2009 ANNUAL REPORT

南海控股有限公司
二零零九年度 年報

南海控股
NAN HAI CORPORATION LIMITED
Stock code:680 股份代號:680

CONTENTS

CORPORATE INFORMATION

DIRECTORS

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

Non-executive
Mr. QIN Tian Xiang
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

39th Floor
New World Tower I
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Hong Kong

REGISTERED OFFICE

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22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL REGISTRAR

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Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
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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

In 2009, the Chinese government launched a number of stimulus measures to address the economic downturn. As a result, the economy steadily recovered that gave rise to a renewed wave of euphoria in the property market. The Company and its subsidiaries (collectively the "Group") insisted upon the strategies adopted in recent years by raising its concerns over the property development sector; enhancing realignment to IT application services sector; and at the same time increasing investments in the sector of culture and media services, so as to achieve an all-round, coordinated and sustainable development in the context of diversification.

I. PROPERTY INVESTMENT AND DEVELOPMENT

Industry Overview

During the past year, the Chinese government promulgated a number of economic revival policies which made the property market to rebound promptly. In 2009, real estate across the nation recorded substantial growth in terms of sales area, sales volume and unit sales price by comparing with those in last year. This is particularly the case in the residential sector.

A moderate monetary policy will remain in place in 2010. However, the main task of the Chinese government this year lies in fighting inflation while maintaining economic growth at a steady pace, which is different from what it focused on macro-economic control in the previous year. Accordingly, the Group remains cautious but optimistic about the development of China's property market for 2010.

Project Overview

"The Peninsula"

The sales of Phase 2 of "The Peninsula" was commenced in January 2009. In order to maximize the development value of the project and take into account of the sales progress, the Group has made rationalization in pricing model, launch process and sales management structure. As at 31 December 2009, over 75% of the saleable area in Phase 2 has been sold, generating a sales income of approximately RMB2,975.4 million. According to the information released on the related website by the People's Government of Shenzhen Municipality, both saleable area and sales amount of Phase 2 of "The Peninsula" in 2009 were the first runners-up in Shenzhen's

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property market. At the same time, preparatory works for Phase 3 of "The Peninsula", such as site survey and construction works for provisional roads, were commenced in October 2009. Comprehensive construction works are expected to be taken place in April 2010, and the piling works test is undergoing.

Founded by the Group and located in Phase 2 of "The Peninsula", the Binhai Branch of Nanshan Foreign Language School, one of the highly reputed schools in Nan Shan District, was formally inaugurated in September 2009. This school not only exerts social benefits but also significantly elevates the community value of "The Peninsula".

As suggested in the outline of "Shenzhen Municipal Land Use Master Plan (2006-2020)" released by the People's Government of Shenzhen Municipality in December 2009, "Tight control over land development is to be implemented within the 'Special Economic Zone (SEZ)'. Not a single tract of land in SEZ will be granted for construction use within the next 10 years". Such provision has further worsened the current short supply of property in the SEZ. Given its prime location in the heart of SEZ with panoramic sea view; reputable schools; and its massive development scale having about a million sq.m., its close vicinity to the Western Corridor checkpoint and underground, and its convenient traffic, the subsequent phases of "The Peninsula" shall have a bright prospect.

"Dongjing Xincheng" in Guangzhou

"Dongjing Xincheng" is located in the Huadu District of Guangzhou. It occupies a site area of approximately 615,250 sq.m. (approximately 922 mu) with a gross floor area of 1.03 million sq.m. of which 0.99 million sq.m. are for commercial and residential use. "Dongjing Xincheng" is another important property development project of the Group.

The project made a major breakthrough in 2009. The Group completed all land acquisition procedures in 2005, but land transfer from farmers somehow remained pending. Having the support and coordination of the local government of Huadu District, the whole land acquisition procedure was duly completed in November 2009 without any changes in the original land costs. Master planning approval in respect of the whole project has been obtained from the government. Application for construction in respect of Phases 1 and 3 covering in aggregate 350,000 sq.m. has been submitted, and construction of the Phase 1 was commenced in March 2010.

