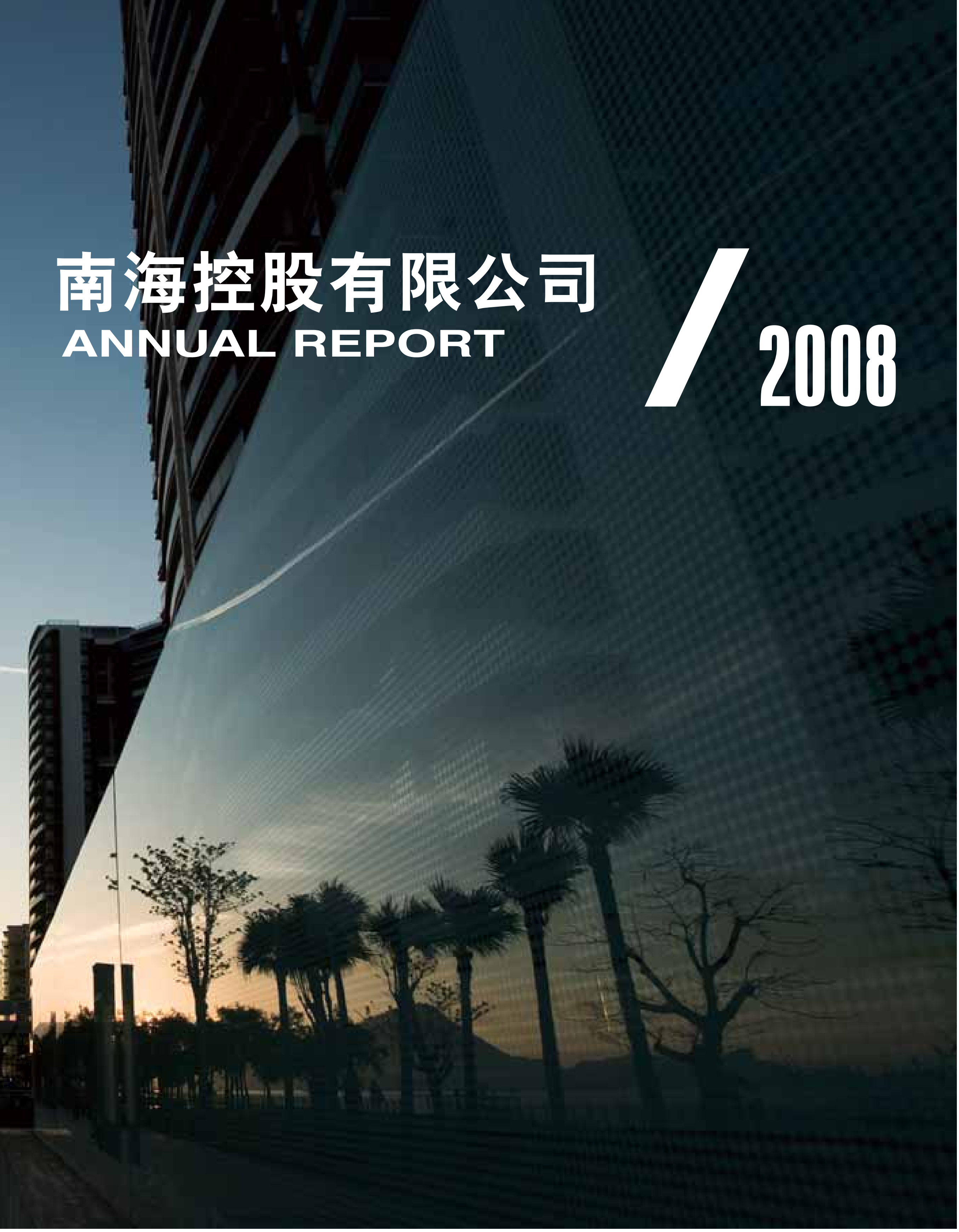
南海控股有限公司
ANNUAL REPORT 2008



南海控股
NAN HAI CORPORATION LIMITED

Stock Code: 680
股份代號：680

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CORPORATE INFORMATION

DIRECTORS

Executive
Mr. YU Pun Hoi *(Chairman)*
Mr. QIN Tian Xiang
Ms. CHEN Dan
Mr. WANG Gang
Ms. LIU Rong

Non-executive
Mr. LAM Bing Kwan

Independent Non-executive
Mr. HUANG Yaowen
Prof. JIANG Ping
Mr. LAU Yip Leung

COMPANY SECRETARY

Mr. WATT Ka Po James

AUDITORS

Grant Thornton
Certified Public Accountants
Hong Kong

LEGAL ADVISERS

K&L Gates

BERMUDA LEGAL ADVISERS

Appleby

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Hong Kong

REGISTERED OFFICE

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Hamilton HM 12
Bermuda

PRINCIPAL REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

680

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

WEBSITE ADDRESS

http://www.nanhaicorp.com

CHAIRMAN'S STATEMENT

Given the substantial change in the overall economic environment, the Company and its subsidiaries (collectively the "Group") ascertained its strategy for a more stable and sustainable development in 2008. Through the slowdown in large scale investments, persistent optimization of its business development, moderate expansion, integration of resources and positive but cautious adjustments to its internal affairs, the Group's business development became more specific, professional and flexible, and its internal control became more scientific, prudent and regulated. Meanwhile, strengthening in brand name operations and product quality has further established the Group's leading position in the sectors of property investment and development, IT application services as well as culture & media.

Though there was no project available for sale during 2008, the stable strategy and strong foundation for business development in place will serve as the corner-stone for bringing the Group's sales and overall businesses into a phase of stable and high yield in 2009 and onwards.

I. PROPERTY INVESTMENT AND DEVELOPMENT

1. Industry Overview

In 2008, due to the consolidated effects by both factors of global financial crisis and China domestic macro-economic control in 2007, economic growth in China emerged a slow-down phenomenon. According to National Bureau of Statistics of China, sales turnover of residential properties of the country in terms of saleable area from January to November 2008 declined by 19% by comparing with the same period in 2007, and there was a downward trend in price in the property markets in some cities.

In October 2008, a number of new policies were introduced for thriving the development of national economy. Policies pertaining to the property sector include a decrease in property sales tax, a waiver of stamp duty as well as land value added tax, adjustment to the percentage of minimum down payment and favorable interest rates on property mortgages. These adjustments to policies are essential to reinforcing the importance of property sector in the national economy, and considerably unleashing the rigid demand of the market. As a result, turnover of residential properties in major cities started to rebound in November 2008.

In view of the extent of the new policies, it is obvious that the Chinese government authorities are supporting the property market. In case the expectations cannot be achieved, more effective measures are expected to be launched. As per the latest market data monitored by China Index Research Institute (中國指數研究院), the property ownership ratios in Shenzhen and Guangzhou are 32.2% and 46.7% respectively. The lower ownership ratio implies the existence of a huge potential property market. Being the first lot of property market experienced adjustments to the largest extent, turnover of self-occupied properties in both Shenzhen and Guangzhou initiated an upward trend under the guidance of state policies since November 2008. Property markets in Shenzhen and Guangzhou are expected to be prosperous again in 2009.

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2. Project Overview

Main structural construction works of Phase 2 of "The Peninsula" with a site area of 65,028.90 sq.m. and a total gross floor area of 293,122.06 sq.m. were completed in October 2008. Interior decoration, construction of ancillary facilities, road networking and landscaping are underway. Top-notch secondary school and kindergarten in Shenzhen will be led in Phase 2 of "The Peninsula", and marketing initiatives for the commercial spaces there are being implemented satisfactorily. Upon completion, the project will provide a residential community of the highest quality in the region with the most comprehensive conveniences.

Pre-sale permit for Phase 2 of "The Peninsula" was obtained in December 2008 and pre-sale started in January 2009. Although the property market is currently in adjustment, the Group is optimistic about the sales of Phase 2 of "The Peninsula":

- Macro measures help to restore people's confidence in buying properties.
- "The Peninsula" project has retained a large pool of loyal customers.
- The construction quality of the project as well as its location and the brand name awareness of customers, all form good sales conditions.
- Only a few projects of similar quality in the vicinity compete with "The Peninsula".
- In order to promote sales and minimize risks, different marketing approaches are employed in different stages according to product features and customers' requirements. Different sales strategies for sales modeling are designed to launch different products of the project to the market.

It is planned to sell 70-75% of Phase 2 of the project in 2009, and the sales proceeds of RMB3 billion to RMB3.5 billion are expected. Units sold will be delivered to the buyers by the end of 2009 and the beginning of 2010. A strong cash inflow is expected in 2009.

"Dongjing Xincheng", a mega-size international modern community located in the vicinity of Guangzhou New Baiyun Airport in the Huadu District of Guangzhou, will enter a stage of full development. The air logistics industry with FedEx as a leading player will flourish along the perimeter of this development, and it is expected that working population will increase drastically, and only FedEx alone will bring new employments of around 80,000. Route 9 of the underground railway scheduled to be in operation in 2010 and the confirmation by the authorities of the light rail project will significantly improve the traffic flow around this project.

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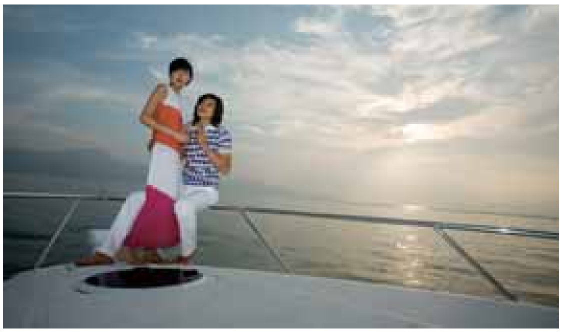
The site of "Dongjing Xincheng" project is located in the Dongjing village of Huadu district in Guangzhou, occupying a site area of 922 mu. The Guangzhou Planning Bureau has approved the project to be developed into a total gross floor area of about 1.3 million sq.m., of which about 1.03 million sq.m. will be for commercial and residential purpose. This project comprises high-rise residential buildings with various ancillary facilities including community service centre, shopping boulevard, kindergarten, school as well as a spacious greenery garden.

Master plan of this project has been approved by the authorities, and application for the construction of 0.35 million sq.m. of its gross floor area has been submitted. Procedures in respect of approval and planning, land acquisition, municipal services, fire services and security services are completed, and the planning permit for construction project has been obtained. In compliance with the local government's policies, layout plan of the project has been adjusted and modified to facilitate future marketing initiatives for the project.

3. Outlook

In view of the long-standing positive development of China's property sector and such aspects as resources, brand name and customer base that the Group has built up in recent years, commencement of the projects in Shenzhen and Guangzhou in 2009 will lead the Group to a healthy sate with on-going and steady growth in financial income. Meanwhile, the Group will continue to focus on completing its strategic deployment in the property sector and reinforcing the brand name establishment and operation process for being equipped for its sustainable development.



Phase 3 of "The Peninsula" will commence in 2009. This phase is located in the north-east corner of "The Peninsula" which is situated in a prime location with Shekou Hill to its north and Shenzhen Bay to its east. Phase 3 project has a site area of about 57,000 sq.m. and a total gross floor area of about 190,000 sq.m.. The biotope comprises mainly high-rise and ultra high-rise residential buildings. As many units as possible are to be designed to lie on a north/south axis and command a panoramic view. Ancillary facilities in this phase together with other in-use and in progress facilities in other phases will constitute a complete community facility network.

In order to comply with the government's policy adjustments and to facilitate future marketing initiatives for Guangzhou "Dongjing Xincheng", the Group again made substantial modifications to the layout plan of the project. Construction preparation and application for modifications to the layout plan are being processed.

Establishment of "廣州自由人男子籃球俱樂部" (Guangzhou Freeman Basketball Club) is in line with the Group's overall development strategy in Guangzhou, with particular attention being paid to the brand building and marketing activities for the property project in Guangzhou. A men's professional basketball club set up by 廣州東鏡新城房地產有限公司 (Guangzhou Dongjing Xincheng Properties Co., Ltd.), a subsidiary of the Company, and Administration of Sports of Guangzhou Municipality has been set up in early 2009. Being the sole men's professional basketball team in Guangzhou, the project got strong support from the Basketball Administration Centre of China's General Administration of Sports, Chinese Basketball Association, People's Government of Guangzhou Municipality, Sports Bureau of Guangdong Province and Administration of Sports of Guangzhou Municipality.

II. SHAREHOLDING BUSINESS OVERVIEW

1. IT Sector

Corporate IT Application Services

Having ten years of development, the Company has, through its subsidiaries, CE Dongli Technology Group Company Limited ("CE Dongli") and 北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited) ("Xinnet"), established its leading position in corporate IT application services market, and will further consolidate and strengthen its position in 2008.

2008 was a year in which CE Dongli underwent intensive reformation. Given the Group's deep understanding to the needs in SME's IT market accumulated for years, CE Dongli successfully launched a series of IT service products, such as "Digital Business Z" (數商Z) and "Z Mail" (Z郵局), and as a result, its leading position in the markets of website development, mailbox, and network promotion in China was strengthened and its professional IT operation image was established. Meanwhile, by means of upgrading of operating service systems, CE Dongli further enhanced its service quality and operation ability.

2009 will be a year of continuing reform and development for CE Dongli. CE Dongli will base on its development foundation in 2008 further ascertain and affirm its development direction, and keep promoting and perfecting its product and service strategies to satisfy SME's IT demands in China; expanding its business ability; focusing on customer relationship; enhancing customer experience; and creating customer value for driving CE Dongli to the vertical integration of IT operation.

In 2009, Xinnet will greatly expand its internet application value-added services such as virtual-hosting, mailbox, server rental and virtual private server (VPS), and increase its IT infrastructure service operation's capability.

For the internet B2B service market, "yidaba.com", an enterprise portal recently acquired by the Group, persistently aimed at gathering SMEs by means of network for developing a business circle for SMEs, and successfully launched an online direct sale electronic business services in 2008. The business model is coming in to shape, which will be a solid foundation for future development.

Office Software Products

北京紅旗中文貳仟軟件技術有限公司 (Beijing Redflag Chinese 2000 Software Technology Company Limited) ("Redflag 2000"), a subsidiary of the Company, persisted the concept of basing open source software and promulgated open source standard as well as comprehensive self innovation. In 2008, Redflag 2000 further strengthened its position as a leading open source enterprise in China, and explored ways and methods for Chinese enterprises participating to international open source community, thus it was highly recognized by the international community OpenOffice.org. It successfully held the 6th OpenOffice.org international annual conference, the scale and impact of which out-performed the previous conferences. Currently, Redflag 2000 has become the second largest technological power in the world community (SUN Microsystems is the powerful one). In addition, Redflag 2000 has facilitated the progress of Chinese UOF standard, and made valuable contribution to the promotion of the Chinese standard.

In 2008, Redflag 2000 achieved relatively significant progress in technology innovation and product R&D, it successively launched RedOiffice4.0 and products in many other different versions. Meanwhile, Redflag 2000 has further strengthened its strategic cooperation with 北京龍芯中科技術服務中心有限公司 (Beijing Loongson Technology Service Co., Ltd.) ("Loongson"), and sped up the realization of nationwide commercialization of solutions. RedOffice in Loongson version pre-installed in Loongson notebooks will be widely used for basic IT education in China.

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In 2009, on top of its success achieved in 2008, Redflag 2000 will launch a comprehensive promotion campaign on internet for promoting the use of RedOffice as a main tool for providing IT application services. In the meantime, to coordinate with the national policy of self-development in IT industry, Redflag 2000 will gradually increase the application in major business sectors and strengthen the strategic cooperation with Loongson, and to further promote the comprehensive solution of open source software and Loongson CPU in basic education sector and e-Government service sector, for making contributions to enhance self innovative abilities in IT industry in China.

Financial Information Services

Facing the global economic crisis and the uncertainty of the financial markets, China investors should emphasize on rational and prudent investments, broadening their view and using professional financial information analysis and data to establish their investment strategies. 北京世華國際金融信息有限公司 (Beijing Shihua International Financial Information Company Limited) ("Shihua"), a subsidiary of the Company, will take advantage of the above opportunity and focus on the demand for international financial information services and to lead domestic financial information industry towards the professional and international standards. On the other hand, the impact of financial crisis on such financial institute as banks and securities firms is to reduce their overall expenses on IT outsourcing services in the short run, which directly affect the operation results of Shihua.

In 2008, "世華財訊 (Shihua Caixun)", a product and service brand managed and operated by Shihua, entered into cooperation agreements with major stock exchanges around the world, and become the first financial information provider in China with official authorization from various international stock exchanges. The international market data value-added services provided by "Shihua Caixun" include such benchmark products as major energy, metal, agricultural products, FX

and derivatives in Europe and the US provided by the aforesaid international exchanges. The international information value-added services are distributed through i-cube dual monitor wealth management terminals and a-cube financial terminal product series of "Shihua Caixun".

In addition, Shihua has extended its professional advantage from corporate market to general public market. "Caixun.com" through its value-added services, such as financial information, investment and wealth management knowledge, wealth management community and analysis reports, and its nationwide marketing campaigns, has gradually gained recognition in the industry.

In 2009, Shihua will continue its strategic cooperation with well-known international financial information and analysis institutions in the relevant field, with an aim to strengthen its advantage as an authoritative local institution. Besides, Shihua will keep improving and enhancing its ability, and persist to lead the development of the financial sector in China with information analyzing standards that comply with international professional standards. The Group believes that these efforts will be accepted by the market and society.

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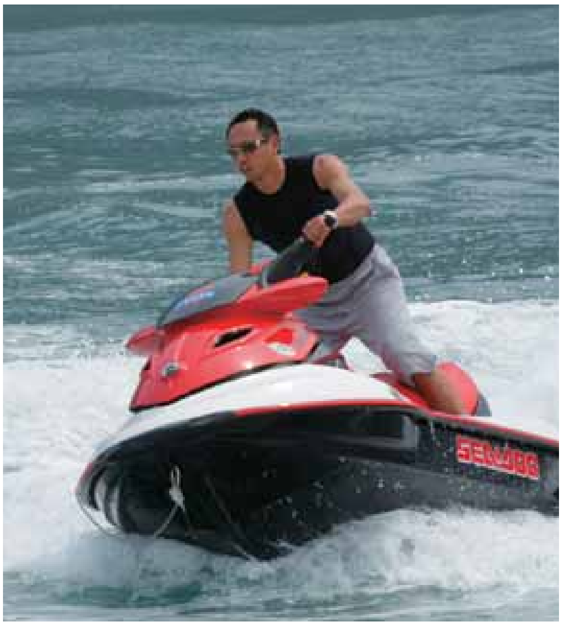
Distance Learning Education Services

In 2008, 北京華夏大地遠程教育網絡服務有限公司 (Beijing Chinese Dadi Distance Education Company Limited) ("Chinese Dadi"), a subsidiary of the Company, made aggressive and effective adjustments to its headcount and business structure. Chinese Dadi maintained its leading position in distance learning education industry and also recorded continuous growth in the number of students for first time and repeated subscription.

Through its comprehensive product mix, well-established learning support service system, flexible online sales model, close cooperation with examination centres of Ministry of Education, various local examination institutions and famous tertiary institutions, Chinese Dadi has strengthened its brand image and facilitated continuous growth in its operating results.

In 2009, Chinese Dadi will keep focusing on the individual learning market, optimizing the online course subscription procedures, increase user's loyalty to the website and increase the conversion rate from website users to students so as to strive to develop as the Number One website for continuing education in China.



2. Culture and Media Sector

Industry Overview

Although the macro-economic environment was not very optimistic in 2008, the performance of culture and media industry in China, especially movie industry under positive effect from digitalization was outstanding in the whole domestic economy. According to China Movie Industry Annual Development Report (中國電影業年度發展報告), gross box-office reached RMB4.341 billion in 2008, representing an increase of 26% by comparing with 2007. Digitalization was an important factor contributing to the growth of box office. In the meantime, digital conversion of television has commenced gradually in China on a nationwide basis, and digitalized cable television has become popular in large and medium cities of the country. In light of the mergers of some major telecommunication corporations and the progress of marketization of broadcasting and television industry, the trend of merging television and the internet (including the mobile terminal) is irreversible, and a new economic growth point is now emerging in the multimedia industry.

