 39, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**Legal advisors**  
(as to Bermuda law)

Conyers Dill & Pearman  
2901 One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

#### 4. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date and subsequent to the relevant events in relation to the Rights Issue, the authorised and issued share capital of the Company are as follows:

*Authorised:*

<i>HK\$</i>	<i>Number of Shares</i>
<u>300,000,000.00</u>	<u>3,000,000,000</u>

*Issued and to be issued fully paid:*

<i>HK\$</i>	<i>Number of Shares</i>	
148,355,144.80	1,483,551,448	presently in issue
<u>59,342,057.90</u>	<u>593,420,579</u>	to be issued under the Rights Issue
<u>207,697,202.70</u>	<u>2,076,972,027</u>	to be in issue after the Rights Issue

## 5. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein, or which were required, pursuant to rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

## A. The Company

*Long positions in the ordinary Shares*

Name	Capacity	Number of Shares		Shareholding (%)
		Personal	Other interest	
Kwan Pak Hoo Bankee	Founder of a discretionary trust	6,000,000	711,978,570*	48.40
Wong Kin Yick Kenneth	Beneficial owner	15,860,000	–	1.07
Law Ping Wah Bernard	Beneficial owner	23,264,000	–	1.57
Cheng Man Pan Ben	Beneficial owner	1,508,000	–	0.10
Cheng Shu Shing Raymond	Beneficial owner	1,100,000	–	0.07
Lo Kwok Hung John	Beneficial owner	720,000	–	0.05
		48,452,000	711,978,570	51.26

\* The shares were held as to 671,586,570 Shares by CIGL, a wholly-owned subsidiary of CASH, and as to 40,392,000 Shares by Cash Guardian. Pursuant to the SFO, CASH was owned as to approximately 34.80% by Cash Guardian (which was 100% beneficially owned by Jeffnet Inc). Jeffnet Inc held these shares as trustee of The Jeffnet Unit Trust, units of which were held by a discretionary trust established for the benefit of the family members of Mr Kwan. Mr Kwan was deemed to be interested in all these Shares as a result of his interests in CASH through Cash Guardian.

**B. Associated corporations (within the meaning of the SFO)****1. CASH***(a) Long positions in the ordinary shares of HK\$0.10 each*

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

\* *The shares were held by Cash Guardian. Mr Kwan Pak Hoo Bankee was deemed to be interested in all these shares as a result of his interests in Cash Guardian as disclosed in the note 5.A. above in this section.*

*(b) Long positions in the underlying shares***(i) Options under share option scheme**

Name	Date of grant	Exercise period	Exercise price per share (HK\$)	Number of options outstanding	Percentage to issued shares (%)
Kwan Pak Hoo Bankee	13/11/2006	13/11/2006 – 12/11/2008	0.323	4,000,000	0.44
	6/6/2007	6/6/2007 – 31/5/2009	0.490	2,500,000	0.28
Wong Kin Yick Kenneth	13/11/2006	13/11/2006 – 12/11/2008	0.323	4,000,000	0.44
	6/6/2007	6/6/2007 – 31/5/2009	0.490	2,500,000	0.28
Law Ping Wah Bernard	13/11/2006	13/11/2006 – 12/11/2008	0.323	4,000,000	0.44
	6/6/2007	6/6/2007 – 31/5/2009	0.490	2,500,000	0.28
Cheng Man Pan Ben	6/6/2007	6/6/2007 – 31/5/2009	0.490	6,500,000	0.72
				<u>26,000,000</u>	<u>2.88</u>



(ii) Green-shoe under the green-shoe agreement dated 24 July 2007

On 10 September 2007, Cash Guardian was granted a green shoe with rights to subscribe up to HK\$101,000,000 in cash for a maximum of 50,000,000 new shares in CASH at the exercise price of HK\$2.02 per share in CASH. The green-shoe is exercisable during the three months period from 10 September 2007 to 9 December 2007 and is subject to the terms and conditions of the green-shoe agreement dated 24 July 2007. Mr Kwan was deemed to be interested in the green-shoe held by Cash Guardian as disclosed in the note 5.A. above.