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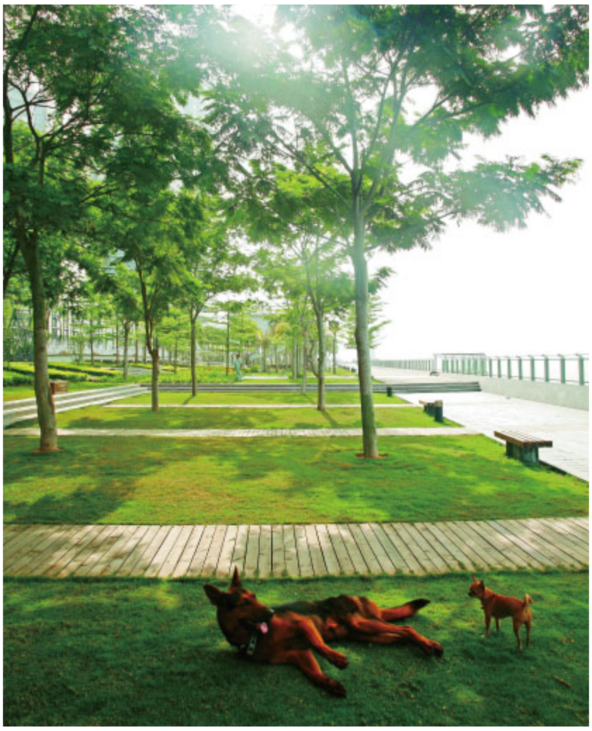
In 2009, the top three in Guangzhou's property market were Zengcheng, Huadu and Baiyun respectively, and this was the first time that the urban districts around central Guangzhou were edged out of the top three. Land resources available for development in Guangzhou's central districts are on the decline while land costs on the rise. Periphery of central Guangzhou with ample land supply at relatively low cost have increasingly become property hotspots. Being a district where land costs remain low, Huadu District demonstrates notable regional strengths. Main industries in Huadu District are such high-tech industries as automobile manufacturing, aviation-related logistics, electronic information, biotechnological and pharmaceutical manufacturing, and traditional processing industries. According to the information of Civil Aviation Resources Net of China, the new Baiyun Airport situated in Huadu District served a total of 37.04 million cumulative passenger trips in 2009, securing its position as the second busiest airport across the nation in terms of passenger throughput. The continuous development and perfection of industries in Huadu District promises "Dongjing Xincheng" in Guangzhou a vast expanse of prospect.

"廣州自由人男子籃球俱樂部" (Guangzhou Freeman Basketball Club)

In line with the brand building and marketing strategies for the Group's property project in Guangzhou, "廣州自由人男子籃球俱樂部" (Guangzhou Freeman Basketball Club), a men's professional basketball club in Guangzhou, was co-organised 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 the Administration of Sports of Guangzhou Municipality in early 2009. Being the sole professional basketball club in Guangzhou, "Guangzhou Freeman Basketball Club" has generated strong support from the Basketball Administration Centre of China's General Administration of Sports, Chinese Basketball Association, People's Government of Guangzhou Municipality and the Administration of Sports of Guangzhou Municipality. Leveraging on the experience as well as methods of advanced sports management from abroad and the tireless efforts in developing both tournament skills and brand building, Guangzhou Freeman Basketball Team claimed the first runners-up in the National Basketball League (NBL) in September 2009, displaying their unique style and powerful potentiality. The team will provide an effective publicity support for the Group's property project in Huadu.



Outlook

Property projects will be initiated in Shenzhen and Guangzhou in 2010 so that the Group can maintain a healthy and steady upward trend in financial revenue. Meanwhile, the Group will continue to focus on perfecting its strategic deployment in the property development sector, enhancing brand building and operation management so as to ensure the Group's long-term development ability.