Business overview

In recent years, China has been initiating in-depth reforms to the decades-long film distribution and showing mechanism, and introducing the cinema network mechanism in line with international practice. Aiming at raising the economic cooperation level between the Mainland and Hong Kong and realising mutual development, the subject of CEPA (Closer Economic Partnership Arrangement), which eliminates various limitations set by State Administration of Radio, Film and Television ("SARFT") for restricting foreign investors from entering China, allowing Hong Kong movie industry participants to build new cinemas or rebuild existing ones in the Mainland by means of wholly foreign-owned enterprise for operating movie screening business. Cinemas in the form of joint venture and Hong Kong-based cinemas eventually opened up the uncharted territory of the Mainland, which was regarded

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as an injection of new elements into the culture market in China. In July 2008, in order to provide a better development space for culture industry and by taking into account of the synergy effect of the property development projects, the Group acquired Dadi Entertainment Limited ("Dadi") and its subsidiary, 廣東大地影院建設有限公司 (Guangdong Dadi Cinema Construction Limited), from its listed subsidiary, Sino-i Technology Limited ("Sino-i"). Subsequent to the acquisition of Dadi, the Group further acquired a Chinese domestic cinema operation company namely 大地影院發展有限公司 (Dadi Cinema Development Limited), and positioned it as a subsidiary of Dadi.

Because of the government's strong encouragement and support for the digital movie industry, Dadi started its investment in building fully-digitalized cinemas in second and third tier cities and towns in the vicinity of Guangzhou. The investment and construction activities are from second and third tier cities and towns in Guangdong Province to Pearl River Delta Region, Yangtze River Delta Region and Bohai Rim Region. For the year ended 2008, there were 21 digital cinemas completed and operating with 54 screens and more than 12,000 seats.

In early 2009, Dadi set up a wholly-owned subsidiary in China for film distribution business, which is one of the few Hong Kong film distributors in China allowed to distribute Chinese domestic produced movies.

Looking ahead, Dadi will further invest in the construction of digital cinema and about 60 new cinemas with 300 screens are expected to be in operation by the end of 2009. By 2011, it is expected that Dadi will have in aggregate 1,000 screens in operation, becoming an essential part of the digital cinema construction in China and contributing to the popularity of digital movies in China. At the same time, Dadi will carry on the expansion of hotel VOD (hotel video-on-demand television) service business and build up relating business models. Besides, by continuously perfecting the professional websites with functions of online ticket sales and ticket sales by mobile phones and strengthening operation services, the Group will be able to realise a continuous and steady growth in culture and media business.

3. Technological Development

In 2008, the Group continued to increase overall investment in technology and R&D, including recruitment, technology R&D, development management, quality control and external cooperation, etc., making the size and overall ability of its technical team prominently increased and enhanced. 北京中企開源信息技術有限公司 (Beijing CE Open Source Software Co., Ltd.) ("CE Open"), a subsidiary of the Company, focused on software R&D for services industry, and established its leading position in various business sectors for its R&D service. Meanwhile, CE Open's business concept was user-oriented as well as provision of personalized services for users, flexible services in response to market demands, and comprehensive IT operating services. The Suzhou IDC newly established in 2008, together with the existing Beijing IDC and Guangzhou IDC formed a nationwide coverage of the three major IDCs of Northern, Southern and Eastern China, realizing the mutual connection and access across the entire network.

CE Open will keep its steady development in 2009. As more and more enterprises, government and business units in China accept SaaS (Software as a Service), and traditional software developers and systems integration manufacturers transform to service providers, CE Open's advantage in service operation will become more prominent.

III. MANAGEMENT EXPANSION STRATEGY

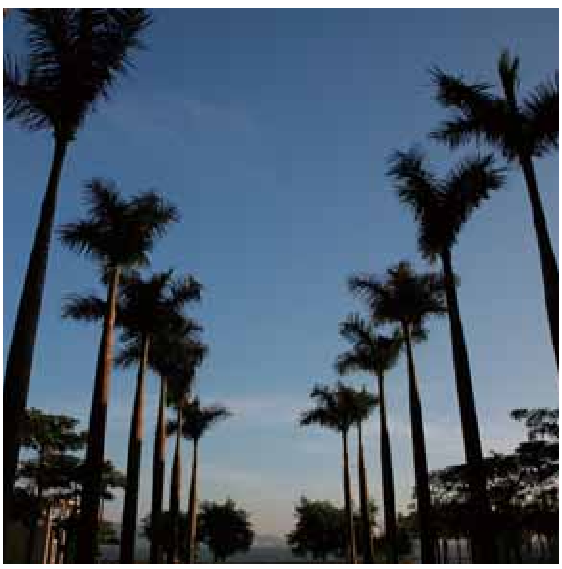
In the past year, based on the core business network and management experience, the Group persistently, actively and efficiently conducted adjustments and resources integrations. In the sectors of property development, corporate IT application services, and culture and media, the Group established a solid foundation for long term development through resources accumulation, talent retention, technological innovation, internal management standardization, enhancement of cost control, improvement of corporate governance level etc.. In respect of business expansion, the Group sharpened its competitive edge in the core business

CHAIRMAN'S STATEMENT

in each sector by continuous and adequate industry resources integration. It also effectively carried out the following strategic expansion and structural expansion through mergers and acquisitions:

1. The Group clearly defined its development strategy in property development sector, confirmed the development and construction of large scale residential projects targeting the mid-to-high end market as its principal business, and in turn set a strategic direction for the development of other relevant businesses.

2. Through adjustment and perfection of the management and internal operation system of various investment sectors, the Group was able to integrate IT technology with investment project management, sales management and enterprise operation management. Therefore, the Group could adopt a more scientific, prudent, standardize and efficient approach in the management and control of its subsidiaries and projects. Meanwhile, the Group emphasized the enhancement of the execution ability of its employees of all levels in 2008, the Group laid a solid foundation for the implementation of future development strategies and achievement of its goals by such means as adjusting human resources, establishing management by objectives and improving operating procedures.



3. The Group tightened the control on the pace of property investment, effectively procured the construction of the property projects in Shenzhen and Guangzhou, strengthened its branding strategy, created and enhanced the image and value of its brand, completed in phases its strategic deployment for its property business in China, improved the accumulation and reservation of resources, and gradually realized its strategic goal of expansion. All these efforts put the Group on track to a continuous and stable financial development.

4. In the IT application services and culture and media sectors, through sustainable and adequate industry resources integration, leveraging on state-of-the-art technologies and its strengths in operation services, and by utilizing the comprehensive business network system as well as its constantly improved product strategy and customer strategy, the Group established a solid product mix, customer base and technical strength. For compliance with China's macro-economic adjustment policies, the Group at the same time actively and cautiously developed its businesses in all sectors, continuously improved the core competitive advantage in the respective business sectors and maintained a sustainable and stable growth in market share. Meanwhile, the Group continued to pursue its strategic expansion objective through mergers and acquisitions, and succeeded in realizing structural growth and investment value maximization.

5. The Group strengthened its financial control, perfected core business management process and system optimization, perfected internal control system and improved cost management and control.

6. The Group fully complied with the newly promulgated labour contract law. Although the improvement of the employee benefit standard has boosted the labour cost to a level higher than expected, the Group's competitiveness in the labour market improved significantly as a result of its strict compliance with the relevant law. Moreover, with an equitable performance assessment system in place, the Group has considerably motivated its employees and elevated their creativity, which increased its competitive advantage in attracting and retaining high-calibre workforce.

IV. CONCLUSION

2009 will be a year full of challenges. Economy and operation environment will still be difficult. Global financial crisis and periodic market changes present opportunities as well as more challenges. Under such economic environment and the macro-economic policy adopted in China, the Group will adjust its strategic planning, control the pace of its development, strengthen its management, continue its innovation through further defining its development strategy. The Group will also closely respond to market changes and seize every opportunity to adopt an active and stable adjustment strategy and resources optimization. Moreover, the Group will reserve its energy, continuously improve its competitiveness in core business sectors, and carry out its strategic investment plan in a timely manner to foster solid growth for 2009.

Yu Pun Hoi
Chairman

Hong Kong, 24 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

During the year, the Company was principally engaged in property development, and through its listed subsidiary, Sino-i engaged in corporate IT application services, financial information services and distance learning education services. Also through its subsidiary, Dadi, focused on culture and media services. During the year, the turnover was HK$494.9 million (2007: HK$673.0 million) and the net loss was HK$534.8 million (2007: a net profit of HK$21.5 million). The net assets of the Group including minority interests were HK$4,657.8 million (2007: HK$5,043.9 million), representing a value of HK$0.068 per share.

1. Property Development

The Company's property development schedule was delayed resulting from the Chinese government's continuous adjustments in policies. During the year, this division did not launch any sales, so no turnover was recorded (2007: Nil).

The Company's flagship project – "The Peninsula" in Shekou, Shenzhen, started the pre-sale of 2,020 units in its Phase 2 in January 2009. Given the slack market condition, the Group at the very beginning launched about 20% of the overall units. The Group is confident in selling more units during this year, and a strong cash inflow is expected in 2009.

2. IT Sector

Corporate IT Application Services

Due to the adverse effect by such factors as market deterioration by macro-economic control and slowing down of the development in IT industry, the business results of the Group emerged a certain extent of slump in 2008. Despite the severe market competition, this division kept making adjustment and improvement by launching innovative products and comprehensive services. During the year, the turnover of this division was approximately HK$428.0 million (2007: HK$628.1 million) and the net loss was approximately HK$193.9 million (2007: a net profit of HK$111.9 million). In recent years, the business results and contribution of various subsidiaries of the Company in this division have been accredited from different sectors in the society, and won many awards.

CE Dongli was awarded many titles, such as "Top 100 High-Growth Enterprises of China's Creative Industry", "2008 Golden Software Award" and "2008 Beijing E-Business Credit Enterprise".

Xinnet was certified as "2007 CN Domain Name Gold Medal Registration Service Organization", and was accredited as "Five-star Registration Service Organization" by CNNIC (China Internet Network Information Center) twice in 2008. Meanwhile, Xinnet was also one of the pioneers participating in establishing the Anti-Phishing Alliance of China, and contributing substantial effort in maintaining a clean internet environment and eliminating illegal information.

Redflag 2000 had encouraging results in the areas of specialized project tendering and award assessment. Redflag 2000 obtained the development fund support by successfully bidding the "Optimizing Domestic Office Software Suit based on UOF Standard" project under the 2008 Ministry of Industry and Information Technology Development Fund. Meanwhile, it also obtained the support from the 2008 Small and Medium Technology Enterprise Innovative Fund, and its "Optimizing and Application of Linux Desktop Office Environment for e-Government Services" project also obtained the support from Beijing Technology Project. Besides, Redflag 2000 also obtained many other awards such as "High-tech Enterprise of China Recommended by Editors of China Information World in 2007", "Outstanding Domestic Software Provider of County-Level e-Government Solutions" and "2008 China Open Source Software Productivity Booster Award".

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Information Services

During the year, turnover of this division was approximately HK$22.5 million (2007: HK$37.1 million) and the net loss was approximately HK$37.9 million (2007: HK$17.3 million).

Shihua will continue to invest in a prudent manner and promote its product line. The Group is confident that the business performance of this division will be improved in the near future, which in turn will generate satisfactory return for the Group.

Distance Learning Education Services

During the year, turnover of this division was approximately HK$9.6 million (2007: HK$17.0 million) and the net loss was HK$1.7 million (2007: HK$1.7 million).

In terms of business strategies, Chinese Dadi will continue to strengthen its market share through cooperation with educational institutes. Chinese Dadi has begun to expand its product range from merely sales of online study course materials to online interactive learning programs. The management also decided to cut down all technical outsource service since profit from this business is sporadic. The management will continue to closely monitor the business development of this division and will expect the performance of this division will be improved further in the near future.

Chinese Dadi was accredited "Top 10 National Online Education Institute" and "2007 Top 10 Online Education Institute".

Technology Development

CE Open was awarded the "2008 Top Business Innovation Award in China's Information Service Industry" and "2008 Annual High-development Enterprise Award in China's Information Industry".

3. Culture and Media

Resulting from the strategic decision in focusing on the initial development of digital cinema business in both Shenzhen and Guangzhou and its respective surrounding areas, which in turn will have a synergy effect on the Company's property projects in Shenzhen and Guangzhou, the culture and media business segment was repositioned from Sino-i to the Company in 2008 and has become one of the main businesses.

During the year, the turnover of this division was approximately HK$62.5 million (2007: HK$9.2 million) and the net loss was approximately HK$30.7 million (2007: HK$8.7 million). The Group operated 21 digital cinemas contributing box-office of HK$39.5 million (2007: Nil), which proved a successful mode of business operation. In addition to cinema business, the Group by means of CEPA tapped into the film distribution market in China by distributing films.

II. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continues to adopt prudent funding and treasury policies. As at 31 December 2008, the net assets of the Group attributable to the equity holders amounted to approximately HK$3,763.4 million (2007: HK$4,088.5 million), including cash and bank balances of approximately HK$211.1 million (2007: HK$445.7 million) (which were denominated mainly in US dollars, Renminbi and Hong Kong dollars). As at 31 December 2008, the Group's aggregate borrowings including shareholders' loan were HK$4,827.7 million (2007: HK$2,305.5 million), including approximately HK$2,566.1 million (2007: HK$408.2 million) were bearing interest at fixed rates while approximately HK$2,261.6 million (2007: HK$1,897.3 million) were bearing interest at floating rates. The gearing ratio of the Group, which is net debt divided by the adjusted capital plus net debt, increased from 26.94% as at 31 December 2007 to 49.78% as at 31 December 2008. The material increase in gearing ratio was mainly due to the provision of a fund in the sum of US$275 million from a financial institution for financing construction costs and expenditures of "The Peninsula" project. Such high gearing ratio is expected to be reduced when the loans are to be repaid by the sales proceeds generated from the Phase 2 of "The Peninsula" in 2009.

The Group's contingent liabilities at 31 December 2008 were HK$77.7 million due to the guarantees given in connection with credit facilities.

III. EXPOSURE TO FLUCTUATION IN EXCHANGE RATE

The majority of the Group's borrowings and transactions were denominated in US dollars, Renminbi and Hong Kong dollars. Both the operating expenses and revenues were primarily in Renminbi. It is expected that the exchange rate of Renminbi will continue to appreciate resulting from the continuous economic growth in China. The Group's reporting assets, liabilities and profits may be affected by the Renminbi exchange rate. Although the Renminbi exchange risk exposure is not significant during the year under review, the Group will keep on reviewing and monitoring the exchange risks between Renminbi and Hong Kong dollars. For the funding in US dollars, Hong Kong dollars has been linked to US dollars, and Hong Kong dollars are the reporting functional currency of the Group, the management of the Group considers the exposure on exchange risk is not significant. The Group may proceed to have some kind of foreign exchange hedging arrangements when appropriate and necessary.

IV. EMPLOYEE

The Company employs and remunerates its employees based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include housing, contributions to mandatory provident fund, group medical insurance, group personal accident insurance and examination leave. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the board of directors (the "Board"). In general, salary review is conducted annually. As at 31 December 2008, the Group had approximately 7,539 employees (2007: 8,489 employees). The salaries of and allowances for employees for the year ended 31 December 2008 were approximately HK$465.6 million (2007: HK$375.7 million).

V. PROSPECT

In 2008, economic development progress in China slowed down due to the global economic crisis. However, there were no significant changes in both domestic financial system and economic operating system, on the other hand, the Chinese government enhanced her abilities in adjustment of the economic development. Under the background of marco-economic development, the Group's management persistently pursued the strategic objectives determined by the Board, seriously considered and analyzed the current situation, prudently established operating strategies and tuned the Group to adjust and develop in the same pace.

In 2009, the Group's management will strive to build up a property product brand name, timely increase its land reserve and control the timing of project development and sales. Meanwhile, the Group will continue to focus on development and innovation of the core businesses – corporate IT application services and culture and media services, and to launch and perfect competitive products and services. In addition, the Group is committed to enlarge its market share through such measures as internal resources integrations as well as external mergers and acquisitions so as to solidify its leading position and competitive edge in various business sectors.

Looking forward, in the fresh round of economic development, the Chinese government's enhancement of standard in managing the economy and the adjustments and changes to domestic industry structure, together with the confidence and efforts of all employees, will continuously motivate the implementation of the Group's sustainable development strategies.

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in property development, culture and media services and, through its listed subsidiary, Sino-i, engaged in corporate IT application services, financial information services and distance learning education services.

SEGMENT INFORMATION

Particulars of the Group's turnover and segment information for the year are set out in notes 5 and 6 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 38.

The directors do not recommend the declaration of the payment of a final dividend for the year ended 31 December 2008 (2007: Nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 116.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and associates as at 31 December 2008 are set out in notes 16 and 17 to the financial statements respectively.

BANK AND OTHER BORROWINGS

The Group's bank and other borrowings as at 31 December 2008 are set out in note 27 to the financial statements.

SHARE CAPITAL AND SHARE PREMIUM

During the year, no movement in share premium of the Company. Details of the share capital of the Company during the year are set out in note 31 to the financial statements.

REPORT OF THE DIRECTORS

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the amount of the Company's reserves available for distribution was approximately HK$1,600,150,000. In addition, the Company's share premium account with a balance of HK$965,881,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's sales to the five largest customers and purchases from the five largest suppliers for the year ended 31 December 2008 accounted for less than 30% of the Group's total turnover and purchases respectively.

DIRECTORS' EMOLUMENTS

Details of directors' emoluments are set out in note 36 to the financial statements.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31 December 2008, none of the directors of the Company has an interest in a business which competes or may compete with the business of the Group.

PENSION COSTS

Details of retirement benefit plans in respect of the year are set out in note 35 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Mr. YU Pun Hoi *(Chairman)*	
Mr. QIN Tian Xiang	
Ms. CHEN Dan	
Mr. WANG Gang	(appointed on 10 March 2009)
Ms. LIU Rong	(appointed on 10 March 2009)
Mr. LAM Bing Kwan#	
Mr. HUANG Yaowen*	
Prof. JIANG Ping*	
Mr. LAU Yip Leung*	
Mr. YU Lin Hoi#	(retired on 26 May 2008)

Non-executive directors
* Independent non-executive directors

DIRECTORS (Continued)

The Company has received annual confirmation from each of the existing independent non-executive directors confirming his independence to the Company pursuant to rule 3.13 of the Listing Rules and the Company considers that such directors are independent of the Company.

In accordance with Bye-law 99 of the Company's Bye-Laws, Mr. Yu Pun Hoi, Ms. Chen Dan, Mr. Huang Yaowen and Prof. Jiang Ping shall retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 102 of the Company's Bye-laws, Mr. Wang Gang and Ms. Liu Rong may hold office only until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical Details of Directors

Executive Directors

Mr. YU Pun Hoi, aged 50, is the chairman of the Board, the chairman of executive committee of, and a controlling shareholder of the Company. Mr. Yu joined the Board of the Company in September 2000. In addition to Mr. Yu's chairmanship of the Company, he is the chairman of the board of and of the executive committee of Sino-i. Mr. Yu is also a director of a number of major subsidiaries of the Company and Sino-i.

Mr. Yu through his own establishment and acquisition has extensive experience in different nature of businesses including property investment and development, information technology, and media.

Mr. QIN Tian Xiang, aged 43, graduated from the National University of Defense Technology, Electronics Technique Department. Mr. Qin has been in presidential and directorship positions in a number of corporations in China and Hong Kong since 1994. Mr. Qin joined the Board of the Company on 30 September 2004, and was then re-designated as an executive director and appointed as an executive committee member of the Company on 14 February 2006. Mr. Qin is also an executive director and executive committee member of Sino-i, and a director of a number of major subsidiaries of the Company and Sino-i in China.

Ms. CHEN Dan, aged 40, graduated from Beijing Finance & Trade College and conferred a Bachelor degree in Trade & Economics, and obtained a degree of EMBA in China Europe International Business School. Ms. Chen is also a qualified lawyer in China. Ms. Chen was working in Europe and obtained experience in various industries prior to joining the Group in October 2000. In February 2006, Ms. Chen has been appointed as an executive director and executive committee member of the Company. Ms. Chen is also an executive director, executive committee member and general manager of Sino-i, responsible for all the operations management within Sino-i. Ms. Chen is also a director of a number of major subsidiaries of the Company and Sino-i.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Biographical Details of Directors (Continued)

Executive Directors (Continued)

Mr. WANG Gang, aged 53, graduated from Capital University of Economics and Business in China and also got an MBA degree from National University of Singapore. Prior to joining the Group, Mr. Wang worked in the headquarters of China Agricultural Bank, and was appointed as a general manager working in the bank's branch office in Singapore for 5 years.