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

Name	Number of shares	Number of underlying shares	Aggregate in number	Percentage to issued shares (%)
Kwan Pak Hoo Bankee	314,042,564	56,500,000	370,542,564	41.06
Wong Kin Yick Kenneth	–	6,500,000	6,500,000	0.72
Law Ping Wah Bernard	27,644,300	6,500,000	34,144,300	3.78
Cheng Man Pan Ben	63,500	6,500,000	6,563,500	0.73
	<u>341,750,364</u>	<u>76,000,000</u>	<u>417,750,364</u>	<u>46.29</u>

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executive or their associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were recorded in the register required to be kept under section 352 of the SFO, or (c) were otherwise notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

## 6. SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons (not being a Director or chief executive of the Company) who had interests or a short position in Shares or underlying Shares which is required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Capacity	Number of shares	Shareholding (%)
Jeffnet Inc (“Jeffnet”) (Note (1))	Trustee of a discretionary trust	717,978,570	48.40
Cash Guardian (Note (1))	Interest in a controlled corporation	717,978,570	48.40
CASH (Note (1))	Interest in a controlled corporation	671,586,570	45.27
CIGL (Note (1))	Beneficial owner	671,586,570	45.27
Mr Al-Rashid, Abdulrahman Saad (“Mr Al-Rashid”) (Note (2))	Interest in a controlled corporation	207,636,000	14.00
ARTAR (Note (2))	Beneficial owner	207,636,000	14.00

## Notes:

- (1) This refers to the same number of 717,978,570 Shares which were held as to 671,586,570 Shares by CIGL, a wholly-owned subsidiary of CASH, as to 40,392,000 Shares by Cash Guardian (which was 100% beneficially owned by Jeffnet Inc) and as to 6,000,000 by Mr Kwan Pak Hoo Bankee personally. CASH owned as to approximately 34.80% by Cash Guardian. Jeffnet Inc held these shares as trustee of The Jeffnet Unit Trust, units of which were held by a discretionary trust established for the benefit of the family members of Mr Kwan. Pursuant to the SFO, Mr Kwan, Jeffnet Inc and Cash Guardian were deemed to be interested in all the Shares held by CIGL through CASH.
- (2) This refers to the same number of 207,636,000 Shares held by ARTAR. ARTAR was a 45% owned controlled corporation of Mr Al-Rashid. Pursuant to the SFO, Mr Al-Rashid was deemed to be interested in the Shares held by ARTAR.

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

**7. MATERIAL CONTRACTS**

The following contracts are contracts that are or may be material, not being contracts entered into during the ordinary course of business, and have been entered into by the Group within two years preceding the Latest Practicable Date:

- (a) the underwriting agreement dated 10 October 2006 entered into between CASH and Celestial Capital Limited, a wholly-owned subsidiary of the Company, in relation to the underwriting for a 2-for-1 rights issue of CASH at a subscription price of HK\$0.28 per share in CASH (details of the said underwriting agreement are set out in CASH's prospectus dated 31 October 2006);
- (b) the sale and purchase agreement dated 9 January 2007 entered into between CIGL as purchaser and Vantage Giant Limited, a wholly-owned subsidiary of the Company, as vendor in relation to the disposal by the Group of 100% interest in Netfield including all the outstanding loans due from Netfield at a consideration of the higher of HK\$120 million or the valuation of the online game business operated by the Netfield Group as at 31 December 2006 (details of the said sale and purchase agreement are set out in the Company's circular dated 4 April 2007);
- (c) the shareholders' agreement dated 27 June 2007 entered into between Marvel Champ Investments Limited, a subsidiary of the Company, Nanyang Industrial (China) Limited, Fit Team Holdings Limited, China Able Limited and Van Shung Chong Holdings Limited in relation to the formation of joint venture to acquire, own and hold the property in the PRC (details of the said shareholders' agreement are set out in the Company's circular dated 18 July 2007); and
- (d) the underwriting agreement dated 27 September 2007 entered into between CASH and the Company in relation to the underwriting for a 5-for-2 rights issue of the Company at a subscription price of HK\$0.40 per Share (details of the said underwriting agreement are set out in the Company's announcement dated 2 October 2007).