II. SHAREHOLDING BUSINESS OVERVIEW

IT Sector

Corporate IT Application Services

In 2009, CE Dongli Technology Group Company Limited ("CE Dongli"), a subsidiary of the Company, successfully launched a new generation of platform product for network sales. Due to the powerful functions, excellent performance and SaaS-based operating services model of this product, CE Dongli has set a new standard for the industry and strengthened its leading position in the e-commerce

CHAIRMAN'S STATEMENT

market of SMEs. In 2009, CE Dongli proposed a new 10-year corporate development strategy aiming at building up a localized commerce and services network covering 300 cities across China in the next 10 years. Through face to face consultation services, it will provide a one-stop integrated corporate informatization solution to corporate clients on an informatization operating services platform, thereby enlarging customer base and promoting in-depth application of its e-commerce and informatization management. In 2010, market development for website construction, mailbox and network sales platform remain the prime target of CE Dongli and will realise wider regional market coverage.

In 2009, Beijing Xinnet Cyber Information Company Limited ("Xinnet"), a subsidiary of the Company, continued to strengthen its leading position in the domestic domain name market. In 2010, new product development remains Xinnet's prime target. It will also aggressively tap into the web hosting, mailbox and virtual application markets. At the same time, it will continue to enhance the development of its agent channel by increasing the number of quality partners through extension of product lines and quality services, and to enhance the Group's value of operation in this sector.

Financial Information Services

In 2009, "世華財訊 (Shihua Caixun)", the major service brand of 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, cooperated with major stock exchanges around the world, and has become the first financial information provider in China with official authorization from various international stock exchanges. Through continuous improvement to its contents and upgrading of its operation efficiency, "Caixun.com", another brand of Shihua, also realized a three-fold increase in its visitor count, and helped Shihua expand its professional advantages in institutional market to the general public market. As China's financial market is still immature, and a great number of financial institutions reduced their information services expenditures in 2009. Therefore, it takes time for the Group to turn around its business in this sector.

Distance Learning Education Services

In 2009, 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, increased the sign-up rate of new members and doubled the number of B2C purchasing members by means of its improved sales and marketing methods, and expected that the conversion rate to pay-members would increase steadily. In 2010, Chinese Dadi will continue to focus on the individual learning and group learning markets, upgrading the services of the website and strengthening its marketing initiatives.

Culture and Media Sector

Industry Overview

In 2009, further to the "Plan to Adjust and Reinvigorate Top Ten Industries", the Chinese government announced another important strategy – "Plan to Adjust and Reinvigorate Culture Industry", a significant move in industry planning by the Chinese government since the founding of the republic 60 years ago. The promulgation of such plan bears significance in promoting the rapid development of the culture industry in China.

According to the information of www.china.com.cn, in 2009, film industry in China continued its strong growth trend, grossing RMB6.206 billion at the nationwide box office, representing a 42.96% growth compared with the corresponding period last year. There were approximately 1,687 cinemas and approximately 4,723 screens across China. Referring to the information of DMCC of The State Administration of Radio Film and Television (www.dmcc.gov.cn) for the period ended 31 October 2009, there were approximately 1,500 2K digital screens in which approximately 500 screens were digital 3D, reflecting a significant increase in cinema digitalization. Digital cable television in China has spread nationwide from local trial points while cable operators have gradually positioned themselves as integrated services providers.

CHAIRMAN'S STATEMENT

In 2009, there was an increasingly growing trend of cross infiltration and integration between traditional television system and new media such as internet and mobile terminal. A new economic growth point has been gradually emerging in the multimedia industry. In January 2010, speeding up the integration of telecommunication network, TV broadcasting network and internet, and proposing a schedule for the integration of the trio in phases were resolved in routine meeting of the State Council.

Business Overview

In 2009, the Company further strengthened the construction of fully digital cinemas in the second and third tier cities and towns across China through its subsidiary, Dadi Media (HK) Limited ("Dadi"). Up to 28 February 2010, Dadi had 48 full digital cinemas completed and operating with 161 screens and 32,539 seats. Meanwhile, there are 22 cinemas with 106 screens and 15,975 seats have been constructed and ready for operation. The Group has become one of the fastest growing investors of cinema construction. In the meantime, the Group emphasized the research and development of technology in the course of investment and construction of digital cinemas, as a result, it had a series of fruitful outcomes, and applied patents for a number of related technologies including, Dadi and Peking University jointly developed the prototype of JPEG2000 Filming Showing Server, it was the first film showing server having full intellectual property rights in China, and its definition and colour performance attained to the same level as those products produced by other foreign countries. In 2010, the Group will continue to beef up and accelerate the investment and expansion of the construction of digital cinemas.