Mr. Wang joined the Group in December 2007 and was appointed as a director and deputy general manager of 深圳南海益田置業有限公司 (Shenzhen Nanhai Yitian Realty Company Limited) ("Nanhai Yitian"), a subsidiary of the Company. In February 2009, Mr. Wang was appointed as a general manager of Nanhai Yitian, responsible for the related business in property development of "The Peninsula". Mr. Wang was appointed as an executive director and executive committee member of the Company on 10 March 2009.

Mr. Wang is also an executive director and executive committee member of Sino-i, and a director of a number of major subsidiaries of the Company.

Ms. LIU Rong, aged 37, graduated from the Law School of Anhui University in 1993 and obtained a degree of Bachelor of Laws, got her Master of Laws in 2002 conferred by the Law Institute of Chinese Academy of Social Science, and is a qualified lawyer in China. Prior to joining the Group, Ms. Liu worked in Chinese government departments and law firms.

Ms. Liu joined the Sino-i Group in April 2002 as a company secretarial manager, responsible for corporate affairs, investments and mergers and acquisitions of Sino-i Group in China. In 2007, Ms. Liu was appointed as a general manager of Dadi Media (HK) Limited, a wholly-owned subsidiary of the Company, responsible for all the related businesses in culture and media. Ms. Liu has been appointed as an executive director and executive committee member of the Company on 10 March 2009.

Ms. Liu is also an executive director and executive committee member of Sino-i, and a director of a number of major subsidiaries of the Company and Sino-i.

Non-Executive Director

Mr. LAM Bing Kwan, aged 59, graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. Mr. Lam had been in senior management positions in the banking and financial industry for more than 10 years before joining the Group. Mr. Lam joined the Board of the Company on 20 September 2000, and was re-designated as a non-executive director on 2 April 2002. Mr. Lam is also a non-executive director of Sino-i, and an independent non-executive director of Lai Sun Development Company Limited, Lai Fung Holdings Limited, and eForce Holdings Limited.

Independent Non-executive Directors

Mr. HUANG Yaowen, aged 38, graduated from South West University of Politics and Laws in China and was conferred a Bachelor degree in Laws in 1992, and obtained a degree of EMBA in China Europe International Business School. Mr. Huang also holds a Master of Laws conferred by Central Parties School in the PRC and is a registered attorney at law in China. Mr. Huang is the executive partner of Kai Wen Law Firm which is Chinese commercial law firms in the PRC. On 14 February 2006, Mr. Huang joined the Board of the Company and was appointed as chairman of audit committee and remuneration committee of the Company. Mr. Huang is also an independent non-executive director and chairman of audit committee and remuneration committee of Sino-i.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Biographical Details of Directors (Continued)

Independent Non-executive Directors (Continued)

Prof. JIANG Ping, aged 78, graduated from Moscow University with a Bachelor degree in Laws in 1956. Prof. Jiang is the lifetime professor of China University of Political Science and Law, and conducts lectures for doctoral degree class in civil and commercial laws. Prof. Jiang is the honorary president of China Comparative Law Research Centre; chairman of Beijing Arbitration Commission; vice-president of China Consumers' Association; and counsellor and member of committee of experts in China International Economic and Trade Arbitration Commission. On 14 February 2006, Prof. Jiang joined the Board of the Company and was appointed as a member of audit committee and remuneration committee of the Company. Prof. Jiang is also an independent non-executive director and member of audit committee and remuneration committee of Sino-i.

Mr. LAU Yip Leung, aged 48, graduated from the City University of Hong Kong and awarded an honours degree of Bachelor of Arts in Accountancy in 1991. Mr. Lau also holds an MBA conferred by the University of Hull, UK in 1995. Mr. Lau is a fellow member of The Association of Chartered Certified Accountants, member of The Institute of Chartered Accountants in England and Wales, and practising member of the Hong Kong Institute of Certified Public Accountants. Mr. Lau started his public practice business in 1998, and has been a partner of Messrs. Fung Lau & Company, Certified Public Accountants, since October 2000. Mr. Lau joined the Board of the Company on 29 May 2006 and is also a member of audit committee and remuneration committee of the Company.

Biographical Details of Senior Management

Mr. ZHANG Bin (aged 43)
Deputy General Manager – Technology Development
Sino-i Technology Limited

General Manager
北京中企開源信息技術有限公司 (Beijing CE Open Source Software Co., Ltd.)

Mr. Zhang was accredited as Senior Engineer and was graduated from the Computer Faculty of The University of Defence Technology. Mr. Zhang's research was in computer architecture.

Mr. Zhang has extensive experience in software development and management. Mr. Zhang joined the Sino-i Group in 1999, responsible for the research and development, and application in IT application service technology. In March 2005, Mr. Zhang was appointed as a chief technology officer of Sino-i. In April 2006, Mr. Zhang was appointed as a deputy general manager of the Technology Development Department of Sino-i, general manager of CE Open, and a deputy general manager of CE Dongli, responsible for technological strategy, R&D, product development, technological operation and other related works of Sino-i. In addition, Mr. Zhang focused on product development and IT services operation system.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Biographical Details of Senior Management (Continued)

Mr. YU Fan (aged 41)
Deputy General Manager – Business and Strategic Development
Sino-i Technology Limited

Mr. Yu graduated from Guanghua School of Management of Peking University and obtained a degree of Master of Business Administration. Prior to joining the Sino-i Group, Mr. Yu was working in senior positions in such large domestic and joint venture corporations as Founder Group, etc. and has profound understanding in IT business and extensive experience in corporate operation.

In 2004, Mr. Yu joined CE Dongli and was appointed as a deputy general manager, responsible for its business operation, and was promoted as a general manager of CE Dongli in 2006. In 2007, Mr. Yu was appointed as a deputy general manager of Sino-i Group, responsible for the planning and development of strategies and operations of Sino-i.

Mr. CHEUNG On Yin (aged 47)
Deputy General Manager – Branding and Marketing
Sino-i Technology Limited

Mr. Cheung has extensive experience in the branding and marketing industry and had been in senior positions in a number of main electronic media communications in China, Hong Kong and Taiwan, and obtained various rewards from New York International Film & Television Festival. In 1995, Mr. Cheung had a great contribution of establishing the first universal Chinese satellite broadcasting television business.

Mr. Cheung was the creative controller of Sino-i from 1999 to 2005, and took part in planning of the internet and advertisement business of Sino-i in China. During the period, Mr. Cheung was also being the consultant of Institute for Cultural Industries in Peking University. Mr. Cheung re-joined Sino-i in 2007 and was appointed as a deputy general manager of both Sino-i and CE Dongli in 2008, responsible for the overall brands of IT business and marketing of the Sino-i Group.

Mr. XUE Bo Ying (aged 40)
Executive deputy general manager
South Sea Development (HK) Limited
Shenzhen Nanhai Yitian Realty Company Limited

Mr. Xue was graduated from Huazhong University of Science and Technology in 1990, and awarded Bachelor of Science, and also got his Master's degree in architecture from Tsinghua University in 2000. Mr. Xue is a certified first-level architect, and a certified town planner in China.

Prior to joining the Group, Mr. Xue worked in such senior positions as deputy general manager, senior architect and architectural design director in both foreign and local Chinese corporations in China, and also worked in Guangzhou City Construction Commission.

Mr. Xue joined the Group in January 2006 and was appointed as an architectural design director of the Company, responsible for overall architectural design of various property projects of the Group in China. In February 2009, Mr. Xue was appointed as an executive deputy general manager of South Sea Development (HK) Limited and Nanhai Yitian, subsidiaries of the Company, responsible for planning design, engineering construction and management of contract budgeting in property development.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Biographical Details of Senior Management (Continued)

Mr. CHENG Chih Hung (aged 53)
Executive Director
South Sea Development (HK) Limited

Mr. Cheng has experience in management of international information and media business for many years. Prior to joining the Group in 2004, he was working in senior position in United Task Marketing Ltd. and United Communication Inc., and has extensive experience in management of marketing and media. Mr. Cheng was a general manager of Shihua between 2004 and 2007 and was appointed as a deputy chairman in 2007, and subsequently joined Nanhai Yitian, responsible for marketing and sales of the Group.

Ms. LIN Mei Yao (aged 37)
Deputy General Manager
Dadi Media (HK) Limited

Ms. Lin was graduated from Shih Hsin University in 1991, major in Graphic Communications, and got a degree of Publishing and Communication from Chinese Culture University in 1996. Ms. Lin has extensive and in-depth experience in sales planning, advertisement planning, marketing and internet sales etc.

In May 2004, Ms. Lin joined CE Dongli, and was appointed as a director of marketing, and subsequently was appointed as a deputy general manager of Dadi Media (HK) Limited, responsible for cinema operations and management.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, the interests and short positions of the directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

The Company

(i) *Long position in shares in issue*

	Number of shares of HK$0.01 each				
Name of Director	**Personal interest**	**Corporate interest**	**Family interest**	**Total interest**	**Approximate percentage holding**
Yu Pun Hoi ("Mr. Yu")	–	32,595,726,203 *(Note 1)*	69,326,400 *(Note 2)*	32,665,052,603	47.59%
Chen Dan	32,000,000	–	–	32,000,000	0.05%
Qin Tian Xiang	7,000,000	–	–	7,000,000	0.01%

Notes:

1. Out of these 32,595,726,203 shares, 28,853,232,705 shares were collectively held by Mr. Yu through Rosewood Assets Limited, Pippen Limited and First Best Assets Limited, companies wholly owned by him; and 3,742,493,498 shares were held by Macro Resources Limited, a company indirectly held as to 60% by Mr. Yu.

2. These 69,326,400 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

(ii) *Long position in underlying shares*

Name of Director	Number of underlying shares of HK$0.01 each*	Nature of interest	Approximate percentage holding
Chen Dan	7,000,000	Personal	0.01%
Qin Tian Xiang	7,000,000	Personal	0.01%

* Represents underlying shares subject to share options granted to the directors, details of which are as follows:

Grantee	Date of grant	Exercise price per share HK$	Number of share options granted	Exercisable period
Chen Dan	18-01-2007	0.0714	7,000,000	19-01-2008 to 18-01-2009
Qin Tian Xiang	18-01-2007	0.0714	7,000,000	19-01-2008 to 18-01-2009

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Associated Corporations

As disclosed above, Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company or its controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO, including interests held by the Company in the shares of Sino-i, a subsidiary of the Company. Sino-i is a company the shares of which are listed on the Stock Exchange and is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at 31 December 2008, the interests of the directors of the Company in shares and underlying shares of Sino-i were as follows:

Sino-i

Long position in shares in issue

	Number of shares of HK$0.01 each				
Name of Director	**Personal interest**	**Corporate interest**	**Family interest**	**Total interest**	**Approximate percentage holding**
Yu Pun Hoi	–	12,515,795,316 *(Note 1)*	44,000,000 *(Note 2)*	12,559,795,316	63.07%

Notes:

1. These 12,515,795,316 shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of the Company. Mr. Yu was taken to be interested in these shares by virtue of his controlling interests in shares of the Company.

2. These 44,000,000 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

Save as disclosed above, as at 31 December 2008, none of the directors and chief executive of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

On 29 August 2002, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board.

On 18 January 2007, share options to subscribe for a total of 157,000,000 shares, representing approximately 0.52% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors and employees of the Company and subsidiaries at an exercise price of HK$0.0714 per share. The closing price of share of the Company immediately preceding the date of grant was HK$0.072.

Movements on the share options during the year are as follows:

				Number of share options				
Grantee	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 1 January 2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2008
Directors								
Chen Dan	18-01-2007	19-01-2008 to 18-01-2009	0.0714	7,000,000	–	–	–	7,000,000
Qin Tian Xiang	18-01-2007	19-01-2008 to 18-01-2009	0.0714	7,000,000	–	–	–	7,000,000
Employees								
In aggregate	18-01-2007	19-01-2007 to 18-01-2009	0.0714	17,250,000	–	–	(700,000)	16,550,000
		19-01-2008 to 18-01-2009	0.0714	63,100,000	–	–	(700,000)	62,400,000
Total				94,350,000			(1,400,000)	92,950,000

SHARE OPTION SCHEME (Continued)

A summary of the Scheme is as follows:

(1) Purpose

The purpose of the Scheme is to provide incentives or rewards to participants for their contribution or would-be contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which any member of the Group holds any equity interests (the "Invested Entity").

(2) Participants

The participants include:

a. any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, its subsidiaries and any Invested Entity;

b. any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity;

c. any supplier of goods or services to any member of the Group or any Invested Entity;

d. any customer of the Group or any Invested Entity;

e. any person or entity that provides research, development or technological support or other services to the Group or any Invested Entity;

f. any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and

g. any ex-employee who has contributed or may contribute to the development and growth of the Group and any Invested Entity.

(3) Maximum number of shares

The total number of shares which may be issued upon exercise of all options to be granted under the Option Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Option Scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the Option Scheme if this will result in such limit exceeded. As at the date of this report, the number of Shares available for issue in respect thereof is 2,367,555,418 shares representing approximately 3.45% of the issued share capital of the Company.

SHARE OPTION SCHEME (Continued)

(4) Maximum entitlement of each participant

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each participant in any 12-month period shall not exceed 1 per cent. of the issued share capital of the Company in issue. Any grant of further options above this limit shall be subject to certain requirements as stipulated in the rules of the Scheme.

(5) The period within which the shares must be taken up under an option

The period within which the Shares must be taken up an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

(6) Minimum period for exercising an option

The Board of the Company may at its discretion determine the minimum period for which an option must be held before it can be exercised.

(7) Acceptance and payment on acceptance

The option shall be deemed to have been accepted when the duplicate letter duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company. To the extent that the offer is not accepted within 28 days in the manner aforesaid, it will be deemed to have been irrevocable declined and lapsed automatically.

(8) Basis of determining the subscription price

The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

(9) Remaining life of the Scheme

The Scheme will remain in force for a period of 10 years commencing on 29 August 2002 up to 28 August 2012.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Except for the Scheme disclosed above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than the statutory compensation.

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party, and in which any directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2008, those persons (other than directors and chief executive of the Company) who had interests and short positions in shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of person holding an interest in shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO	**Nature of interest**	**Number of shares in issue subject to long position**	**Approximate percentage of issued share capital of the Company**	*Notes*
Kung Ai Ming	Family and Corporate interest	32,665,052,603	47.59%	1
Rosewood Assets Limited	Beneficial interest	6,518,000,210	9.50%	3
Pippen Limited	Beneficial interest	14,830,245,497	21.60%	3
Righteous International Limited	Corporate interest	3,742,493,498	5.45%	3
Macro Resources Limited	Beneficial interest	3,742,493,498	5.45%	2&3
First Best Assets Limited	Beneficial interest	7,504,986,998	10.93%	3
CITIC Group	Corporate interest	8,635,691,472	12.58%	2
Lim Siew Choon	Corporate interest	10,019,673,777	14.60%	4
Empire Gate Industrial Limited	Beneficial interest	6,714,986,997	9.78%	4
Lee Tat Man	Beneficial interest	60,900,000	0.09%	
	Security interest	7,700,000,000	11.22%	

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS (Continued)

Notes:

1. Ms. Kung Ai Ming is the spouse of Mr. Yu and was taken to be interested in those shares in which Mr. Yu and herself (together with their respective corporate interests) held an interest.

2. CITIC Group was indirectly interested in 8,635,691,472 shares, of which interests are held by its wholly-owned subsidiary, Staverley Assets Ltd., and its 40% owned company, Macro Resources Limited.

3. Rosewood Assets Limited, Pippen Limited, Righteous International Limited and First Best Assets Limited are companies wholly owned by Mr. Yu and Macro Resources Limited is held as to 60% by Righteous International Limited. Their interests in shares are disclosed as the corporate interests of Mr. Yu above. Interest held by Macro Resources Limited was included as the interest of Righteous International Limited.

4. Empire Gate Industrial Limited is wholly owned by Mr. Lim Siew Choon. Its interest in shares was included as interest held by Mr. Lim Siew Choon.

Save as disclosed above, as at 31 December 2008, no person (other than directors and chief executive of the Company) had notified to the Company any interests or short positions in shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Company and the Group are set out in note 41 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws or the law in Bermuda.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

PUBLIC FLOAT

Based on the publicly available information and to the best knowledge of the directors, the Company has maintained during the year sufficient public float as required under the Listing Rules.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the "Corporate Governance Report" on pages 31 to 36.

AUDIT COMMITTEE

The Audit Committee comprises all the independent non-executive directors of the Company, namely Mr. Huang Yaowen, Prof. Jiang Ping and Mr. Lau Yip Leung. The Audit Committee has reviewed with the auditors of the Company and management the accounting principles and practices adopted by the Group, the audited accounts for the year ended 31 December 2008, and discussed the auditing, financial control, internal control and risk management systems.

AUDITORS

The financial statements for the year have been audited by Messrs. Grant Thornton who retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting for the re-appointment of auditors of the Company.

On behalf of the Board

Yu Pun Hoi
Chairman

Hong Kong, 24 April 2009

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain high corporate governance standard and unambiguous procedures to ensure the integrity, transparency and quality of disclosure in order to enhance its shareholders' value.

CORPORATE GOVERNANCE PRACTICE

In the opinion of the Board, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2008, except for the deviation from Code A.2.1, A.4.1 and A.4.2 which, in the Company's opinion, are unsuitable or inappropriate for adoption. Explanations for such non-compliance are provided below.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made to all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2008.

The Company has also established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

DELEGATION BY THE BOARD

The overall management of the Company's businesses is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and monitoring its affairs. All directors should take decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned senior management of the Company.

The Board has the full support of its board committees and the senior management of the Company to discharge its responsibilities.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The current Board is made up of nine directors including five executive directors, one non-executive director and three independent non-executive directors (the "INEDs"). The directors are, collectively and individually, aware of their responsibilities to the shareholders. The directors' biographical information is set out on pages 18 to 22 under the heading "Biographical Details of Directors and Senior Management". The Board consists of the following:

Executive Directors

Mr. YU Pun Hoi *(Chairman)*	
Mr. QIN Tian Xiang	
Ms. CHEN Dan	
Mr. WANG Gang	(appointed on 10 March 2009)
Ms. LIU Rong	(appointed on 10 March 2009)

Non-executive Directors

Mr. LAM Bing Kwan	
Mr. YU Lin Hoi*	(retired on 26 May 2008)

Independent Non-executive Directors

Mr. HUANG Yaowen
Prof. JIANG Ping
Mr. LAU Yip Leung

* Mr. Yu Lin Hoi is the elder brother of Mr. Yu Pun Hoi.

The Board is also responsible for the procedures of agreeing to the appointment of its own members and for nominating on first appointment and thereafter at regular intervals by rotation. It reviews the structure, size and composition (including the skill, knowledge and experience) of the Board from time to time and determines the appointments of directors.

Code Provision A.4.2 stipulated that every director including those appointed for a specific term should be subject to retirement by rotation at least once every three years.

According to Bye-law 99, every Director, including those appointed for a specific term, shall (save for any executive Chairman or Managing director) be subject to retirement by rotation at the annual general meeting at least once every three years. In the opinion of the Board, stability and continuation are key factors to the successful implementation of business plans. The Board believes that it is beneficial to the Group that there is continuity in the role of the chairman and, therefore, the Board is of the view that the chairman should be exempt from this arrangement at the present time.

Saved as disclosed above, Board members do not have any financial, business and family or other material/relevant relationship with each other. During the year, the Board held four meetings.

BOARD OF DIRECTORS (Continued)

Chairman and Chief Executive Officer

Code Provision A.2.1 stipulated that the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same individual.

The Company has not appointed a CEO. The role of the CEO is also performed by Mr. Yu Pun Hoi who is the chairman of the Company. The Board believes that vesting the roles of both chairman and CEO in the same person provides the Company with strong and consistent leadership, and allows for effective and efficient planning and implementation of business decisions and strategies.

Non-executive Directors

Code Provision A.4.1 stipulated that non-executive directors should be appointed for a specific term subject to re-election.

The non-executive directors of the Company are not appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation requirements in accordance with the Company's Bye-Laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three INEDs of whom Mr. Lau Yip Leung is a certified public accountant in Hong Kong. Besides, Mr. Huang Yaowen is practicing lawyer in the PRC.

The Company has received, from each of the INEDs, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

BOARD COMMITTEES

The Board has established three board committees, namely Executive Committee, Audit Committee and Remuneration Committee, to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities.