**8. EXPERTS AND CONSENTS**

The following are the qualification of the expert who has given opinion or advice which are contained in the Prospectus:–

<b>Name</b>	<b>Qualification</b>
Deloitte Touche Tohmatsu ("Reporting Accountants")	Certified Public Accountants

As at the Latest Practicable Date, the Reporting Accountants was not interested beneficially in the shares in any member of the Group and did not has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, the Reporting Accountants did not has any direct or indirect interest in any assets which has been acquired or disposed of by or leased to the Company or its subsidiaries or are proposed to be acquired or disposed of by or leased to the Company or its subsidiaries since 31 December 2006, being the date up to which the latest published audited consolidated accounts of the Company was made up.

As at the Latest Practicable Date, the Reporting Accountants has given and has not withdrawn their written consent to the issue of the Prospectus with the inclusion of and reference to their name in the form and context in which it appears.

**9. SERVICE CONTRACT**

No Director has a service contract with the Company in respect of his/her service to the Company in the capacity of a Director, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

**10. COMPETING INTERESTS**

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

**11. LITIGATION**

The following set out the outstanding litigation, arbitration or claims involved by the Group of material importance:

- (1) In 2003, Ka Chee Company Limited instituted a winding-up proceedings (Hong Kong Case no.: HCCW 317/2005) against Celestial (International) Securities & Investment Limited (“CISI”), a wholly-owned subsidiary of the Company, for an amount of HK\$1,662,598.31. A winding-up when was made by the court, the liquidator has been appointed to wind up CISI, and the winding up procedure is still in progress.
- (2) On 29 August 2002, Pang Po King Cannie (“Pang”) filed a statement of claim for an amount of HK\$2,870,599.31 (the claimed amount was subsequently amended to HK\$2,893,561.16 in 2006) less the realizable value of the 1,046,000 shares of Takson Holdings Limited (Stock Code: 918) against the Celestial Securities, alleging that the Celestial Securities without knowledge or authority of or instructions from Pang, had misused the account opened by Pang with the Celestial Securities to buy 1,046,000 shares in Takson Holdings Limited. The Directors confirmed that the subject transactions were made with knowledge of and authority from Pang. The Directors do not envisage the claim by Pang will be held valid. The case was in progress and the date of trial is fixed from 8 to 11 and 14 January 2008.

Save as disclosed above, no member of the Group is involved in any litigation or arbitration or claims of material importance and no litigation or arbitration or claim of material importance of the Company to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

**12. INTERESTS OF DIRECTORS IN GROUP’S ASSETS**

Since 31 December 2006, the date to which the latest published audited accounts of the Group have been made up, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member of the Group.

**13. INTERESTS OF DIRECTORS IN CONTRACTS**

The Directors confirm that there is no contract or arrangement subsisting as at the Latest Practicable Date in which a Director was materially interested which was significant in relation to the business of the Group.

**14. MISCELLANEOUS**

The English text of the Prospectus shall prevail over the Chinese text.

**15. EXPENSES**

The expenses in connection with the Rights Issue, including printing and translation costs, registration fees, legal and accountancy charges and other fees are estimated to amount to approximately HK\$1.4 million and will be payable by the Company.

**16. BINDING EFFECT**

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

**17. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at 21/F The Center, 99 Queen's Road Central, Hong Kong during normal business hours on any day up and including 9 November 2007:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports and accounts of the Company for the three years ended 31 December 2006;
- (c) the unaudited interim reports of the Company for the six months ended 30 June 2007 and 30 June 2006;
- (d) the accountants' report on unaudited pro forma financial information of the Group from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this Prospectus;
- (e) the written consent referred to in the paragraph headed "Expert and consent" in this Appendix III;
- (f) the material contracts referred to in the section headed "Material Contracts" in this Appendix III and
- (g) the circulars of the Company respectively 1 March 2007 in relation to connected transactions for grant of financial assistance to certain connected clients, dated 4 April 2007 in relation to a connected and discloseable transaction for disposal of entire issued share capital of Netfield and dated 18 July 2007 in relation to a discloseable transaction for formation of joint venture to acquire, own and hold a property in Shanghai.