While investing in construction of cinema and accelerating the overall arrangement for digital cinema, in 2009, the film business of the Group was at a stage of stable development with the successful release of the epic movie "Confucius".

In 2009, the Group acquired Chinese Media Net, Inc. ("CMN"), having its headquarters in New York, USA. CMN has multiple media platforms such as Duo Wei Times, Duowei Life Weekly and dwnews.com, and has set up various branches in the eastern and western coasts of the United States, having wide circulation among the Chinese communities in New York, New Jersey, Philadelphia, Washington DC, Los Angeles and etc.

Technological Development

Notwithstanding the economic crisis, the Group remained adamant in its investment in technology R&D and management, and strengthened and sharpened its leading edge in IT application services operation and basic software development sectors through its subsidiaries 北京中企開源信息技術有限公司 (Beijing CE Open Source Software Co., Ltd.) ("CE Open") and 北京紅旗貳仟軟件技術有限公司 (Redflag 2000 Software Co. Ltd.) ("Redflag 2000"). Core technology abilities such as basic and application technologies have been strengthened continuously, and the abilities in managing technology R&D, product development and services operation have also been enhanced.

Based on the in-depth research and understanding about the actual needs of the customers, CE Open kept improving and enhancing users' experience, and has gradually finalized a comprehensive solution for the industry and application based on software services operating model; and built up a customer-oriented, self-fulfilled service and security management system that achieved international standards. Meanwhile, breakthroughs are made in such technology areas as cloud computing and cloud storage platform, distributed file system, virtual computing, storage virtualization, cloud operating system, distributed middleware and database cluster etc.. Quality and efficiency of the operating services are enhanced while operating costs are effectively controlled.

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In addition to the on-going upgrading of functions, performance and compatibility of office software, Redflag 2000 has been actively exploring and innovating business model, and has launched the browser-based online office software and rolled out the promotion of IT application services. Through the strategy of resources integration, Redflag 2000 has preliminarily determined the direction for synchronized development of domestic software and hardware.

In the coming year, the Group will further enhance and deepen the cooperation with governmental departments, capitalizing on the opportunities arising from the development trend of service-specific software, and position itself as the market leader in the SaaS industry.

III. MANAGEMENT AND EXPANSION STRATEGY

During the past year, based on its existing core business network and management style, the Group persistently, actively and efficiently conducted adjustments and expansion in response to the changes in macro economic environment and government policy adjustments. Through business expansion, resources integration, talent retention, technology innovation, standardized management and cost control, the Group has gradually perfected such system construction as objective management, budget management and performance assessment appraisal system, and improved the overall governance of the Group and the competitive advantages of all core businesses. In addition, the Group has, through mergers and acquisitions, gradually realised effective strategic expansion and structural growth; had adequate cash flows backup; setup a sustainable growth platform and a perfect and stable management foundation. It includes:

1. In 2009, the Group grasped the opportunities emerge in the property development sector, through tightening the control on the pace of investment, it has effectively procured the construction of the property projects in Shenzhen and Guangzhou. With the good sales performance of the Phase 2 of the project in Shenzhen, and by enhancing brand image continuously, which have laid a solid foundation for future development.

2. In the corporate IT application services and culture and media sectors, by actively adjusting its business and expanding its market, leveraging on state-of-the-art technologies and its strength in operation services, the Group has been optimizing and consolidating the customer base and product structure. And, by adapting to the market environment and government policy adjustments, the Group has enhanced the core competitive advantages and economies of scale in each business sector so as to maintain the stability of economic growth. Meanwhile, the Group continued to pursue its strategic expansion and structural growth, and succeeded in realizing investment value maximization through mergers and acquisitions.

3. Continuously strengthened its financial control, perfected core business management process and internal control system, and improved cost management and control.

4. Based on the principle of standardization, simplicity and efficiency, the Company has streamlined and rationalized organizational structure of itself and its subsidiaries; and has adjusted the positions, systems and hierarchies in its subsidiaries. With the above actions, the Group has effectively integrated its development strategy with organizational structure, position setup and staff management, thus establishing a foundation to implement the Group's development strategy.