Executive Committee

The Company formulated written terms of reference for the Executive Committee, which consists of all the executive directors as follows:

Mr. YU Pun Hoi *(Chairman)*	
Mr. QIN Tian Xiang	
Ms. CHEN Dan	
Mr. WANG Gang	(appointed on 10 March 2009)
Ms. LIU Rong	(appointed on 10 March 2009)

BOARD COMMITTEES (Continued)

Executive Committee (Continued)

The duties of the Executive Committee are empowered to plan, determine, approve, implement, handle, arrange, review and amend all policies, operations and internal control of the Group, ensuring that the delegation of its powers to the senior management is clearly defined, and that a transparent reporting procedural system is in place and effectively monitored. The Executive Committee held four meetings during the year.

Audit Committee

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee consists of all the INEDs as follows:

Mr. HUANG Yaowen *(Chairman of the Audit Committee)*
Prof. JIANG Ping
Mr. LAU Yip Leung

The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reports and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

During the year, the Audit Committee held three meetings, in particular, to review with management the accounting principles and practices adopted by the Group, the audited accounts for the year ended 31 December 2007 and the unaudited interim results for the six months ended 30 June 2008, and discussed the auditing, financial control, internal control and risk management systems.

Remuneration Committee

The Company formulated written terms of reference for the Remuneration Committee in accordance with the requirements of the Listing Rules. The Remuneration Committee consists of all the INEDs as follows:

Mr. HUANG Yaowen *(Chairman of the Remuneration Committee)*
Prof. JIANG Ping
Mr. LAU Yip Leung

The Remuneration Committee is responsible for ensuring formal and transparent procedures for formulating remuneration policies and overseeing the remuneration packages of the directors and senior management. It takes into consideration on such factors as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions and desirability of performance-based remuneration. The Remuneration Committee held one meeting during the year.

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

The following table shows the individual attendance of each director at the meetings of the full Board, the Executive Committee, the Audit Committee and the Remuneration Committee for the year ended 31 December 2008:

	Attendance/Number of Meetings			
Name of Director	**Board**	**Executive Committee**	**Audit Committee**	**Remuneration Committee**
Executive Directors				
Mr. YU Pun Hoi	4/4	4/4	N/A	N/A
Mr. QIN Tian Xiang	2/4	2/4	N/A	N/A
Ms. CHEN Dan	4/4	3/4	N/A	N/A
Non-executive Directors				
Mr. LAM Bing Kwan	4/4	N/A	N/A	N/A
Mr. YU Lin Hoi (retired on 26 May 2008)	1/4	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. HUANG Yaowen	4/4	N/A	3/3	1/1
Prof. JIANG Ping	4/4	N/A	3/3	1/1
Mr. LAU Yip Leung	4/4	N/A	3/3	1/1
Number of meetings held during the year	4	4	3	1

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITOR'S REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2008.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on page 37.

The remuneration paid to the external auditors of the Group in respect of audit services and non-audit services for the year ended 31 December 2008 amounted to HK$4,877,000 and HK$494,000 respectively. An analysis of the remuneration paid to the external auditors of the Group is set out in note 8 to the financial statements.

INTERNAL CONTROLS

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management. In September 2008, the Board approved the Company to install a new accounting system for generating the financial information in a more efficient and comprehensive manner.

During the year under review, the Board, Audit Committee and Executive Committee has conducted regular reviews of the effectiveness of the internal control procedures of the Group.

On behalf of the Board

Watt Ka Po James
Company Secretary

Hong Kong, 24 April 2009

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Member of Grant Thornton International Ltd

To the members of Nan Hai Corporation Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Nan Hai Corporation Limited (the "Company") set out on pages 38 to 114, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

24 April 2009

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue/Turnover	5(a)	**494,861**	673,031
Cost of sales and services provided		**(188,711)**	(131,996)
Gross profit		**306,150**	541,035
Other operating income	5(b)	**57,605**	13,972
Gain arising on acquisition of additional interests in subsidiaries		**9,991**	30,292
Gain/(Loss) on disposal and dissolution of subsidiaries	34(b)	**56,626**	(7,685)
Selling and marketing expenses		**(284,952)**	(221,962)
Administrative expenses		**(321,167)**	(250,045)
Other operating expenses		**(150,055)**	(106,478)
Finance costs	7	**(186,586)**	(46,194)
Impairment loss on goodwill		**(17,000)**	–
Share of results of associates	17	**(3)**	–
Loss before income tax	8	**(529,391)**	(47,065)
Income tax (expense)/credit	9	**(5,372)**	68,602
(Loss)/Profit for the year		**(534,763)**	21,537
Attributable to:			
Equity holders of the Company	10	**(492,238)**	(14,570)
Minority interests		**(42,525)**	36,107
(Loss)/Profit for the year		**(534,763)**	21,537
		HK cents	HK cents
Loss per share for loss attributable to the equity holders of the Company during the year	11		
– Basic		**(0.7171)**	(0.0213)
– Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

as at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**264,941**	137,426
Investment property	14	**12,015**	–
Prepaid land lease payments under operating leases	15	**58,111**	55,915
Interest in associates	17	**2,623**	–
Available-for-sale financial assets		**324**	324
Deposits	18	**176,084**	58,989
Intangible assets	19	**303,073**	298,655
Deferred tax assets	30	**7,990**	6,400
		825,161	557,709
Current assets			
Inventories	20	**7,921,036**	6,769,600
Financial assets at fair value through profit or loss	21	**346,432**	5,048
Trade receivables	22	**28,256**	86,268
Deposits, prepayments and other receivables	18	**1,367,513**	585,318
Amount due from an associate	26(d)	**20**	–
Time deposits	23	**–**	213,561
Cash and cash equivalents	23	**211,145**	232,146
		9,874,402	7,891,941
Current liabilities			
Trade payables	24	**129,046**	136,737
Other payables and accruals	25	**671,552**	481,956
Deferred revenue		**54,731**	50,261
Provision for tax		**85,468**	63,401
Amount due to a director	26(a)	**24,361**	132,461
Amounts due to shareholders	26(b)	**5,006**	5,006
Amount due to a minority shareholder	26(c)	**12,000**	12,000
Amount due to an associate	26(d)	**5,507**	5,507
Bank and other borrowings	27	**1,430,658**	310,148
Finance lease liabilities	28	**249**	335
		2,418,578	1,197,812
Net current assets		**7,455,824**	6,694,129
Total assets less current liabilities		**8,280,985**	7,251,838

CONSOLIDATED BALANCE SHEET

as at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current liabilities			
Bank and other borrowings	27	**831,172**	1,587,400
Finance lease liabilities	28	**56**	509
Finance from a third party	29	**2,128,047**	–
Amounts due to shareholders	26(e)	**437,482**	407,070
Deferred tax liabilities	30	**226,457**	212,977
		3,623,214	2,207,956
Net assets		**4,657,771**	5,043,882
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	31	**686,450**	686,450
Reserves	33	**3,076,981**	3,402,074
		3,763,431	4,088,524
Minority interests		**894,340**	955,358
Total equity		**4,657,771**	5,043,882

Yu Pun Hoi
Director

Wang Gang
Director

BALANCE SHEET

as at 31 December 2008

	Notes	**2008 HK$'000**	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**206**	177
Interests in subsidiaries	16	**–**	–
		206	177
Current assets			
Amounts due from subsidiaries	26(f)	**6,581,054**	4,960,185
Other receivables and deposits		**1,173**	1,554
Cash and cash equivalents	23	**5,249**	1,705
		6,587,476	4,963,444
Current liabilities			
Other payables and accruals		**5,576**	6,480
Amount due to a director	26(a)	**18,204**	74,310
Amounts due to subsidiaries	26(g)	**2,864,352**	1,002,421
		2,888,132	1,083,211
Net current assets		**3,699,344**	3,880,233
Total assets less current liabilities		**3,699,550**	3,880,410
Non-current liabilities			
Amounts due to shareholders	26(e)	**437,482**	407,070
Net assets		**3,262,068**	3,473,340
EQUITY			
Share capital	31	**686,450**	686,450
Reserves	33	**2,575,618**	2,786,890
Total equity		**3,262,068**	3,473,340

Yu Pun Hoi
Director

Wang Gang
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Loss before income tax		**(529,391)**	(47,065)
Adjustments for:			
Interest income		**(22,287)**	(2,845)
Interest expenses		**37,852**	46,194
Finance costs on finance from a third party		**148,734**	–
Dividend income		**(80)**	(134)
Depreciation of property, plant and equipment		**41,045**	21,755
Depreciation of investment property		**643**	–
Amortisation of intangible assets other than goodwill		**35,159**	23,199
Write-off of property, plant and equipment		**1,162**	452
(Gain)/Loss on disposal and dissolution of subsidiaries		**(56,626)**	7,685
Impairment loss on goodwill		**17,000**	–
Operating lease charges on prepaid land leases		**1,295**	738
Bad debt written off and provision for impairment of receivables		**20,676**	23,765
Loss/(Gain) on disposal of property, plant and equipment		**730**	(54)
Fair value loss/(gain) on financial assets at fair value through profit or loss		**8,950**	(3,262)
Equity-settled share-based compensation expenses		**86**	3,338
Gain arising on acquisition of additional interests in subsidiaries		**(9,991)**	(30,292)
Share of results of associates		**3**	–
Write-off of intangible assets		**–**	1,070
Operating (loss)/profit before working capital changes		**(305,040)**	44,544
Increase in inventories		**(1,196,721)**	(1,302,734)
(Increase)/Decrease in trade receivables, deposits, prepayments and other receivables		**(843,686)**	287,420
Increase in trade payables, other payables and accruals		**367,987**	410
Increase/(Decrease) in deferred revenue		**1,265**	(15,022)
Increase in amount due from an associate		**(4)**	–
Decrease in amount due to an associate		**–**	(1,021)
(Decrease)/Increase in amount due to a director		**(19,048)**	134,164
Cash used in operations		**(1,995,247)**	(852,239)
Interest received		**22,287**	2,845
Interest paid		**(5,560)**	(12,292)
Income taxes refunded/(paid)		**9,699**	(25,523)
Net cash used in operating activities		**(1,968,821)**	(887,209)

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from investing activities			
Payments to acquire intangible assets		**(9,258)**	(63,659)
Payments to acquire property, plant and equipment		**(107,078)**	(87,923)
Acquisition of an associate		**(2,079)**	–
Acquisition of subsidiaries	34(a)	**(422)**	–
Acquisition of financial assets at fair value through profit or loss		**(352,416)**	–
Increase in deposits		**(109,288)**	(22,074)
Decrease/(Increase) in time deposits		**224,694**	(206,462)
Decrease in pledged bank deposit		**–**	23,020
Proceeds from disposal of property, plant and equipment		**1,121**	1,383
Net cash inflow arising from disposal and dissolution of subsidiaries	34(b)	**54,300**	37,736
Dividend income		**80**	134
Net cash used in investing activities		**(300,346)**	(317,845)
Cash flows from financing activities			
Repayments of bank and other borrowings		**(326,109)**	(602,560)
Repayments of finance lease liabilities		**(539)**	(286)
Repayments of finance from a third party		**(111,403)**	–
Proceeds from bank and other borrowings		**567,352**	1,925,261
Proceeds from finance from a third party		**2,145,000**	–
Proceeds from issuance of share capital		**–**	19,359
Repayments to security brokers and margin financiers		**(34,816)**	(1,140)
Net cash generated from financing activities		**2,239,485**	1,340,634
Net (decrease)/increase in cash and cash equivalents		**(29,682)**	135,580
Cash and cash equivalents at 1 January		**231,876**	86,062
Effect of foreign exchange rate changes, on cash held		**8,681**	10,234
Cash and cash equivalents at 31 December		**210,875**	231,876
Analysis of the balances of cash and cash equivalents			
Cash at banks and in hand		**211,145**	232,146
Bank overdrafts		**(270)**	(270)
		210,875	231,876

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008

	Equity attributable to the Company's equity holders									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Retained profits/ (Accu-mulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007	682,090	950,882	1,922,474	9,178	6,496	47,839	358,509	3,977,468	907,325	4,884,793
Exchange differences (Net income recognised directly in equity)	–	–	–	–	–	101,631	–	101,631	12,608	114,239
(Loss)/Profit for the year	–	–	–	–	–	–	(14,570)	(14,570)	36,107	21,537
Total recognised income and expense for the year	–	–	–	–	–	101,631	(14,570)	87,061	48,715	135,776
Issue of ordinary shares upon exercise of share options	4,360	14,999	6,871	–	(6,871)	–	–	19,359	–	19,359
Equity-settled share-based compensation expenses	–	–	–	–	3,338	–	–	3,338	–	3,338
Transfer to general reserve	–	–	–	7,231	–	–	(7,231)	–	–	–
Released on forfeiture of share options	–	–	–	–	(680)	–	680	–	–	–
Released on disposal and dissolution of subsidiaries	–	–	4,374	–	–	(3,076)	–	1,298	–	1,298
Released on acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	(265,032)	(265,032)
Capital contribution by the Group to acquire additional interests in subsidiaries	–	–	–	–	–	–	–	–	264,350	264,350
At 31 December 2007 and 1 January 2008	**686,450**	**965,881**	**1,933,719**	**16,409**	**2,283**	**146,394**	**337,388**	**4,088,524**	**955,358**	**5,043,882**
Exchange differences (Net income recognised directly in equity)	**–**	**–**	**–**	**–**	**–**	**214,903**	**–**	**214,903**	**(8,502)**	**206,401**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(492,238)**	**(492,238)**	**(42,525)**	**(534,763)**
Total recognised income and expense for the year	**–**	**–**	**–**	**–**	**–**	**214,903**	**(492,238)**	**(277,335)**	**(51,027)**	**(328,362)**
Equity-settled share-based compensation expenses	**–**	**–**	**–**	**–**	**86**	**–**	**–**	**86**	**–**	**86**
Transfer to general reserve	**–**	**–**	**–**	**19**	**–**	**–**	**(19)**	**–**	**–**	**–**
Released on expiry/forfeiture of share options	**–**	**–**	**–**	**–**	**(249)**	**–**	**249**	**–**	**–**	**–**
Released on disposal and dissolution of subsidiaries	**–**	**–**	**–**	**–**	**–**	**(47,844)**	**–**	**(47,844)**	**–**	**(47,844)**
Released on acquisition of additional interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,991)**	**(9,991)**
At 31 December 2008	**686,450**	**965,881***	**1,933,719***	**16,428***	**2,120***	**313,453***	**(154,620)***	**3,763,431**	**894,340**	**4,657,771**

* These reserve accounts comprise the consolidated reserves of HK$3,076,981,000 (2007: HK$3,402,074,000) in the consolidated balance sheet.

1. GENERAL INFORMATION

Nan Hai Corporation Limited (the "Company") is a limited liability company incorporated and domiciled in Bermuda. The address of the Company's registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and, its principal place of business is 39th Floor, New World Tower I, 16-18 Queen's Road Central, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Company and its subsidiaries (the "Group") are principally engaged in property development, culture and media services, corporate IT application services, financial information services and distance learning education services. Details of the principal activities of the Company's subsidiaries are set out in note 16.

The financial statements on pages 38 to 114 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31 December 2008 were approved for issue by the board of directors on 24 April 2009.

2. ADOPTION OF NEW AND AMENDED HKFRSs

2.1 Impact of new and amended HKFRSs which are effective during the year

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2008.

HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets

The new HKFRSs had no material effect on how the results and financial position for the current or prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

2. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

2.2 Impact of new and amended HKFRSs which are issued but not yet effective

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 (Amendment)	Eligible Hedged Items[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[2]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Reassessment of Embedded Derivatives and Financial Instruments: Recognition and Measurement – Embedded Derivatives[5]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[2]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[2]
Various	Annual Improvements to HKFRSs 2008[6]

Note

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for annual periods ending on or after 30 June 2009
6 Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRS

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncements.

2. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

2.2 Impact of new and amended HKFRSs which are issued but not yet effective (Continued)

Among these new standards and interpretations, HKAS 1 (Revised) Presentation of Financial Statements is expected to be relevant to the Group's financial statements. This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Group but will give rise to additional disclosures.

In addition, HKFRS 8 Operating Segments may result in new or amended disclosures. The directors are in the process of identifying reportable operating segments as defined in HKFRS 8.

The directors are currently assessing the impact of the other new or amended HKFRSs upon initial application but are not yet in a position to state whether they would have material financial impact on the Group's results and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

The financial statements have been prepared on the historical cost basis except for financial instruments classified as available-for-sale and at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3.2 Basis of consolidation

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Subsidiaries and minority interests

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 3.15.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary being acquired, are recognised in accordance with note 3.5.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of 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, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.10) of the associate and its carrying amount.

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 in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 3.4.

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination 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, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.10).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

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

3.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	5%
Leasehold improvements, furniture, fixtures and equipment	10% to 33$^{1}/_{3}$% over lease terms whichever involves shorter period
Motor vehicles/yachts	10% to 33$^{1}/_{3}$%

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property, plant and equipment (Continued)

Construction in progress represents assets under construction and is carried at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment and depreciation commences when the construction work is completed and the asset is ready for use.

3.7 Investment property

Investment property is a building which is owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided so as to write off the cost of investment property using the straight line method over the lease term.

Transfer from property, plant and equipment to investment property shall be made when, and only when, there is a change in use, evidenced by the end of owner-occupation, for a transfer from owner-occupied property to investment property. The transfers between owner-occupied property and investment property which are measured at cost less accumulated depreciation and impairment losses do not change the carrying amount of the property transferred and the cost of that property on transfer.

3.8 Leases

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

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Leases (Continued)

(ii) *Assets acquired under finance leases*

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

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

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

(iii) *Operating lease charges as the lessee*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

(iv) *Assets leased out under operating leases as the lessor*

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

3.9 Other intangible assets

Computer software

Computer software is recognised initially at cost. After initial recognition, it is carried at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the computer software to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of four years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Other intangible assets (Continued)

Research and development costs

Costs associated with research activities are expensed in the income statement as they occur. Costs that are directly attributable to the development phase are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated developments are recognised as intangible assets. They are subject to the same subsequent measurement method as externally acquired intangible assets.

All other development costs are expensed as incurred.

3.10 Impairment of non-financial assets

Goodwill arising on an acquisition of subsidiary, computer software, development cost, property, plant and equipment, prepaid land lease payments under operating leases, non-current portion of deposits, investment property and, interests in subsidiaries and associates are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Impairment of non-financial assets (Continued)

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

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

3.11 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries and associates are set out below.

Classification of financial assets

Financial assets other than hedging instruments are classified into the following categories: (i) financial assets at fair value through profit or loss; (ii) loans and receivables and (iii) available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Financial assets (Continued)

Classification of financial assets (Continued)

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-making. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out in note 3.20 below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Financial assets (Continued)

Classification of financial assets (Continued)

(ii) Loans and receivables

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

(iii) Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recycled to profit or loss. Interest calculated using the effective interest method is recognised in the income statement.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Financial assets (Continued)

Impairment of financial assets (Continued)

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement of the period in which the impairment occurs. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement of the period in which the reversal occurs and reversed against the allowance account for subsequent recoveries of amount previously charged to the allowance account.

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

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the income statement as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost and net realisable value are determined as follows:

(i) Properties under development

The cost of properties under development comprises specifically identified cost, included finance costs capitalised (see note 3.13), aggregate cost of development, materials and supplies, wages and other direct expenses. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

(ii) Completed properties held for sale

Cost is determined by apportionment of the total land and development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price, based on prevailing market conditions, less costs to be incurred in selling the property.

(iii) Confectionery and merchandise goods

Cost comprises the cost of purchased goods calculated using FIFO method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

3.13 Finance costs

Finance costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other finance costs are expensed as incurred.

3.14 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks or other financial institutions, and short-terms highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. For the purpose of cash flow statement presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.15 Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, finance from a third party, trade and other payables and finance lease liabilities. They are included in balance sheet line items as bank and other borrowings, finance lease liabilities, finance from a third party, trade and other payables, amount due to a director, amounts due to shareholders, amount due to a minority shareholder, amount due to an associate and amounts due to subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Financial liabilities (Continued)

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

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

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

(i) Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(ii) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

(iii) Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 3.8).

(iv) Finance from a third party

The finance from a third party is recognised initially at fair value, net of transaction costs incurred. The finance from a third party is subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the finance contract on a systematic basis.