5. Through adjustment and perfection of the internal management system, the Group could adopt a more scientific, standardize and efficient approach in operating and managing its subsidiaries and resource management. In addition, with a comprehensive objective management and performance appraisal 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.

CHAIRMAN'S STATEMENT

IV. CONCLUSION

The rapid development in China's property investment, corporate IT application services and culture and media services was driven by the overall development of the economy of China. In 2010, the Group will continue to adhere to the concept of stable development, to generate constant and stable cash flow support through controlling the development pace and expansion of property development projects, and will place more effort in brand building as well as sales and marketing to enhance the public awareness of the Group's projects. In addition, in order to increase the revenue to be generated by the projects, the Group will adopt scientific and stringent approach in flow control to strengthen cost control, but at the same time, preserving the premium quality of products. Meanwhile, the Group will keep focusing on the development and innovation in IT application services sector, continue to launch and perfect the competitive products and services, and will leverage on its existing foundation in the market and advantage in scale to enhance its business operation ability and profitability. In order to enhance its economies of scale, the Group will enlarge and accelerate its expansion in culture and media sectors; and in building up its core business ability and enlarging its scale.

Yu Pun Hoi
Chairman

Hong Kong, 1 April 2010

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

During the year under review, the Group was principally engaged in property development, and devoted to culture and media services through its subsidiary, Dadi. It also through its listed subsidiary, Sino-i Technology Limited ("Sino-i"), engaged in corporate IT application services, financial information services and distance learning education services. During the year, turnover was approximately HK$4,008.4 million (2008: HK$494.9 million) and net profit was approximately HK$138.9 million (2008: net loss of HK$534.8 million). The net assets attributable to the owners of the Group were approximately HK$3,955.3 million (2008: HK$3,763.4 million), representing a value of HK$0.058 per share.

The reason for the Group's turning around was that the sales proceeds from Phase 2 of "The Peninsula" was recognised as the ownership titles had passed to the purchasers on or before 31 December 2009, however, the consolidation of loss recorded by Sino-i affected the profit of the Group to a certain extend.

Property Development

In 2009, the Company's property development division made remarkable headway, turnover and net profit before income tax of this division were approximately HK$3,377.0 million (2008: Nil) and approximately HK$833.9 million (2008 (restated): net loss of HK$183.3 million) respectively. The Company's flagship project in Shekou, Shenzhen – Phase 2 of "The Peninsula" was fully in sales stage in 2009 and sales proceeds was approximately HK$3,377.0 million. During the year, approximately 151,088 sq.m. of gross floor area in Phase 2 was sold, and the remaining feature units having gross floor area of approximately 47,876 sq.m. are expected to be sold in 2010.

Another property development project located in Huadu, Guangzhou, having gross floor area of approximately 1,032,550 sq.m. and saleable area of approximately of 985,000 sq.m.. During the year, the construction work permit was obtained and the tender for the construction work was also completed. The construction has been commenced in March 2010, and the pre-sale is expected to be launched in the second quarter of 2011.

Culture and Media

Turnover and net loss of this division were approximately HK$169.9 million (2008: HK$62.5 million) and approximately HK$31.9 million (2008 (restated): net loss of HK$30.7 million) respectively. Our 42 digital cinemas in operation contributed an operating turnover of approximately HK$162.9 million (2008: HK$46.2 million), representing a 252.6% growth, and recorded box office receipts of approximately HK$141.2 million (2008: HK$39.5 million), representing a 257.5% growth.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2009, the Group's culture and media division developed rapidly, which achieved significant progress in cinema investments, movie production and technological cooperation.

IT Sector

Corporate IT Application Services

During the year, turnover and net loss of this division were approximately HK$427.3 million (2008: HK$428.0 million) and approximately HK$188.4 million (2008 (restated): net loss of HK$198.9 million) respectively.

Although global economy starts to recover, a lot of SMEs are still in difficult times, which has directly affected the operating income of major subsidiaries of the Group. As SMEs is the largest customer group of this division, the Group must keep introducing new elements into its products and services, so as to satisfy the needs for different customers, and thus enhancing the Group's income. Therefore, software development and hardware investment have been inevitable. Revenue from this division will soon rebound once the business environment of SMEs is improved.

In 2009, the corporate IT application services division of the Group continued to maintain sustainability and stability in its business and beefed up its advertising campaign. Following the constant improvement of product lines, the operating turnover realized positive adjustment by about 20% in the second half of 2009 by comparing with the first half. Subsidiaries of the Group have gained positive market recognition.

According to the IDC Report of 2008, CE Dongli was the first runner-up in the IT outsourcing services market and had been the leader in China's domestic IT outsourcing services market for five consecutive years. Meanwhile, CE Donghi was awarded "Pillar Enterprise of China's Software Industry", "Award for the Most Reliable E-commerce Product to SMEs in China 2009" and "Award for Contributing to SaaS Development in China IT Industry 2009" etc..

Financial Information Services

As China's financial market is still immature, together with the impact of financial crisis on various financial institutions, such as banks and securities firms, that resulted in their overall reduction in information services expenditures in the short run. Therefore, Shihua has to take time to turn around its business.

In 2009, Shihua continued to pursue its business of financial information services and, leveraging on its comprehensive financial management solutions and good quality services, to provide a wide variety of professional information products for users.

During the year, turnover and net loss of this division were approximately HK$18.3 million (2008: HK$22.5 million) and approximately HK$43.3 million (2008 (restated): net loss of HK$37.9 million) respectively.

Distance Learning Education Services

In 2009, having adopted the target marketing and franchised marketing, Chinese Dadi succeeded in attracting new target members and expected that the conversion rate to pay-members would increase steadily. Chinese Dadi will closely monitor its operation and make appropriate adjustments.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, turnover and net loss of this division were approximately HK$5.8 million (2008: HK$9.6 million) and approximately HK$4.1 million (2008 (restated): net loss of HK$1.7 million) respectively.

II. TECHNOLOGICAL RESEARCH AND DEVELOPMENT

In 2009, CE Open has undertaken an important technology research project – research and development of supportive platform of software services operating technology and demonstration of use programs and obtained accreditation of ISO20000 IT Service Management System and ISO27001 Information Security Management System. The RedOffice, an office software developed by Redflag 2000, was listed as "The first batch of self-innovative products of the Nation", and declared admission to the domestic basic software integrated applications test and domestic office software adaptation and optimization program under "核高基" (Core High Basic), a collective term for core electronic devices, high-end universal chips and basic software products.

III. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continued to adopt prudent funding and treasury policies. As at 31 December 2009, the net assets attributable to the owners of the Company amounted to approximately HK$3,955.3 million (2008: HK$3,763.4 million), including cash and bank balances of approximately HK$730.9 million (2008: HK$211.1 million) which were denominated mainly in US dollars, Renminbi and Hong Kong dollars. As at 31 December 2009, the Group's aggregate borrowings, including shareholders' loan, were approximately HK$3,571.6 million (2008: HK$4,827.7 million), of which approximately HK$2,658.3 million (2008: HK$2,566.1 million) were bearing interest at fixed rates while approximately HK$913.3 million (2008: HK$2,261.6 million) at floating rates.

As the sale of Phase 2 of "The Peninsula" commenced in this year, after paying the cost (including repayment of bank loan), it has generated substantial cash flow for the Group, making the gearing ratio of the Group, which is calculated as the net debt divided by adjusted capital plus net debt, dropped to 37.28% as at 31 December 2009 from 49.78% as at 31 December 2008.

Capital commitment as at 31 December 2009 is approximately HK$242.6 million, of which approximately HK$177.4 million will use as the construction expenses of the headquarter of corporate IT application services, and approximately HK$65.2 million will use as capital expenses for expanding cinemas business.

The Group's contingent liabilities as at 31 December 2009 were approximately HK$78.6 million due to the guarantees given in connection with credit facilities.