3.16 Deferred revenue

Deferred revenue consists primarily of deferred revenue from prepaid service fees received from subscribers. Revenue from prepaid service fees is recognised when the relevant services are rendered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition, unless the fair value cannot be measured reliably, and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3.18 Financial guarantees issued

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

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

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

3.19 Share capital

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Revenue recognition

Revenue comprises the fair value for the sale of goods, rendering of services and the use by others of the Group's assets yielding interest and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

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

Ticket income from the sale of tickets owned and controlled by the Group is recognised as income when the ticket is issued.

Sales of confectionery, merchandise and souvenir are recognised when goods are delivered.

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

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

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. When services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period of time unless there is evidence that some other method better represents the stage of completion.

3.21 Foreign currency translation

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

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

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

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

Other exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Retirement benefit costs and short term employee benefits

(i) *Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement benefits scheme*

The Group operates several staff retirement schemes for employees in Hong Kong and Mainland China, the People's Republic of China (the "PRC"), comprising defined contribution pension schemes and a Mandatory Provident Fund ("MPF") scheme. The assets of these schemes are held separately from those of the Group in independently administered funds. The retirement schemes are generally funded by payments from employees and by the relevant subsidiaries of the Group.

The subsidiaries operating in Mainland China are required to participate in the defined contribution retirement scheme for their employees, organised by the relevant local government authorities. They are required to make contributions to the retirement schemes at a rate of 10% to 22% (depending on the locations of the subsidiaries) of basic salaries of their employees and there are no other further obligations to the Group.

Before 1 December 2000, the Group operated a defined contribution retirement scheme (the "ORSO Scheme") in Hong Kong for all qualified employees. The rate of contribution payable by the Group was 5% of the individual employees' monthly basic salaries. The Group's contributions under the ORSO Scheme were reduced by contributions forfeited by those employees who left the scheme prior to vesting fully in the contributions. There are no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

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

The contributions recognised in respect to defined contribution retirement schemes are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Retirement benefit costs and short term employee benefits (Continued)

(iii) Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

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

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

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to capital reserve. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

3.23 Accounting for income taxes

Income tax for the year comprises current tax and deferred tax.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Accounting for income taxes (Continued)

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

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

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

3.24 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 Segment reporting

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

In respect of business segment reporting, unallocated costs represent corporate expenses and other expenses that cannot be allocated on a reasonable basis to the reportable segments. Segment assets consist primarily of properties held for and under development, intangible assets, investment property, property, plant and equipment, inventories, receivables, operating cash, financial assets at fair value through profit or loss, prepaid land lease payments under operating leases. Segment liabilities comprise operating liabilities and exclude items such as provision for tax, amounts due to a director/a minority shareholder/an associate/ shareholders and certain corporate borrowings.

Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

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

3.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and included in current liabilities as deferred government grants and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate and are presented separately from the costs.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Depreciation and amortisation

The Group depreciates and amortises the investment property, property, plant and equipment and intangible assets other than goodwill on a straight-line basis over the estimated useful life, and after taking into account their estimated residual values, at the rates of 5% per annum, 5% to $33\frac{1}{3}$% per annum and 25% per annum, respectively, commencing from the date on which the assets are available for use. The estimated useful life reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's investment property, property, plant and equipment and intangible assets other than goodwill.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

Provision for impairment of receivables

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

Net realisable value of completed properties held for sales and properties under development

Management determines the net realisable value of completed properties held for sales and properties under development by using prevailing market data such as most recent sale transactions and valuation report provided by independent qualified professional valuers.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.10. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates of the future cash flows expected to arise from the cash-generating units and suitable discount rates in order to calculate the present value.

4.2 Critical judgements in applying the Group's accounting policies

Current tax and deferred tax

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

Deferred tax assets relating to certain temporary differences and tax losses will be recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

Research and development activities

Careful judgment by the Group's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the best information available at each balance sheet date. In addition, all internal activities related to the research and development of new software products are continuously monitored by the Group's management.

5. REVENUE /TURNOVER AND OTHER OPERATING INCOME

(a) The Group's turnover represents revenue from:

	2008 **HK$'000**	2007 HK$'000
Distance learning education services	**7,171**	7,095
Corporate IT application business	**394,323**	628,064
Property management	**8,288**	6,922
Financial information services	**22,549**	21,647
Culture and media services	**16,325**	9,166
Ticketing income	**39,536**	–
Confectionery sales	**6,669**	–
Others	**–**	137
	494,861	673,031

(b) Other operating income:

	2008 **HK$'000**	2007 HK$'000
Exchange gain	**4,270**	–
Interest income	**22,287**	2,845
Dividend income	**80**	134
Other interest income	**15,769**	–
Net fair value gain on financial assets at fair value through profit or loss	**–**	3,262
Rental income	**4,483**	–
Write back of sundry creditors	**4,161**	3,829
Government grants	**2,242**	372
Sundry income	**4,313**	3,530
	57,605	13,972

Government grants have been received from the PRC governmental bodies in the form of the subsidies to the design, research and development of new products by certain subsidiaries of the Group. The purpose of the subsidy is to encourage innovation by granting financial assistance to commercial entities whose research and development projects meet certain criteria. There are no unfulfilled conditions or contingencies attaching to these grants.

6. SEGMENT INFORMATION

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

In accordance with the Group's internal financial reporting policy, its segment information is presented by way of two segments format: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

Summary of details of the business segments are as follows:

(a) Financial information services

(b) Corporate IT application services

(c) Property development

(d) Distance learning education services

(e) Culture and media services

(f) Other segment include trading of securities and property management

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

The Group's inter-segment sales during the year were related to the provision of corporate IT application services and distance learning education services. Inter-segment revenue is determined by directors and is based on pricing policies similar to those contracted with independent third parties, where applicable.

6. SEGMENT INFORMATION (Continued)

(a) BUSINESS SEGMENTS

2008

	Financial information services HK$'000	Corporate IT application services HK$'000	Property development HK$'000	Distance learning education services HK$'000	Culture and media services HK$'000	Other segments HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue								
Sales to external customers	22,549	394,323	–	7,171	62,530	8,288	–	494,861
Inter-segment sales	–	33,704	–	2,415	–	–	(36,119)	–
	22,549	428,027	–	9,586	62,530	8,288	(36,119)	494,861
Segment results	(37,942)	(193,917)	(62,281)	(1,744)	(30,686)	(6,101)	(33,704)	(366,375)
Interest income								38,056
Gain arising on acquisition of additional interests in subsidiaries								9,991
Gain on disposal and dissolution of subsidiaries								56,626
Unallocated corporate expenses								(81,100)
Finance costs								(186,586)
Share of results of associates								(3)
Loss before income tax								(529,391)
Income tax expense								(5,372)
Loss for the year								(534,763)
Segment assets	7,770	678,127	9,502,250	5,732	177,010	6,119	–	10,377,008
Unallocated assets								319,932
Interest in associates								2,623
Total assets								10,699,563
Segment liabilities	(21,683)	(131,974)	(437,736)	(2,172)	(76,861)	(4,608)	–	(675,034)
Loan liabilities								(4,390,182)
Unallocated liabilities								(976,576)
Total liabilities								(6,041,792)
Other information								
Capital expenditure	111	40,991	18,716	12	124,408	1,182	–	185,420
Depreciation	799	29,964	1,594	402	8,530	483	–	41,772
Amortisation	–	36,366	88	–	–	–	–	36,454
Impairment loss on goodwill	–	17,000	–	–	–	–	–	17,000
Other non-cash expenses	404	14,879	3,412	358	655	2,531	–	22,239

6. SEGMENT INFORMATION (Continued)

(a) BUSINESS SEGMENTS (Continued)

2007

	Financial information services HK$'000	Corporate IT application services HK$'000	Property development HK$'000	Distance learning education services HK$'000	Culture and media services HK$'000	Other segments HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue								
Sales to external customers	21,647	628,064	–	7,095	9,166	7,059	–	673,031
Inter-segment sales	15,485	–	–	9,859	–	–	(25,344)	–
	37,132	628,064	–	16,954	9,166	7,059	(25,344)	673,031
Segment results	(17,290)	111,930	(34,685)	(1,659)	(8,690)	84	(15,485)	34,205
Interest income								2,845
Gain arising on acquisition of additional interests in subsidiaries								30,292
Loss on disposal and dissolution of subsidiaries								(7,685)
Unallocated corporate expenses								(60,528)
Finance costs								(46,194)
Loss before income tax								(47,065)
Income tax credit								68,602
Profit for the year								21,537
Segment assets	8,311	602,466	7,758,331	11,974	23,068	6,088	–	8,410,238
Unallocated assets								39,412
Total assets								8,449,650
Segment liabilities	(17,336)	(90,306)	(436,149)	(2,323)	(10,662)	(34,460)	–	(591,236)
Loan liabilities								(1,898,392)
Unallocated liabilities								(916,140)
Total liabilities								(3,405,768)
Other information								
Capital expenditure	1,525	194,145	2,548	281	1,123	1,473	–	201,095
Depreciation	747	19,622	272	401	162	696	–	21,900
Amortisation	–	23,199	–	–	–	–	–	23,199
Other non-cash expenses	1,259	15,550	–	852	–	7,572	–	25,233

6. SEGMENT INFORMATION (Continued)

(b) GEOGRAPHICAL SEGMENTS

2008

	Europe, other than United Kingdom HK$'000	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	**–**	**172**	**494,689**	**494,861**
Other segment information				
Segment assets	**612**	**1,603,554**	**9,095,397**	**10,699,563**
Capital expenditure	**–**	**71,051**	**114,369**	**185,420**

2007

	Europe, other than United Kingdom HK$'000	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	–	53,390	619,641	673,031
Other segment information				
Segment assets	612	139,696	8,309,342	8,449,650
Capital expenditure	–	932	200,163	201,095

7. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**187,047**	99,845
Interest on other loans wholly repayable within five years	**–**	241
Finance costs on finance from a third party wholly repayable within five years	**148,734**	–
Interest on other payables	**1,894**	20,641
Interest on finance leases	**75**	39
Interest on amounts due to shareholders	**30,411**	30,411
Total finance costs on financial liabilities not at fair value through profit or loss	**368,161**	151,177
Less: Amount directly attributable to properties held for and under development capitalised *	**(181,575)**	(104,983)
	186,586	46,194

* The finance costs have been capitalised at a rate of 6.93% to 8.34% (2007: 5.58% to 8.22%) per annum.

8. LOSS BEFORE INCOME TAX

	2008 HK$'000	2007 HK$'000
Loss before income tax is arrived at after charging/(crediting):		
Amortisation of intangible assets other than goodwill*	**35,159**	23,199
Auditors' remuneration	**4,877**	4,269
Bad debts written off*	**995**	11,226
Cost of provision of corporate IT application services	**115,361**	105,078
Cost of confectionery	**3,164**	–
Cost of provision of financial information services	**10,875**	9,163
Cost of provision of culture and media services	**50,504**	8,846
Cost of inventories sold – distance learning materials	**1,279**	3,220
Cost of provision of property management services	**7,528**	5,689
Cost of sales and services provided	**188,711**	131,996
Gross depreciation of property, plant and equipment – owned assets	**40,753**	21,635
Less: Amounts included in cost of provision of corporate IT application services	**(158)**	(105)
Amounts capitalised in intangible assets	**(84)**	(145)
Amount included in research and development expenses	**(120)**	–
Net depreciation of owned assets*	**40,391**	21,385
Depreciation of leased assets*	**376**	265
Depreciation of investment property*	**643**	–
Write-off of property, plant and equipment*	**1,162**	452
Loss/(Gain) on disposal of property, plant and equipment*	**730**	(54)
Net fair value loss/(gain) on financial assets at fair value through profit or loss*	**8,950**	(3,262)
Net foreign exchange (gain)/loss	**(4,270)**	725
Gross operating lease charges on land and buildings	**53,078**	44,562
Less: Amounts included in cost of provision of corporate IT application services	**(804)**	(1,251)
Amounts capitalised in intangible assets	**(244)**	(1,403)
Amounts included in research and development expenses	**(156)**	–
Net operating lease charges on land and buildings	**51,874**	41,908
Operating lease charges on prepaid land lease	**1,295**	738
Provision for impairment of receivables, net*	**19,681**	12,539
Write-off of intangible assets*	**–**	1,070
Research and development expenses*	**10,335**	–

* included in other operating expenses

9. INCOME TAX EXPENSE/(CREDIT)

	2008 HK$'000	2007 HK$'000
The tax expense/(credit) comprises:		
Current tax		
– Hong Kong Profits Tax		
Tax charge for the year	**12,184**	–
– PRC Enterprise Income Tax		
Tax (credit)/charge for the year	**(5,563)**	5,309
(Over)/Under-provision in respect of prior years	**(79)**	439
	6,542	5,748
Deferred tax		
– Credited for the year (note 30)	**(1,170)**	(6,400)
– Attributable to decrease in tax rates (note 30)	**–**	(67,950)
	(1,170)	(74,350)
	5,372	(68,602)

For the year ended 31 December 2008, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year.

For the year ended 31 December 2007, no Hong Kong profits tax was provided in the financial statements as the companies within the Group either did not derive any assessable profit in Hong Kong or had unused tax losses brought forward to offset against the current year's assessable profits in Hong Kong.

PRC Enterprise Income Tax ("EIT") has been provided on the estimated assessable profits of subsidiaries operating in Mainland China at 25% (2007: 33%), unless preferential rates are applicable in the cities where the subsidiaries are located.

Certain subsidiaries of the Group are wholly-owned foreign enterprises in accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises and are entitled to full exemption from EIT for two years and a 50% reduction in the following three years thereafter starting from the first profit making year after offsetting prior years' tax losses.

In addition, certain subsidiaries that are located in the Beijing Economic-Technological Development Area are entitled to preferential PRC EIT rate of 15% (2007: 15%).

The Hong Kong SAR Government enacted a reduction in the profits tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009. Pursuant to the tax law passed by the tenth National People's Congress on 16 March 2007, the new EIT rates for domestic and foreign enterprises in Mainland China are unified at 25% with effective from 1 January 2008.

9. INCOME TAX EXPENSE/(CREDIT) (Continued)

Reconciliation between tax expense/(credit) and accounting loss at applicable tax rates:

	2008	2007
	HK$'000	HK$'000
Loss before income tax	**(529,391)**	(47,065)
Tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(97,407)**	(26,665)
Tax effect of non-deductible expenses	**97,733**	34,150
Tax effect of non-taxable revenue	**(20,995)**	(11,009)
Tax effect of unused tax losses not recognised	**40,438**	11,960
Utilisation of tax loss previously not recognised	**(4,310)**	(9,447)
Tax effect on temporary differences not recognised	**(46)**	(80)
Effect on opening deferred tax balances resulting from a decrease in tax rate during the year	**–**	(67,950)
Tax refund on reinvestment in a PRC subsidiary	**(9,962)**	–
(Over)/Under-provision in prior years	**(79)**	439
Income tax expense/(credit)	**5,372**	(68,602)

10. LOSS FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to the equity holders of the Company of HK$492,238,000 (2007: HK$14,570,000), a loss of HK$211,358,000 (2007: HK$57,598,000) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to the equity holders of the Company of HK$492,238,000 (2007: HK$14,570,000) and on the weighted average of 68,645,035,794 (2007: 68,365,627,780) ordinary shares in issue during the year.

The share options have no dilutive effect on the loss per share for the year ended 31 December 2008 as the exercise price of the options outstanding during the year exceeds the average market price of ordinary shares.

Diluted earnings per share for the year ended 31 December 2007 was not presented because the impact of the exercise of the share options was anti-dilutive.

12. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2008	2007
	HK$'000	HK$'000
Directors' fee (Note 36(a))	**727**	677
Wages and salaries	**370,065**	317,710
Pension costs – defined contribution plans	**61,563**	25,947
Equity-settled share-based compensation expenses	**86**	3,338
Staff welfare	**33,910**	28,690
	466,351	376,362
Less: Amounts capitalised in intangible assets	**(6,118)**	(9,460)
	460,233	366,902

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Moulds and tools HK$'000	Construction in progress HK$'000	Motor vehicles/ Yacht HK$'000	Total HK$'000
At 1 January 2007						
Cost	–	178,183	4,090	5,923	1,466	189,662
Accumulated depreciation	–	(129,018)	(4,090)	–	(196)	(133,304)
Net carrying amount	–	49,165	–	5,923	1,270	56,358
Year ended 31 December 2007						
Opening net carrying amount	–	49,165	–	5,923	1,270	56,358
Additions	33,767	45,105	–	14,602	3,104	96,578
Disposals	–	(1,171)	–	–	(158)	(1,329)
Write-off	–	(452)	–	–	–	(452)
Depreciation	(844)	(20,585)	–	–	(471)	(21,900)
Exchange differences	1,132	6,008	–	909	122	8,171
Closing net carrying amount	34,055	78,070	–	21,434	3,867	137,426
At 31 December 2007						
Cost	34,928	230,258	–	21,434	4,649	291,269
Accumulated depreciation	(873)	(152,188)	–	–	(782)	(153,843)
Net carrying amount	34,055	78,070	–	21,434	3,867	137,426
Year ended 31 December 2008						
Opening net carrying amount	**34,055**	**78,070**	**–**	**21,434**	**3,867**	**137,426**
Additions	**–**	**83,391**	**–**	**6,342**	**17,345**	**107,078**
Acquisition of subsidiaries	**–**	**69,895**	**–**	**–**	**185**	**70,080**
Disposals	**–**	**(1,670)**	**–**	**–**	**(180)**	**(1,850)**
Disposal and dissolution of subsidiaries	**–**	**(1,861)**	**–**	**–**	**(175)**	**(2,036)**
Transfer to investment property (note 14)	**(12,529)**	**–**	**–**	**–**	**–**	**(12,529)**
Write-off	**–**	**(1,140)**	**–**	**–**	**(22)**	**(1,162)**
Depreciation	**(1,195)**	**(38,541)**	**–**	**–**	**(1,393)**	**(41,129)**
Exchange differences	**2,014**	**5,285**	**–**	**1,429**	**335**	**9,063**
Closing net carrying amount	**22,345**	**193,429**	**–**	**29,205**	**19,962**	**264,941**
At 31 December 2008						
Cost	**24,157**	**341,191**	**–**	**29,205**	**20,964**	**415,517**
Accumulated depreciation	**(1,812)**	**(147,762)**	**–**	**–**	**(1,002)**	**(150,576)**
Net carrying amount	**22,345**	**193,429**	**–**	**29,205**	**19,962**	**264,941**

The carrying amount of the Group's property, plant and equipment includes an amount of HK$311,000 (2007: HK$881,000) in respect of assets held under finance lease.

The Group's buildings were charged to secure banking facilities as detailed in note 39.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements, furniture, fixtures and equipment HK$'000
At 1 January 2007	
Cost	234
Accumulated depreciation	(46)
Net carrying amount	188
Year ended 31 December 2007	
Opening net carrying amount	188
Additions	82
Depreciation	(93)
Closing net carrying amount	177
At 31 December 2007	
Cost	316
Accumulated depreciation	(139)
Net carrying amount	177
Year ended 31 December 2008	
Opening net carrying amount	**177**
Additions	**151**
Depreciation	**(122)**
Closing net carrying amount	**206**
At 31 December 2008	
Cost	**467**
Accumulated depreciation	**(261)**
Net carrying amount	**206**

14. INVESTMENT PROPERTY

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

	Group 2008 HK$'000
At 1 January 2008	
Cost	–
Accumulated depreciation	–
Net carrying amount	–
Year ended 31 December 2008	
Opening net carrying amount	–
Transfer from property, plant and equipment (note 13)	12,529
Depreciation	(643)
Net exchange differences	129
Closing net carrying amount	**12,015**
At 31 December 2008	
Cost	12,989
Accumulated depreciation	(974)
Net carrying amount	**12,015**

The fair value of the Group's investment property as at 31 December 2008 of approximately HK$32,520,000 has been determined by an independent professional qualified valuer, Vigers Appraisal and Consulting Limited, which is a member of Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experience in valuation of similar properties in recent locations.

The Group's investment property was charged to secure banking facilities as detailed in note 39.

15. PREPAID LAND LEASE PAYMENTS UNDER OPERATING LEASES

The Group's interests in leasehold land/land use rights represent prepaid operating lease payments and their carrying book value are analysed as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Outside Hong Kong, held on land with:		
Unexpired terms of leases of between 10 to 50 years	58,111	55,915

	Group	
	2008 HK$'000	2007 HK$'000
Opening net carrying amount	55,915	13,675
Additions	–	40,713
Annual charges of prepaid operating lease payments	(1,295)	(738)
Exchange differences	3,491	2,265
Closing net carrying amount	**58,111**	55,915

At 31 December 2008 and 31 December 2007, the leasehold land was pledged to secure certain banking facilities granted to the Group (note 39).

16. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**31,177**	31,177
Less: Provision for impairment	**(31,177)**	(31,177)
	–	–

Particulars of the principal subsidiaries at 31 December 2008 are as follows:

Name	Country/Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ registered capital	Percentage of capital held by the Company		Principal activities
			Directly	Indirectly	
CE Dongli Technology Group Company Limited ("CE Dongli") (note a)	PRC	RMB689,171,334 (2007: RMB529,171,334)	–	58.05 (2007: 56.57)	Information technology business
China Enterprise ASP Limited ("CE ASP")	Hong Kong	9,000,000 ordinary shares of HK$1 each	–	62.85	Investment holding
Dadi Entertainment Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100 (2007: 62.85)	Investment holding and film distribution
Dadi Media Limited ("Dadi Media")	Hong Kong	2 ordinary shares of HK$1 each	–	62.85	Investment holding
Evallon Investment Limited ("Evallon")	Hong Kong	10,000 ordinary shares of HK$100 each	–	62.85	Dormant
Goalrise Investments Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1 each	100	–	Trading of securities
Ko Tact Limited	BVI	1 ordinary share of US$1 each	–	100 (2007: 62.85)	Investment holding
Listar Properties Limited	BVI	20,000,000 ordinary shares of US$1 each	–	100	Investment holding
Liu Wan Development (BVI) Company Limited	BVI	215,000,000 ordinary shares of US$1 each	–	100	Investment holding
Liu Wan Investment Company Limited	Hong Kong	2 ordinary shares of US$1 each	–	100	Investment holding

16. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ registered capital	Percentage of capital held by the Company		Principal activities
			Directly	Indirectly	
Rich King Inc.	BVI	50,000 ordinary shares of US$1 each	–	62.85	Investment holding
Rise Manor Development Limited	Hong Kong	2 ordinary shares of HK$1 each	100	–	Provision of management services
Robina Profits Limited	BVI	1 ordinary share of US$1 each	–	62.85	Trading of securities
Shihua (Hong Kong) Financial Information Company Limited	Hong Kong	5,000,000 ordinary shares of HK$1 each	–	62.85	Provision of financial information
Sino-i Technology Limited ("Sino-i")	Hong Kong	19,914,504,877 ordinary shares of HK$0.01 each	–	62.85	Investment holding
South Sea Development (HK) Limited	Hong Kong	2 ordinary shares of HK$1 each	100	–	Investment holding
Victorious Limited	BVI	1 ordinary share of US$1 each	–	62.85	Trading of securities
View Power Investments Limited	BVI	1 ordinary share of US$1 each	100	–	Investment holding
Wise Advance Investments Limited	BVI	1 ordinary share of US$1 each	100	–	Investment holding
北京中企開源信息技術有限公司 (note b)	PRC	RMB50,000,000	–	62.85 (2007: 56.57)	Information technology business
北京世華國際金融信息有限公司 (note b)	PRC	RMB130,000,000	–	50.28	Provision of financial information on the internet
北京紅旗中文貳仟軟件技術有限公司 (note c)	PRC	RMB10,000,000	–	40.85	Information technology business
北京華夏大地遠程教育網絡服務有限公司 (note b)	PRC	RMB50,000,000	–	59.71	Operation of an educational portal and provision of online distance learning education services

16. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ registered capital	Percentage of capital held by the Company Directly	Percentage of capital held by the Company Indirectly	Principal activities
北京新網科技發展有限公司 (note b)	PRC	RMB14,485,000	–	62.85 (2007: 56.57)	Information technology business
北京新網數碼信息技術有限公司 (note b)	PRC	RMB10,000,000	–	62.85 (2007: 56.57)	Information technology business
南京天悦置業投資顧問有限公司 (note b)	PRC	US$500,000	–	100	Property management
深圳市半島城邦物業管理有限公司 (note b)	PRC	RMB3,000,000	–	100	Property management
深圳市金益田實業發展有限公司 (note b)	PRC	RMB18,000,000	–	100	Property development
深圳南海益田置業有限公司 (note b)	PRC	RMB110,000,000	–	100	Investment holding and property development
廣州東鏡新城房地產有限公司 (note c)	PRC	US$14,000,000	–	100	Property development
廣東大地影院建設有限公司 (note b)	PRC	RMB233,330,000	–	100 (2007: 62.85)	Dormant
大地影院發展有限公司 (note b)	PRC	RMB150,000,000	–	100	Operation of digital cinemas

The above table lists out the subsidiaries of the Company as at 31 December 2008 which, in the opinion of the directors, principally affected the Group's results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

(a) This subsidiary is registered as joint stock limited company under the law of PRC.

(b) These subsidiaries are registered as limited liability company under the law of PRC.

(c) These subsidiaries are registered as Sino-foreign co-operative joint venture under the law of PRC.

17. INTEREST IN ASSOCIATES

	Group	
	2008	2007
	HK$'000	HK$'000
Balance at 1 January	**–**	18,967
Acquisition of an associate	**2,626**	–
Disposal of an associate	**–**	(18,967)
Share of results of an associate – Loss before income tax	**(3)**	–
	(3)	–
Balance at 31 December	**2,623**	–

Particulars of the associates at 31 December 2008 are as follows:

Name	Country of incorporation/ establishment and operations	Particulars of issued capital/ registered capital	Percentage of interest held by the Group 2008	Percentage of interest held by the Group 2007	Nature of business
Genius Reward Company Limited*	Hong Kong	2 ordinary shares of HK$100 each	**31**	31	Inactive
廣東大地影院數字技術服務有限公司*	PRC	RMB12,000,000	**20**	–	Digital movie development

* unlisted limited liability company

The summarised financial information of the Group's associates extracted from their management accounts are as follows:

	2008	2007
	HK$'000	HK$'000
Assets	**39,334**	25,702
Liabilities	**(33,409)**	(32,601)
Revenue	**–**	–
Loss for the year	**(803)**	(788)

The Group has discontinued recognition of its share of loss of an associate. The amount of unrecognised share of loss of the associate for the year and accumulated unrecognised share of loss of the associate amounted to HK$247,000 (2007: HK$248,000) and HK$2,415,000 (2007: HK$2,168,000) respectively.

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Deposits and prepayments	**493,987**	345,613
Outstanding consideration receivable arising from the disposal of a subsidiary	**124,459**	–
Short term loan receivables	**175,371**	–
Others	**781,817**	316,871
	1,575,634	662,484
Less: Provision for impairment of receivables	**(32,037)**	(18,177)
	1,543,597	644,307
Less non-current portion:		
Long term rental deposits	**7,352**	–
Deposits for purchase of intangible assets	**141,650**	58,989
Deposits for purchase of property, plant and equipment	**27,082**	–
	176,084	58,989
	1,367,513	585,318

The outstanding consideration receivable arising from the disposal of a subsidiary is unsecured, bears interest at the rate 5% per annum and will be repayable on 24 September 2009.

The short term loan receivables are unsecured. Short term loan receivable of HK$19,871,000, which will mature in August 2009, bears interest at the rate of 15% per annum and is guaranteed by a substantial shareholder of the Company. The other short term loan receivables of HK$78,000,000 and HK$77,500,000, which will mature in August 2009 and September 2009, respectively, bear interest at the rate of 10% per annum and are guaranteed by a director, who is also the substantial shareholder of the Company.

Impairment losses in respect of other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against other receivables directly. The movement in the provision for impairment of other receivables is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At the beginning of the year	**18,177**	12,464
Provision for impairment	**18,803**	5,105
Amount written off as uncollectible	**(5,738)**	–
Exchange differences	**795**	608
At the end of the year	**32,037**	18,177

At each of the balance sheet dates, the Group's other receivables were individually determined to be impaired. The Group encountered difficulties in collection of certain other receivables and appropriate provision for impairment has been made against these other receivables. The individually impaired receivables are recognised based on the credit history of these debtors, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised. The Group does not hold any collateral over these balances. Except for the amount impaired, none of the above assets is either past due or impaired.

19. INTANGIBLE ASSETS

Group

	Computer software HK$'000	Development cost HK$'000	Goodwill HK$'000	Others HK$'000	Total HK$'000
At 1 January 2007					
Gross carrying amount/Cost	68,736	–	479,782	–	548,518
Accumulated amortisation	(15,281)	–	–	–	(15,281)
Accumulated impairment	–	–	(289,800)	–	(289,800)
Net carrying amount	53,455	–	189,982	–	243,437
Year ended 31 December 2007					
Opening net carrying amount	53,455	–	189,982	–	243,437
Additions	51,777	12,027	29,609*	–	93,413
Write-off	(1,070)	–	–	–	(1,070)
Amortisation charge for the year	(23,199)	–	–	–	(23,199)
Disposal of subsidiaries (note 34(b))	–	–	(20,433)	–	(20,433)
Exchange differences	4,617	413	1,477	–	6,507
Closing net carrying amount at 31 December 2007	85,580	12,440	200,635	–	298,655
At 31 December 2007					
Gross carrying amount/Cost	132,954	12,440	490,435	–	635,829
Accumulated amortisation	(47,374)	–	–	–	(47,374)
Accumulated impairment	–	–	(289,800)	–	(289,800)
Net carrying amount	85,580	12,440	200,635	–	298,655
Year ended 31 December 2008					
Opening net carrying amount	**85,580**	**12,440**	**200,635**	**–**	**298,655**
Additions	**1,652**	**6,610**	**–**	**1,080**	**9,342**
Acquisition of subsidiaries (note 34(a))	**–**	**–**	**40,029**	**–**	**40,029**
Impairment losses	**–**	**–**	**(17,000)**	**–**	**(17,000)**
Amortisation charge for the year	**(31,997)**	**(3,162)**	**–**	**–**	**(35,159)**
Exchange differences	**5,104**	**828**	**1,274**	**–**	**7,206**
Closing net carrying amount at 31 December 2008	**60,339**	**16,716**	**224,938**	**1,080**	**303,073**
At 31 December 2008					
Gross carrying amount/Cost	**143,062**	**19,912**	**531,738**	**1,080**	**695,792**
Accumulated amortisation	**(82,723)**	**(3,196)**	**–**	**–**	**(85,919)**
Accumulated impairment	**–**	**–**	**(306,800)**	**–**	**(306,800)**
Net carrying amount	**60,339**	**16,716**	**224,938**	**1,080**	**303,073**

* Being the difference between the consideration paid and the decrease in minority interests in the carrying value of net assets of the subsidiary in which the Group increased its ownership interest.

19. INTANGIBLE ASSETS (Continued)

For the purpose of the annual impairment test, the carrying amount of goodwill is allocated to the following cash-generating units ("CGU"):

	2008 HK$'000	2007 HK$'000
Property development	**143,111**	143,111
Corporate IT application services	**81,789**	57,524
Culture and media services	**38**	–
Net carrying amount at 31 December	**224,938**	200,635

The recoverable amounts for the CGU given above were determined based on value-in-use calculations, covering a detailed five-year financial budgets, cash flows for a further five-year period were extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The use of a longer than five years projection is considered appropriate in view of the nature of the industry to which the goodwill is related.

The key assumptions used for value-in-use calculations for the year are as follows:

	Property development		Corporate IT application services	
	2008	2007	**2008**	2007
Growth rates	**8%**	10%	**8%**	10%
Discount rates	**8%**	8%	**8%**	8%
Weighted average rate used to extrapolate cashflows beyond the budgeted period	**N/A**	N/A	**3%**	N/A

The budgeted gross margin and net profit margin were determined by the management for each individual CGU based on past performance and its expectations for market development.

The growth rate used for each of the above CGU is determined by reference to the average growth rate for the corresponding industry to which the CGU belongs.

The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

During the year ended 31 December 2008, goodwill arising from acquisition of subsidiaries stated in note 34(a), which are engaged in software development and information technology business and culture and media services, is attributable to the expanding corporate IT applications services and the capture of business opportunities.

Management has reviewed the recoverable amount as at year end by reference to the value-in-use calculation and determined that goodwill related to CGU engaging in corporate IT application services was impaired. An impairment loss of HK$17,000,000 was recognised in the consolidated income statement.

Apart from the considerations described in determining the value-in-use of the CGU above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

20. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Property development:		
Properties under development	**7,788,408**	6,345,786
Completed properties held for sale	**131,706**	423,814
Other operations:		
Confectionery	**922**	–
	7,921,036	6,769,600

All the above inventories are stated at cost.

The amount of properties under development expected to be recovered after more than one year is HK$7,788,408,000 (2007: HK$6,345,786,000). All of the other inventories are expected to be recovered within one year.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2008	2007
	HK$'000	HK$'000
Listed equity securities in Hong Kong, at fair value	**2,618**	5,048
Listed equity securities in PRC, at fair value	**376**	–
Listed debt securities in overseas, at fair value	**312,186**	–
Unlisted debt securities, at fair value	**31,252**	–
	346,432	5,048
Market value of listed equity securities	**2,994**	5,048
Market value of listed debt securities	**312,186**	–
Unlisted debt securities, at fair value	**31,252**	–
	346,432	5,048

The above financial assets at fair value through profit or loss are classified as held for trading. The fair value of the Group's investments in listed securities has been determined by reference to their quoted bid prices at the reporting date. The fair value of the Group's investments in unlisted debt securities has been determined by reference to their quoted prices readily available from the brokers at the reporting date.

Changes in fair values of the financial assets at fair value through profit or loss are recorded in other operating expenses/other income in the consolidated income statement.

22. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables analysed according to aging:		
0 – 90 days	**8,768**	14,320
91 – 180 days	**1,688**	79,987
181 – 270 days	**1,308**	1,669
271 – 360 days	**934**	1,226
Over 360 days	**30,611**	27,626
Trade receivables, gross	**43,309**	124,828
Less: Provision for impairment of receivables	**(15,053)**	(38,560)
Trade receivables, net	**28,256**	86,268

Trade receivables are due on presentation of invoices.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the provision for impairment of trade receivables is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At the beginning of the year	**38,560**	29,654
Provision for impairment	**878**	7,434
Amounts written off as uncollectible	**(25,924)**	–
Exchange differences	**1,539**	1,472
At the end of the year	**15,053**	38,560

At each of the balance sheet dates, the Group's trade receivables were individually determined to be impaired. The Group encountered difficulties in collection of certain trade receivables and appropriate provision for impairment has been made against certain trade receivables. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised. The Group does not hold any collateral over these balances.

22. TRADE RECEIVABLES (Continued)

The aging analysis of trade receivables that are not considered to be impaired is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
0 – 90 days past due	**8,768**	14,319
91 – 180 days past due	**1,688**	69,459
181 – 270 days past due	**1,308**	249
271 – 360 days past due	**934**	25
Overdue for more than 360 days	**15,558**	2,216
	28,256	86,268

Trade receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the management believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**211,145**	231,682	**5,249**	1,705
Time deposits	**–**	214,025	**–**	–
	211,145	445,707	**5,249**	1,705
Less: Time deposits with original maturity more than 3 months	**–**	(213,561)	**–**	–
	211,145	232,146	**5,249**	1,705

Included in bank and cash balance of the Group is an aggregate amount of approximately HK$104,156,000 (2007: HK$431,389,000), which represented Renminbi ("RMB") deposits placed with banks in Mainland China.

RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks which are authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. As of 31 December 2007, time deposits were made for one to six months and earn interest ranging from 1.75% to 2.88%.

The Company did not have any deposits denominated in RMB deposited with banks in Mainland China as at 31 December 2008 (2007: Nil).

24. TRADE PAYABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade payables analysed according to aging:		
0 – 90 days	**65,811**	35,516
91 – 180 days	**6,740**	9,129
181 – 270 days	**1,589**	32,350
271 – 360 days	**1,039**	242
Over 360 days	**53,867**	59,500
	129,046	136,737

25. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals as at 31 December 2008 were amounts of HK$6,000 (2007: HK$32,398,000) due to certain securities brokers and margin financiers which were secured by the Company's shares held by certain shareholders who agreed to pledge their interests in the Company to support the Group's credit facilities (2007: secured by 2,126,993,316 shares in Sino-i and by the Company's shares held by certain shareholders). The amounts due bore interest at the rate of 8.25% per annum (2007: 9% to 11% per annum and a floating rate of Hong Kong dollar prime rate plus 3% to 3.25% per annum).

Included in other payables and accruals as at 31 December 2008 was HK$18,814,000 (2007: HK$6,760,000) in respect of deferred government grants mainly related to the Group's design, research and development of new products of the Group which contributes positively to the local industry environment. The government grant must be utilised for the development of products specified and be recognised upon conditions fulfilled.

26. AMOUNT(S) DUE FROM/(TO) A DIRECTOR/A MINORITY SHAREHOLDER/ SHAREHOLDERS/SUBSIDIARIES/AN ASSOCIATE

(a) Amount due to a director

The amount due to a director is unsecured, interest-free and repayable on demand.

(b) Amounts due to shareholders – current liabilities

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

(c) Amount due to a minority shareholder

The amount due to a minority shareholder represents dividends payable to a minority shareholder of a subsidiary. The amount due is unsecured, interest-free and repayable on demand.

(d) Amount due from/(to) an associate

The amount due from/(to) an associate is unsecured, interest-free and repayable on demand.

26. AMOUNT(S) DUE FROM/(TO) A DIRECTOR/A MINORITY SHAREHOLDER/ SHAREHOLDERS/SUBSIDIARIES/AN ASSOCIATE (Continued)

(e) Amounts due to shareholders – non-current liabilities

The amounts due to shareholders are unsecured, interest-free and fall due on 60 months from 30 August 2005. The amounts due to shareholders are initially recognised at fair value of HK$336,110,000 (2007: HK$336,110,000). As at 31 December 2008, the amounts are stated at amortised cost calculating using an effective interest rate of 9.05% (2007: 9.05%).

(f) Amounts due from subsidiaries

	Company	
	2008	2007
	HK$'000	HK$'000
Amounts due from subsidiaries	**7,025,496**	5,386,927
Less: Allowances for amounts due from subsidiaries	**(444,442)**	(426,742)
	6,581,054	4,960,185

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

(g) Amounts due to subsidiaries

Included in the total amounts due to subsidiaries, HK$1,649,588,000 (2007: HK$711,572,000) is secured by share mortgage of a subsidiary, bears interest at 8% per annum and will be repayable on or before 30 June 2009 or any other date to be mutually agreed. The remaining balance is unsecured, interest-free and repayable on demand.

27. BANK AND OTHER BORROWINGS

		Group	
		2008	2007
	Note	**HK$'000**	HK$'000
Bank overdrafts		**270**	270
Bank loans	(a)	**2,261,560**	1,897,278
		2,261,830	1,897,548
Secured		**2,261,560**	1,897,278
Unsecured		**270**	270
		2,261,830	1,897,548

27. BANK AND OTHER BORROWINGS (Continued)

At 31 December 2008, the bank and other borrowings of the Group were repayable as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**1,430,658**	310,148
In the second year	**539,405**	1,131,447
In the third to fifth years	**291,767**	455,953
Wholly repayable within 5 years	**2,261,830**	1,897,548
Less: Portion due within one year under current liabilities	**(1,430,658)**	(310,148)
Portion due over one year under non-current liabilities	**831,172**	1,587,400

(a) At 31 December 2008, bank loans amounted to HK$2,261,560,000 (2007: HK$1,897,278,000) carry interest at floating rates ranging from 5.40% to 8.51% per annum (2007: 6.48% to 8.22% per annum). The carrying amounts of bank loans approximate their fair values.

(b) The carrying amounts of the borrowings are denominated in the following currencies:

	Group	
	2008	2007
	HK$'000	HK$'000
RMB	**2,261,560**	1,897,278
Euro	**270**	270
	2,261,830	1,897,548

28. FINANCE LEASE LIABILITIES

(a) Total minimum lease payments is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Due within one year	**274**	378
Due in the second to fifth years	**60**	581
	334	959
Future finance charges on finance leases	**(29)**	(115)
Present value of finance lease liabilities	**305**	844

(b) The present value of finance lease liabilities is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Due within one year under current liabilities	**249**	335
Due in the second to fifth years under non-current liabilities	**56**	509
	305	844

The Group has entered into finance leases for certain motor vehicles with remaining lease terms ranging from one to two years. Interest rate under the leases is fixed ranging from 2.50% to 4.25% (2007: 2.50% to 4.25%) per annum. The lease does not have options to renew or any contingent rental provisions. Under the lease terms, the Group has the option to purchase the leased asset at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the leases.