As at 31 December 2009, prepaid lease payments for leasehold land, buildings and certain properties held for and under development for sale with a total net carrying value of approximately HK$580.2 million and bank deposits of HK$120.5 million were pledged to secure credit facilities granted to the Group. In addition, certain debt securities were pledged for a standby letter of credit issued by a financial institution for a maximum amount not exceeding US$25.0 million. There is also charge over equity securities with a net carrying amount of HK$3.2 million for credit facilities.

IV. 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 reported 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, despite Hong Kong dollars are adopted as the reporting currency of the Group, the management of the Group considers the exposure on exchange risk is not significant owing to the linked exchange rate system that pegs Hong Kong dollars to US dollars. The Group may proceed to have some kind of foreign exchange hedging arrangements when appropriate and necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

V. 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 etc.. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the board of directors ("Board") of the Company. In general, salary is subject to annual review. As at 31 December 2009, the Group had approximately 9,794 employees (2008: 7,539 employees). The salaries of and allowances for employees for the year ended 31 December 2009 were approximately HK$519.9 million (2008: HK$465.6 million).

VI. PROSPECT

The Group's existing businesses are the cornerstone and safeguard for realizing its development strategy. Looking ahead, the Group will pay close attention to the expansion of land bank and ensure effective utilization of resources so as to maintain the continuity as well as the long-term, stable and abundant returns of the property development business. Meanwhile, the Group will spare more effort in human resources management, technological development and brand building in a pragmatic manner, striving to strengthen its core competitiveness in various aspects and stay strong in the market.

In the coming year, the Group will continue to step up its commitment to technology research and development so as to strengthen creativity; to step up on-going optimization and constant perfection of product structure by launching new products, devising corresponding business strategies and enhancing management efficiency; to increase profitability of the enterprise by strengthening the operating efficiency of its direct sales network and dealership channel to enlarge premium customer base; and fully achieve economies of scale by promoting strategic synergy and share of resources within the Group. On the basis of continuous positive adjustments to the business structure and by maintaining and expanding the growing trend towards the end of 2009, the overall operating performance of the Group in 2010 will be much improved.

REPORT OF THE DIRECTORS

The Board of the Company herein presents their report and the audited financial statements of the Group for the year ended 31 December 2009.

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 35.

The directors do not recommend the declaration of the payment of a final dividend for the year ended 31 December 2009 (2008: 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 120.

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 2009 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 2009 are set out in note 27 to the financial statements.

SHARE CAPITAL AND SHARE PREMIUM

During the year, there is 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 2009, the amount of the Company's reserves available for distribution was approximately HK$1,493,484,000. 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 2009 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 2009, 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)*	
Ms. CHEN Dan	
Ms. LIU Rong	(appointed on 10 March 2009)
Mr. WANG Gang	(appointed on 10 March 2009)
Mr. QIN Tian Xiang#	(re-designated on 12 June 2009)
Mr. LAM Bing Kwan#	
Mr. HUANG Yaowen*	
Prof. JIANG Ping*	
Mr. LAU Yip Leung*	

\# Non-executive directors
* Independent non-executive directors

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. Lau Yip Leung shall retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Biographical Details of Directors

Executive Directors

Mr. YU Pun Hoi, aged 51, 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.

Ms. CHEN Dan, aged 41, 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, and is also a qualified lawyer in China. Ms. Chen worked in Europe prior to joining the Group.

Ms. Chen joined 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, and is 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.

Ms. LIU Rong, aged 38, graduated from the Law School of Anhui University and obtained a degree of Bachelor of Laws, and got her Master of Laws 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 governmental departments and law firms.

Ms. Liu joined the Sino-i Group in April 2002 as a company secretarial manager, and is 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, and is 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 in 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.

Mr. WANG Gang, aged 54, graduated from Capital University of Economics and Business in China and conferred a Bachelor degree in Business Economics 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, and was appointed as a general manager of Nanhai Yitian in February 2009, and is responsible for all the related businesses in property development of the Group. Mr. Wang has been appointed as an executive director and executive committee member of the Company in March 2009, and a director of a number of major subsidiaries of the Company. Mr. Wang is also an executive director and executive committee member of Sino-i.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT (Continued)

Biographical Details of Directors (Continued)

Non-Executive Directors

Mr. QIN Tian Xiang, aged 44, graduated from Electronics Technique Department of the National University of Defense Technology. 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 in September 2004, and was then re-designated as an executive director and appointed as an executive committee member of the Company in February 2006. Due to Mr. Qin's health condition, he resigned all the positions of the Company and Sino-i and all respective subsidiaries of the Company and Sino-i in June 2009, save and except his re-designation as a non-executive director of the Company and Sino-i.