Finance lease liabilities are secured by the leased motor vehicles where the lessor has the rights to revert in event of default. The carrying amount of the finance lease liabilities are denominated in Hong Kong dollars and approximate their fair values.

29. FINANCE FROM A THIRD PARTY

The finance from a third party will mature on 22 July 2011, finance costs on which are calculated at an effective rate of return of 16% per annum. The Group has an option to repay the whole or part of the finance from a third party at any time subsequent to 21 July 2010.

The finance from a third party is secured by share mortgage and assignment of shareholders' loan of two wholly-owned subsidiaries of the Company and corporate guarantee given by the Company. The finance costs payable to that third party would be equal to an annualised internal rate of return of 15% for the period from the drawdown date to the maturity date.

30. DEFERRED TAX

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

Deferred tax liabilities

Group

	Temporary differences attributable to accelerated depreciation allowances HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2007	790	252,000	252,790
Exchange differences	–	28,137	28,137
Decrease in tax rate (note 9)	–	(67,950)	(67,950)
At 31 December 2007 and 1 January 2008	**790**	**212,187**	**212,977**
Exchange differences	**–**	**13,480**	**13,480**
Gross deferred tax liabilities at 31 December 2008	**790**	**225,667**	**226,457**

Deferred tax assets

Group

	Loss available for offset against future taxable profits HK$'000
At 1 January 2007	–
Deferred tax credited to the income statement (note 9)	6,400
At 31 December 2007 and 1 January 2008	**6,400**
Exchange differences	**420**
Deferred tax credited to the income statement (note 9)	**1,170**
Gross deferred tax assets at 31 December 2008	**7,990**

At 31 December 2008, the amount of unused tax losses for which no deferred tax assets is recognised in the balance sheet is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Temporary differences attributable to:		
– unused tax losses	**706,942**	560,366

30. DEFERRED TAX (Continued)

Deferred tax asset in respect of tax losses has not been recognised in the financial statements due to the unpredictability of future profit streams against which the tax losses can be utilised. The tax losses of the subsidiaries operating in Mainland China amounted to HK$231,829,000 (2007: HK$45,481,000) can be carried forward for 5 years and tax losses of the subsidiaries operating in Hong Kong amounted to HK$475,113,000 (2007: HK$514,885,000) will not be expired under the current tax legislation.

31. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each	HK$'000
Authorised:		
At 1 January 2007, 31 December 2007 and **31 December 2008**	**500,000,000,000**	**5,000,000**
Issued and fully paid:		
At 1 January 2007	68,209,035,794	682,090
Issue of ordinary shares upon exercise of share options	436,000,000	4,360
At 31 December 2007 and **31 December 2008**	**68,645,035,794**	**686,450**

32. SHARE OPTION SCHEME

Company

The Company operates a share option scheme.

On 29 August 2002, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the board of directors of the Company.

On 18 January 2007, share options to subscribe for a total of 157,000,000 of the Company's shares, representing approximately 0.52% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors and employees of the Company and its subsidiaries at an exercise price of HK$0.0714 per share.

The share options vest upon the commencement of the exercise period, which is determined by the directors at the date of grant.

32. SHARE OPTION SCHEME (Continued)

Company (Continued)

The movements of the Company's share options during the year are as follows:

	2008 Number	**2008** Weighted average exercise price per share HK$	2007 Number	2007 Weighted average exercise price per share HK$
Outstanding at 1 January	**94,350,000**	**0.0714**	393,150,000	0.0400
Granted during the year	**–**	**–**	157,000,000	0.0714
Exercised during the year	**–**	**–**	(436,000,000)	0.0444
Forfeited during the year	**(1,400,000)**	**0.0714**	(19,800,000)	0.0425
Outstanding at 31 December	**92,950,000**	**0.0714**	94,350,000	0.0714
Exercisable at 31 December	**92,950,000**	**0.0714**	17,250,000	0.0714

During the year ended 31 December 2007, the weighted average share price at the date of exercise for share options exercised was HK$0.1676.

All share options as at 31 December 2008 and 2007 have been accounted for under HKFRS 2 "Share-based payment". The exercisable periods of the share options of the Company are as follows:

	2008 Number	**2008** Weighted average exercise price HK$	2007 Number	2007 Weighted average exercise price HK$
Exercisable period:				
19-1-2007 to 18-1-2009	**16,550,000**	**0.0714**	17,250,000	0.0714
19-1-2008 to 18-1-2009	**76,400,000**	**0.0714**	77,100,000	0.0714
	92,950,000	**0.0714**	94,350,000	0.0714

The Company's share options outstanding at 31 December 2008 had a weighted average remaining contractual life of 0.05 year (2007: 1 year).

The fair values of options granted during 2007 of HK$3,424,000 were determined by an independent third party valuer using the Binomial Model, with modification to reflect the impact of vesting period, exit rate and exercise pattern on the option value.

32. SHARE OPTION SCHEME (Continued)

Company (Continued)

Key assumptions used in the valuation of the options granted on 18 January 2007 include: (i) an expected dividend yield of 0% per annum, (ii) volatility of share price of 68% per annum determined based on the historical volatility of the Company's share prices in the past one year immediately before the date of grant of the share options, (iii) a risk free rate of interest of 3.839% per annum, (iv) that the directors and employees will exercise their share options if the share price is above the exercise price by 2 times and 1.5 times respectively, (v) an exit rate of 0% per annum and (vi) share price at date of grant of HK$0.068 per share.

At 31 December 2008, the Company had 92,950,000 (2007: 94,350,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 92,950,000 additional ordinary shares of the Company and additional share capital of approximately HK$929,500 and share premium of HK$5,707,000 (before issue expenses).

The Subsidiary

A subsidiary of the Company, Sino-i Technology Limited (the "Subsidiary") also operates a share option scheme (the "Subsidiary's Scheme"), which was adopted on 29 August 2002. Under the Subsidiary's Scheme, share options may be granted to directors, employees of the Subsidiary and those who have contributed or will contribute to the Subsidiary at any time within ten years after its adoption at the discretion of the Subsidiary's Board.

On 12 November 2004, share options to subscribe for a total of 233,360,000 shares of the Subsidiary, representing approximately 1.68% of the issued share capital of the Subsidiary as at the date of the adoption of the Subsidiary's Scheme, were granted to the directors and employees of the Subsidiary and the persons who have provided research, development or other technological support or services to the Subsidiary at an exercise price of HK$0.16 per share.

The share options vest upon the commencement of the exercise period, which is determined by the Subsidiary's directors at the date of grant.

The movement of the Subsidiary's share options during the year are as follows:

	2008		2007	
	Number	**Weighted average exercise price HK$**	Number	Weighted average exercise price HK$
Outstanding at 1 January	**67,550,000**	**0.16**	70,860,000	0.16
Forfeited	**–**	**–**	(3,310,000)	0.16
Expired	**(67,550,000)**	**0.16**	–	–
Outstanding at 31 December	**–**	**–**	67,550,000	0.16
Exercisable at 31 December	**–**	**–**	67,550,000	0.16

32. SHARE OPTION SCHEME (Continued)

The Subsidiary (Continued)

The exercisable periods of the Subsidiary's share options are as follows:

	2008		2007	
		Weighted average exercise price		Weighted average exercise price
	Number	**HK$**	Number	HK$
Exercisable period:				
1-7-2005 to 30-6-2008	–	–	32,275,000	0.16
1-7-2006 to 30-6-2008	–	–	32,275,000	0.16
1-1-2006 to 31-12-2008	–	–	1,500,000	0.16
1-1-2007 to 31-12-2008	–	–	1,500,000	0.16
	–	–	67,550,000	0.16

At the balance sheet date, all the Subsidiary's share options were expired. As at 31 December 2007, the Subsidiary had 67,550,000 share options outstanding under the Scheme and the options outstanding had a weighted average remaining contractual life of 0.52 year.

In total, HK$86,000 of employee compensation expense has been included in the consolidated income statement for 2008 (2007: HK$3,338,000), in relation to share options granted by the Company, which gave rise to additional equity. No liabilities were recognised due to share-based payment transactions.

33. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 44 of the financial statements.

Notes:

(a) Capital reserve of the Group mainly represented the reserves arising from capital reduction pursuant to a special resolution passed on 30 April 2002 and the amount previously recognised in share option reserve arising from the exercise of share options.

(b) Subsidiaries of the Group established in Mainland China are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory reserve until the reserve reaches 50% of their respective capital upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

33. RESERVES (Continued)

Company

	Share premium HK$'000	Contributed surplus (note a) HK$'000	Capital reserve (note b) HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	950,882	1,971,857	596	5,824	(103,008)	2,826,151
Premium on issue of ordinary shares	14,999	–	–	–	–	14,999
Exercise of share options	–	–	6,871	(6,871)	–	–
Equity-settled share-based compensation expenses	–	–	–	3,338	–	3,338
Released on forfeiture of share options	–	–	–	(226)	226	–
Loss for the year	–	–	–	–	(57,598)	(57,598)
At 31 December 2007 and 1 January 2008	**965,881**	**1,971,857**	**7,467**	**2,065**	**(160,380)**	**2,786,890**
Equity-settled share-based compensation expenses	**–**	**–**	**–**	**86**	**–**	**86**
Released on forfeiture of share options	**–**	**–**	**–**	**(31)**	**31**	**–**
Loss for the year	**–**	**–**	**–**	**–**	**(211,358)**	**(211,358)**
At 31 December 2008	**965,881**	**1,971,857**	**7,467**	**2,120**	**(371,707)**	**2,575,618**

Notes:

(a) Contributed surplus of the Company includes the difference between the aggregate net asset value of the subsidiaries acquired and the nominal amount of the Company's shares issued for the acquisition and the reserves arising from capital reduction pursuant to a special resolution passed on 30 April 2002. Under the Bermuda Companies Act, the contributed surplus is distributable to the shareholders under certain circumstances.

(b) Capital reserve of the Company represents the amount of equity-settled share-based compensation previously recognised transferred from the share options reserve when the share options are exercised.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Business combination – acquisition of subsidiaries

During June to August 2008, the Group, through its subsidiaries, entered into sales and purchase agreements to acquire 55.97%, 100%, 100% and 100% equity interest in four subsidiaries for a consideration of RMB1,720,000, RMB1,000,000, RMB100,000 and HK$58,100,000, respectively.

Details of the assets and liabilities acquired and the corresponding goodwill are as follows:

	2008 HK$'000
Cash consideration	61,312
Fair value of net assets acquired	(21,283)
Goodwill (note 19)	40,029

The assets and liabilities arising from the acquisitions are as follows:

	2008 HK$'000
Property, plant and equipment	70,080
Interest in an associate	547
Long term receivables	2,888
Inventories	48
Trade receivables	467
Deposits, prepayments and other receivables	14,888
Amount due from an associate	16
Cash and cash equivalents	1,534
Accruals and other payables	(69,185)
Net assets acquired	21,283

The acquirees' carrying values of net liabilities acquired at the date of acquisition approximate their fair values as disclosed above. The goodwill is attributable to the future profitability of the above subsidiaries acquired and the significant synergies expected to arise after the Group's acquisition.

The net cash outflow arising from the acquisition are as follows:

	2008 HK$'000
Purchase consideration	
– Cash consideration	61,312
– Consideration payables	(59,356)
Settled in cash	1,956
Cash and cash equivalents in subsidiary acquired	(1,534)
Cash outflow on acquisition	422

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(a) Business combination – acquisition of subsidiaries (Continued)

Since the acquisition, the subsidiaries in aggregate contributed HK$46,108,000 to the Group's turnover and HK$17,657,000 to the consolidated loss for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year would have been HK$530,857,000 and HK$566,267,000, respectively.

(b) Disposal and dissolution of subsidiaries

	2008	2007
	HK$'000	HK$'000
Net assets disposed of:		
Property, plant and equipment	**2,036**	–
Inventories	**328,141**	–
Deposits, prepayments and other receivables	**16,839**	4,996
Cash and cash equivalents	**53**	–
Goodwill (note 19)	**–**	20,433
Interest in an associate (note 17)	**–**	18,967
Trade payables	**(2,155)**	–
Other payables and accruals	**(9,848)**	(273)
Amounts due to group companies	**(65,554)**	–
Amount due to a director	**(70,654)**	–
	198,858	44,123
Exchange reserve released on disposal	**(47,844)**	(3,076)
Capital reserve released on disposal	**–**	4,374
Gain/(loss) on disposal and dissolution of subsidiaries	**56,626**	(7,685)
	207,640	37,736
Satisfied by:		
Cash received	**54,353**	37,736
Consideration receivable	**153,287**	–
	207,640	37,736

The analysis of the net cash inflow of cash and cash equivalents in respect of the disposal and dissolution of subsidiaries is as follows:

	2008	2007
	HK$'000	HK$'000
Cash received	**54,353**	37,736
Cash and cash equivalents disposed of	**(53)**	–
Net cash inflow on disposal	**54,300**	37,736

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Major non-cash transactions

During the year ended 31 December 2008, the Group had the following major non-cash transactions:

(i) the trade and other receivables of HK$34,325,000 was offset against the amount due to a director in accordance with the debts assignment signed among these parties;

(ii) the other payables of HK$13,426,000 was taken up by a director in accordance with the debts assignment signed among these parties; and

(iii) the other receivables of HK$288,358,000 was offset against other payables in accordance with the debts assignment signed among these parties.

During the year ended 31 December 2007, the Group had the following major non-cash transactions:

(i) acquired two motor vehicles of HK$850,000 by entering into finance lease arrangements;

(ii) the other receivables of HK$30,312,000 was offset against the amount due to a director in accordance with the debts assignment signed among these parties;

(iii) the other borrowing of HK$25,468,000 was taken up by a director in accordance with the debts assignment signed among these parties; and

(iv) the trade and other receivables of HK$114,980,000 was offset against other payables in accordance with the debts assignment signed among these parties.

35. RETIREMENT BENEFIT PLANS

Defined contribution retirement plans

The Group operates a MPF scheme and an ORSO scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees.

Subsidiaries operating in Mainland China are required to participate in a defined contribution retirement benefit plan organised by the relevant government authorities. These subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total cost charged to the consolidated income statement of HK$61,563,000 (2007: HK$25,947,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

Contributions payable of HK$35,000 as at 31 December 2008 (2007: HK$32,000) to the MPF Scheme are included in other payables.

36. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments and fees disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

Group

	Fees HK$'000	Basic salaries housing, other allowances and benefits in kind HK$'000	Share-based payments HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2008					
Executive directors					
CHEN Dan	–	851	8	–	859
QIN Tian Xiang	–	1,314	8	12	1,334
YU Pun Hoi	–	2,640	–	12	2,652
Non-executive directors					
LAM Bing Kwan	–	300	–	12	312
YU Lin Hoi**	–	–	–	–	–
Independent non-executive directors					
HUANG Yaowen	270	–	–	–	270
Prof. JIANG Ping	337	–	–	–	337
LAU Yip Leung	120	–	–	–	120
	727	5,105	16	36	5,884

** Resigned as non-executive director with effect from 26 May 2008.

	Fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Share-based payments HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2007					
Executive directors					
CHEN Dan	–	754	330	–	1,084
QIN Tian Xiang	–	1,305	330	12	1,647
YU Pun Hoi	–	1,967	–	12	1,979
Non-executive directors					
LAM Bing Kwan	–	300	–	12	312
YU Lin Hoi	–	–	–	–	–
Independent non-executive directors					
HUANG Yaowen	248	–	–	–	248
Prof. JIANG Ping	309	–	–	–	309
LAU Yip Leung	120	–	–	–	120
	677	4,326	660	36	5,699

36. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included three (2007: three) directors, details of whose emoluments are set out above. The emoluments of the remaining two (2007: two) employees are as follows:

	2008 **HK$'000**	2007 HK$'000
Basic salaries, other allowances and benefits in kind	**2,509**	2,460
Pension contributions	**12**	12
	2,521	2,472

The emoluments of the five highest paid individuals, other than directors, fell within the following bands:

Emolument band	**Number of highest paid individuals**	
	2008	2007
HK$1,000,001 – HK$1,500,000	**2**	2

During the years ended 31 December 2008 and 31 December 2007, no emoluments were paid to any of the Company's directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

37. COMMITMENTS AND OPERATING LEASES

(a) Capital commitments

At 31 December 2008, the Group had outstanding commitments as follows:

	2008 **HK$'000**	2007 HK$'000
Contracted but not provided for in respect of:		
– construction in progress	**197,875**	4,388
– property, plant and equipment	**43,763**	134
	241,638	4,522

At 31 December 2008 and 31 December 2007, the Company did not have any significant capital commitments.

37. COMMITMENTS AND OPERATING LEASES (Continued)

(b) Operating lease arrangement

At 31 December 2008, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings	
	2008	2007
	HK$'000	HK$'000
Within one year	**49,005**	29,608
In the second to fifth years	**97,741**	12,704
Over five years	**245,867**	–
	392,613	42,312

The Group leases a number of properties under operating leases. The leases run for an initial period of one to twenty years (2007: one to three years), with options to renew the lease terms at the expiry dates or at days as mutually agreed between the Group and the respective landlords. None of these leases includes any contingent rentals.

At 31 December 2008, the Group's total future minimum lease receivables under non-cancellable operating leases are as follows:

	Land and buildings	
	2008	2007
	HK$'000	HK$'000
Within one year	**3,786**	–
In the second to fifth years	**8,518**	–
	12,304	–

At 31 December 2008 and 31 December 2007, the Company had no operating lease commitments as lessor or lessee.

38. CONTINGENT LIABILITIES

Guarantees given in connection with credit facilities granted to:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Subsidiaries	**–**	–	**5,296,412**	1,211,959
Associates (Note)	**12,412**	11,624	**–**	–
Third parties (Note)	**65,333**	65,754	**–**	–
	77,745	77,378	**5,296,412**	1,211,959

Note: In February 1993, a Group's associate borrowed a loan of US$5 million from a Filipino bank namely Banco de Oro-EPCI Inc. (formerly known as Equitable PCI Bank Inc.) ("EPCIB"). The loan was secured by guarantee executed by Sino-i ("EPCIB Guarantee"), a listed subsidiary of the Company, and by share mortgage of 74,889,892 shares ("Philippines Shares") of Acesite (Philippines) Hotel Corporation Inc. ("Acesite Phils."). Due to the pending litigation as mentioned in note 40(a), the Group cannot ascertain the fair value of the guarantee in respect of the loan borrowed by the associate.

In addition to the EPCIB Guarantee, Sino-i executed another guarantee in favour of Singapore Branch of Industrial and Commercial Bank of China ("ICBC") in respect of a loan facility of US$15,000,000 ("ICBC Loan") made available to Acesite Phils. in March 1995. Resulting from the purported foreclosure of the Philippines Shares, Acesite Phils. is now controlled by a third party. The Group does not have updated information of the outstanding balance of the indebtedness under the ICBC Loan ("ICBC Indebtedness"), therefore, the fair value of the guarantee for ICBC Indebtedness cannot be ascertained.

39. CREDIT FACILITIES

As at 31 December 2008, the Group's credit facilities were supported by the following:

(a) charge over prepaid lease payments for leasehold land (note 15) with a net carrying value of HK$58,111,000 (2007: HK$55,915,000);

(b) charge over buildings with a net carrying value of approximately HK$22,345,000 (2007: HK$34,055,000);

(c) charge over investment property with a net carrying value of approximately HK$12,015,000 (2007: Nil);

(d) charge over certain properties held for and under development for sale with carrying value of HK$223,084,000 (2007: HK$895,135,000);

(e) personal guarantee given by a director;

(f) pledge of certain interests in the Company by several shareholders;

(g) pledge of 2,346,993,316 (2007: 2,126,993,316) shares in Sino-i held by the Company indirectly in favour of certain securities brokers, the total of which represents approximately 18.75% (2007: 16.99%) of total interest of the Company in Sino-i. The market value of such listed shares as at 31 December 2008 was approximately HK$100,921,000 (2007: HK$244,604,231); and

(h) pledge of certain debt securities for a standby letter of credit issued by a financial institution for a maximum amount not exceeding US$25,000,000.

40. PENDING LITIGATIONS

(a) In respect of the purported sale of certain shares ("Philippines Shares") in Acesite (Philippines) Hotel Corporation Inc. ("Acesite Phils."), which were mortgaged by Acesite Limited ("Acesite"), by Banco de Oro-EPCI Inc. (formerly known as Equitable PCI Bank Inc.) ("EPCIB"), a Filipino bank, to Waterfront Philippines Inc. ("Waterfront"), a Filipino company, in February 2003, Acesite, a former subsidiary of Sino-i; Evallon, a wholly-owned subsidiary of Sino-i; Mr. Yu, the chairman and executive director of both the Company and Sino-i and, South Port Development Limited, a former wholly-owned subsidiary of Sino-i as first, second, third and fourth plaintiff respectively issued a claim against EPCIB and Waterfront, on the grounds that the purported sale of the Philippines Shares was unlawful as such sale was in breach of the terms of the mortgage; in breach of a compromise agreement subsequently reached in January 2003; and in other breaches, for damages; further or other relief; interest and costs and etc. in February 2006 under High Court Number of HCCL 5 of 2006. In May 2007, Acesite Phils. filed a claim against Mr. Yu; Mr. Lam Bing Kwan, a non-executive director of both the Company and Sino-i; Sino-i; and Acesite for damages; further or other relief; interest and costs and etc. under High Court Number of HCA498 of 2007. The defendants in both cases have filed their defences respectively to the Court. These two cases are still in progress and no date has been fixed for trial.

(b) Dadi Media, a wholly-owned subsidiary of Sino-i, as plaintiff, issued a claim against two minority shareholders of CE Dongli, a subsidiary of Sino-i, for the sum of HK$27,750,498 together with interest thereon and costs in May 2004 under the High Court Number of HCA1130 of 2004. The two defendants filed a defence and counterclaim in June 2004 and then an amended defence and counterclaim in September 2004. The counterclaim was further amended and re-amended. In December 2004, the two defendants issued a claim against CE ASP, a wholly-owned subsidiary of Dadi Media, for (1) the sum of HK$806,250; (2) an award of compensation pursuant to section 32P of the Employment Ordinance; (3) the sum of HK$13,000; and (4) interest and costs under High Court Number HCA2892 of 2004. CE ASP filed a defence in March 2005. These two cases are still in progress and no trial date has been fixed.

(c) In May 2007, a company incorporated in China, namely 深圳市益田房地產集團股份有限公司(Shenzhen Yitian Real Estate Group Company Limited) ("Yitian") issued a pleading to 深圳市金益田實業發展有限公司 (Shenzhen City Jingyitian Industrial Development Company Limited) ("Jingyitian"), a wholly-owned subsidiary of the Company, requesting for the court's judgment including (i) nullity of a letter of undertaking entered into between Yitian and Jingyitian, dated 2 September 1999; and (ii) refund of HK$41 million together with interest to Jingyitian, which was the total consideration fully paid by Jingyitian to Yitian under the letter of undertaking for assigning all rights and interests Yitian had in two pieces of land sites bearing numbers of K708-2 and K708-3 which subsequently became part of the total area for the development of a large-scale property project namely "The Peninsula" in Shekou, Shenzhen, and for surrendering its rights in property development in the above mentioned land sites and in sharing of any profits to be derived therefrom. Jingyitian has subsequently filed its defence to the court. The case is still in progress and no judgement has been made by the court.

(d) Liu Wan Development (BVI) Company Limited ("LWD"), Liu Wan Investment Company Limited ("LWI") and 深圳南海益田置業有限公司(Shenzhen Nanhai Yitian Realty Company Limited) ("Nanhai Yitian") received a pleading from Yitian in January 2008. Yitian alleged that it was rejected to participate to the development of the second phase of "The Peninsula" subsequent to the completion of cooperation in development of the first phase, and claimed for damages of RMB396,356,182 resulting from the alleged breach of a cooperation agreement. LWD and LWI directly and indirectly hold 100% of Nanhai Yitian, and LWD and LWI are the wholly-owned subsidiaries of the Company. LWD, LWI and Nanhai Yitian have subsequently filed their defences to the court. The case is still in progress and no trial date has been fixed.

The Group considered that it would not incur a material outflow of resources as a result of the above matters.

41. RELATED PARTY TRANSACTIONS

Remuneration for key management personnel represents amounts paid to the Company's directors as disclosed in note 36.

Except as disclosed elsewhere in these financial statements, there is no material related party transaction carried out during the year.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial assets and liabilities include bank balances and cash, equity investments, debt investments, borrowings, finance from a third party, trade and other receivables and trade and other 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.

42.1 Foreign currency risk

Transactions in foreign currencies and the Group's risk management policies

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency exchange rate risks in Renminbi is minimal as majority of the subsidiaries of the Group operates in Mainland China with most of the transactions denominated and settled in Renminbi. However, the Group also has financial assets and liabilities denominated in foreign currency, primarily United Stated Dollars (US$). As US$ is pegged to HK$, the management of the Group considers the risk of the exposure on foreign exchange is not significant. The exposure to foreign exchange risk is shown as below.

The policy to manage foreign currency risk has been followed by the Group since prior years and is considered to be effective.

Summary of exposure

US$ denominated financial assets and liabilities, translated into Hong Kong dollars at the closing rates, are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Financial assets at fair value through profit or loss	**343,438**	–
Cash and cash equivalents	**64,255**	8,729
Short term loan receivables	**97,371**	–
Other receivables	**589,180**	–
Finance from a third party	**(2,128,047)**	–
Gross exposure arising from recognised financial assets and financial liabilities	**(1,033,803)**	8,729

The Company does not have any exposures to foreign currencies at 31 December 2007 and 2008.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

42.1 Foreign currency risk (Continued)

Sensitivity analysis

The following table indicates the approximate change in the Group's (loss)/profit for the year and equity in response to reasonably possible changes in the exchange rates of US$.

	2008			2007		
	Changes in foreign exchange rates	**(Increase)/ Decrease in loss for the year HK$'000**	**(Decrease)/ Increase in equity HK$'000**	Changes in foreign exchange rates	Increase/ (Decrease) in profit for the year HK$'000	Increase/ (Decrease) in equity HK$'000
US$	**+0.5%**	**(5,169)**	**(5,169)**	+0.5%	44	44
	-0.5%	**5,169**	**5,169**	-0.5%	(44)	(44)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and that all other variables remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date.

42.2 Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing bank and other borrowings carrying interests at variable rates, cash and cash equivalents and debt investments at fixed rates. Borrowings and cash and cash equivalents carried at variable rates expose the Group to cash flow interest rate risk whereas debt investments issued at fixed rates, which are accounted for as fair value through profit or loss, expose the Group to fair value interest rate risk. The Group will review whether bank loans bearing fixed or floating rates should be drawn from time to time with reference to the trend of changes in interest rates. The interest rates and repayment terms of bank and other borrowings and cash and cash equivalent of the Group are disclosed in note 27 and 23 respectively. The Group currently does not have an interest rate hedging policy. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate exchange exposure should the need arise.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

42.2 Cash flow and fair value interest rate risk (Continued)

Cash flow interest rate risk sensitivity

At 31 December 2008, the Group was exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates. The following table illustrates the sensitivity of the (loss)/profit for the year and retained earnings to a change in interest rates of +100 basis points and –100 basis points (2007: +100 basis points and –100 basis points), with effect from the beginning of the year. The calculations are based on the Group's and the Company's bank borrowings and bank balance held at each balance sheet date. All other variables are held constant.

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
If interest rates were 100 basis points (2007: 100 basis points) higher Decrease/Increase in (loss)/profit for the year	**1,272**	1,581	**52**	17
If interest rates were 100 basis points (2007: 100 basis points) lower Increase/Decrease in (loss)/profit for the year	**(1,272)**	(1,581)	**(52)**	(17)

Fair value interest rate risk sensitivity

At 31 December 2008, the Group was exposed to fair value interest rate risk due to changes in market interest rates through its debt investments, which are issued at fixed interest rates and accounted for as fair value through profit or loss. The following table illustrates the sensitivity of the (loss)/profit for the year and retained earnings to a change in interest rates of +50 basis points and –50 basis points, with effect from the beginning of the year. The calculations are based on the Group's debt investments held at each balance sheet date. All other variables are held constant.

	Group	
	2008	2007
	HK$'000	HK$'000
If interest rates were 50 basis points higher Net (loss)/profit for the year	**(2,456)**	–
If interest rates were 50 basis points lower Net (loss)/profit for the year	**2,487**	–

The Company is not exposed to any fair value interest rate risk as the Company does not have fixed-rate financial instrument measured at fair value through profit or loss.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

42.3 Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligation and financial guarantees provided by the Group is arising from:

– carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and

– the amount of contingent liabilities in relation to the financial guarantees provided by the Group as disclosed in note 38.

In order to minimise the credit risk, the management of the Group has formulated a defined fixed credit policy and delegated a team responsible for determination of credit limits, credit approvals 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 receivable regularly at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amount. 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.

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 22.

42.4 Price risk

The Group is exposed to equity price risk through its investment in listed equity securities which are classified as at fair value through profit or loss. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles and will consider hedging the risk exposure should the need arise. The Group is not exposed to commodity price risk.

At 31 December 2008, if equity prices had increased/decreased by 33% and all other variables were held constant, loss after tax for the year would decrease/increase by approximately HK$989,000 (2007: if equity prices had increased/decreased by 5%, profit after tax for the year would increase/decrease by approximately HK$252,000). This is mainly due to the changes in financial assets at fair value through profit or loss. This sensitivity analysis has been determined assuming that the price change had occurred at the balance sheet date and had been applied to the Group's investment on that date.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

42.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through the ability to close-out market positions. In the opinion of the directors of the Company, the Group does not have any significant liquidity risk exposure.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

Group

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
As at 31 December 2008					
Trade payables	**129,046**	**129,046**	**129,046**	**–**	**–**
Other payables and accruals	**652,950**	**652,950**	**652,950**	**–**	**–**
Amount due to a director	**24,361**	**24,361**	**24,361**	**–**	**–**
Amount due to a minority shareholder	**12,000**	**12,000**	**12,000**	**–**	**–**
Amounts due to shareholders	**442,488**	**493,173**	**5,006**	**488,167**	**–**
Amount due to an associate	**5,507**	**5,507**	**5,507**	**–**	**–**
Bank and other borrowings	**2,261,830**	**2,396,964**	**1,522,621**	**576,882**	**297,461**
Finance lease liabilities	**305**	**334**	**274**	**60**	**–**
Finance from a third party	**2,128,047**	**2,872,619**	**191,813**	**191,813**	**2,488,993**
	5,656,534	**6,586,954**	**2,543,578**	**1,256,922**	**2,786,454**

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
As at 31 December 2007					
Trade payables	136,737	136,737	136,737	–	–
Other payables and accruals	481,956	481,956	481,956	–	–
Amount due to a director	132,461	132,461	132,461	–	–
Amount due to a minority shareholder	12,000	12,000	12,000	–	–
Amounts due to shareholders	412,076	493,173	5,006	–	488,167
Amount due to an associate	5,507	5,507	5,507	–	–
Bank and other borrowings	1,897,548	2,104,431	434,031	1,198,973	471,427
Finance lease liabilities	844	959	378	359	222
	3,079,129	3,367,224	1,208,076	1,199,332	959,816

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

42.5 Liquidity risk (Continued)

Company

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
As at 31 December 2008					
Other payables and accruals	**5,576**	**5,576**	**5,576**	**–**	**–**
Amounts due to subsidiaries	**2,864,352**	**2,930,336**	**2,930,336**	**–**	**–**
Amount due to a director	**18,204**	**18,204**	**18,204**	**–**	**–**
Amounts due to shareholders	**437,482**	**488,167**	**–**	**488,167**	**–**
	3,325,614	**3,442,283**	**2,954,116**	**488,167**	**–**

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
As at 31 December 2007					
Other payables and accruals	6,480	6,480	6,480	–	–
Amounts due to subsidiaries	1,002,421	1,002,421	1,002,421	–	–
Amount due to a director	74,310	74,310	74,310	–	–
Amounts due to shareholders	407,070	488,167	–	–	488,167
	1,490,281	1,571,378	1,083,211	–	488,167

42.6 Fair value

The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are in short-term nature: cash and cash equivalents, trade receivables and payables, other receivables and payables, bank and other borrowings, amounts due from/(to) a director/shareholders/a minority shareholder/subsidiaries/associates. Analysis of the interest rate and carrying amounts of borrowings are presented in note 27 to the financial statements.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

42.7 Summary of financial assets and financial liabilities by category

The carrying amounts of the Group's and the Company's financial assets and liabilities as recognised at balance sheet dates may be categorised as follows. See notes 3.11 and 3.15 for explanations about how the category of financial instruments affects their subsequent measurement.

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Available-for-sale financial assets	**324**	324	**–**	–
Financial assets at fair value through profit or loss	**346,432**	5,048	**–**	–
Loans and receivables:				
– Trade receivables	**28,256**	86,268	**–**	–
– Other receivables	**1,049,610**	298,694	**900**	975
– Amounts due from subsidiaries	**–**	–	**6,581,054**	4,960,185
– Time deposits	**–**	213,561	**–**	–
– Amount due from an associate	**20**	–	**–**	–
Cash and cash equivalents	**211,145**	232,146	**5,249**	1,705
	1,635,787	836,041	**6,587,203**	4,962,865
Financial liabilities				
Financial liabilities measured at amortised cost:				
– Trade payables	**129,046**	136,737	**–**	–
– Other payables and accruals	**652,950**	481,956	**5,576**	6,480
– Amount due to a director	**24,361**	132,461	**18,204**	74,310
– Amounts due to subsidiaries	**–**	–	**2,864,352**	1,002,421
– Amounts due to shareholders	**442,488**	412,076	**437,482**	407,070
– Amount due to a minority shareholder	**12,000**	12,000	**–**	–
– Amount due to an associate	**5,507**	5,507	**–**	–
– Bank and other borrowings	**2,261,830**	1,897,548	**–**	–
– Finance lease liabilities	**305**	844	**–**	–
– Finance from a third party	**2,128,047**	–	**–**	–
	5,656,534	3,079,129	**3,325,614**	1,490,281

43. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current and previous years.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt is calculated as the sum of bank and other borrowings, finance from a third party and finance lease liabilities less the sum of pledged bank deposits, time deposits and cash and cash equivalents as shown in the consolidated balance sheet. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios as at the balance sheet date were as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current liabilities				
Bank and other borrowings	**1,430,658**	310,148	**–**	–
Finance lease liabilities	**249**	335	**–**	–
Non-current liabilities				
Amounts due to shareholders	**437,482**	407,070	**437,482**	407,070
Bank and other borrowings	**831,172**	1,587,400	**–**	–
Finance lease liabilities	**56**	509	**–**	–
Finance from a third party	**2,128,047**	–	**–**	–
Total debt	**4,827,664**	2,305,462	**437,482**	407,070
Less: Time deposits	**–**	(213,561)	**–**	–
Cash and cash equivalents	**(211,145)**	(232,146)	**(5,249)**	(1,705)
Net debt	**4,616,519**	1,859,755	**432,233**	405,365
Total equity	**4,657,771**	5,043,882	**3,262,068**	3,473,340
Total equity and net debt	**9,274,290**	6,903,637	**3,694,301**	3,878,705
Net debt to equity ratio	**49.78%**	26.94%	**11.70%**	10.45%

44. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

LIST OF PROPERTIES

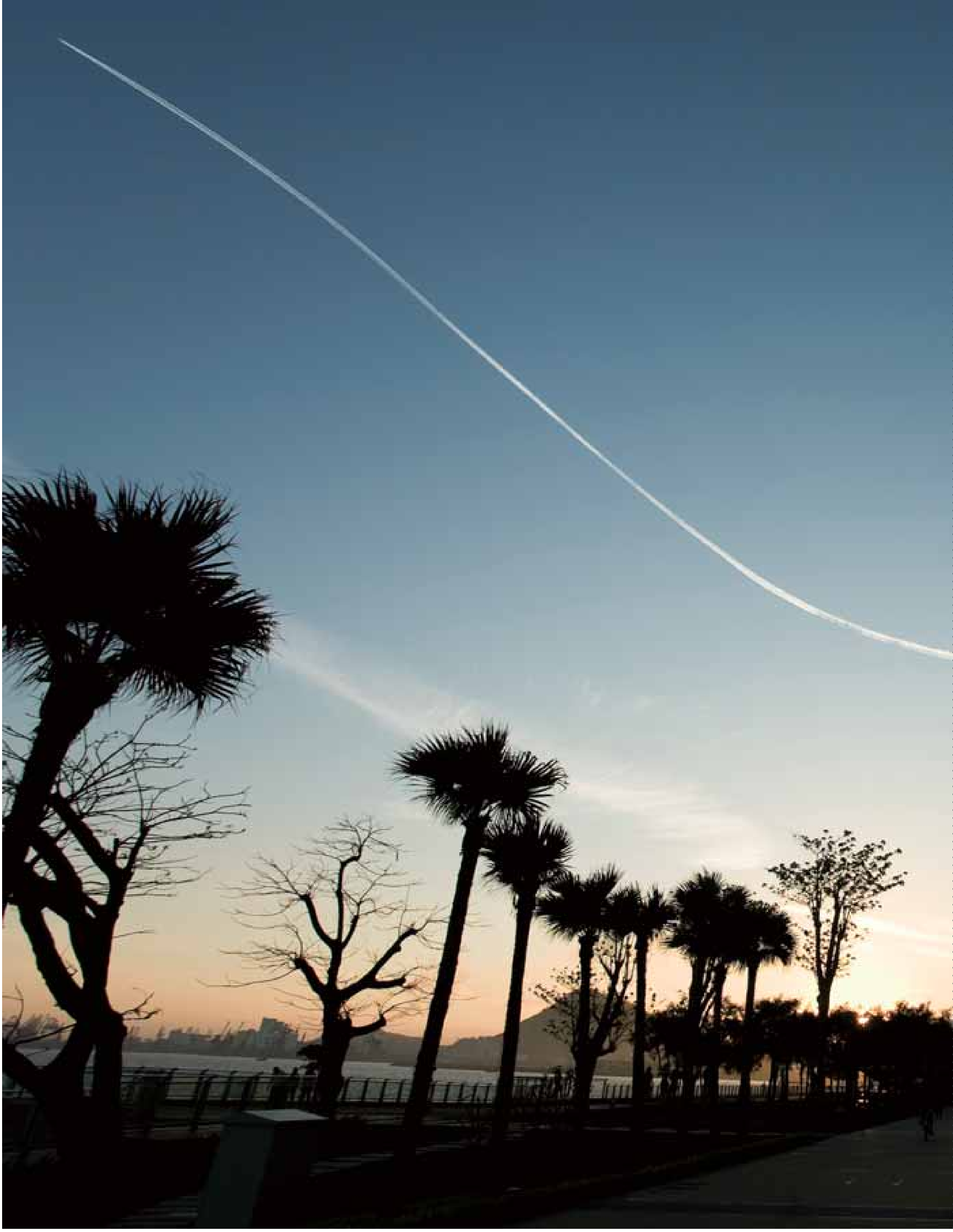
Properties under development

Location	Interest attributable to the Group in percentage	Total gross floor area on completion in sq.m. (approx.)	Type of development	Expected year of completion	Stage of development
A residential development located at Guanghu Gonglu, Huadu District, Guangdong Province, the PRC	100	1,080,000	Commercial/ residential	2011	Preparatory
Reclaimed site located at Liu Wan, Shekou, Shenzhen, Guangdong Province, the PRC	100	820,000	Shopping arcade/ residential/ hotel/ recreational facilities	2011	Construction in progress

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out as follows:

	Year ended 31 December 2008 HK$'000	Year ended 31 December 2007 HK$'000	Year ended 31 December 2006 HK$'000	Year ended 31 December 2005 HK$'000	(Restated) Year ended 31 December 2004 HK$'000
Revenue/Turnover	**494,861**	673,031	2,099,237	154,843	1,215
(Loss)/Profit for the year	**(534,763)**	21,537	(34,702)	56,006	3,047
Minority interests	**42,525**	(36,107)	56,583	(35,376)	–
(Loss)/Profit attributable to equity holders of the Company	**(492,238)**	(14,570)	21,881	20,630	3,047
Total assets	**10,699,563**	8,449,650	7,042,066	7,239,658	3,842,209
Total liabilities	**(6,041,792)**	(3,405,768)	(2,157,273)	(2,369,441)	(1,419,796)
	4,657,771	5,043,882	4,884,793	4,870,217	2,422,413



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