Mr. LAM Bing Kwan, aged 60, graduated from the University of Oregon in the United States of America with a Bachelor degree of Business Administration 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 in September 2000, and was re-designated as a non-executive director in 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 39, graduated from South West University of Politics and Laws in China and was conferred a Bachelor degree in Laws in 1992. Mr. Huang also obtained a degree of EMBA in China Europe International Business School, and 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. In February 2006, Mr. Huang joined the Board of the Company and has been appointed as a 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.

Prof. JIANG Ping, aged 79, 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 also the honorary president of China Comparative Law Research Centre; chairman of Beijing Arbitration Commission; and counsellor and member of committee of experts in China International Economic and Trade Arbitration Commission. In February 2006, Prof. Jiang joined the Board of the Company and has been 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 49, graduated from the City University of Hong Kong and awarded an honours degree of Bachelor of Arts in Accountancy in 1991 and 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 in May 2006 and is also a member of audit committee and remuneration committee of the Company.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT (Continued)

Biographical Details of Senior Management

Dr. ZHANG Bin (aged 44)
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.)

Dr. Zhang graduated from the Computer Faculty of The University of Defence Technology and his research was in computer architecture. Dr. Zhang has extensive experience in software development and management, and was accredited as Senior Engineer.

Dr. Zhang joined the Sino-i Group in 1999, and is responsible for organizing and leading technical teams in areas of R&D and application for IT application services technology. In March 2005, Dr. Zhang was appointed as a chief technology officer of the Sino-i Group. In April 2006, Dr. Zhang has been appointed as a deputy general manager of the Technology Development Department of the Sino-i Group; general manager of CE Open; and deputy general manager of CE Dongli, and is responsible for technological strategy, R&D, product development, technological operation and other related works of the Sino-i Group, contributing to a leading position in product development and IT services operation system in China for the Sino-i Group.

Mr. YU Fan (aged 42)
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 Master degree. Prior to joining the Group, Mr. Yu worked in senior positions in large domestic and joint venture corporations such as Founder Group and has profound understanding in IT business and extensive experience in business operation.

In 2004, Mr. Yu joined CE Dongli, and was appointed as a deputy general manager, and was responsible for its strategy and business development. In 2006, Mr. Yu was then promoted as a general manager of CE Dongli. In 2007, Mr. Yu has been appointed as a deputy general manager of the Sino-i Group, and is responsible for planning and development of strategies and businesses of the Sino-i Group.

Mr. CHEUNG On Yin (aged 48)
Deputy General Manager – Branding and Marketing
Sino-i Technology Limited

Mr. Cheung was in senior positions in a number of major corporations of 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 and also has extensive experience in the branding and marketing.

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 the Sino-i Group in China. During the period, Mr. Cheung was also 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 the Sino-i Group and CE Dongli in 2008, and is responsible for the overall branding of IT business and marketing of the Sino-i Group.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT (Continued)

Biographical Details of Senior Management (Continued)

Mr. WANG Jian (aged 45)
General Manager
北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited)

Mr. Wang graduated from Tsinghua University, and obtained a Master degree of Engineering from Hunan University, and has extensive experience in IT business.

In 2003, Mr. Wang set up "Magzone.com", which is the largest original edition magazine website in Asia. In 2004, Mr. Wang established Magzone Asia Pte. Limited in Singapore and was funded by Economic Development Board of Singapore, which was the only Internet corporation receiving financial assistance at that time. In 2006, Mr. Wang was the chief president and chief technology officer of Sun New Media (Beijing) Co., Ltd.. Mr. Wang was also the general manager of finance division of IPACS Technology Co., Ltd..

In 2008, Mr. Wang joined the Sino-i Group as a general manager of Xinnet.

Ms. YANG Bettina (aged 39)
General Manager
北京世華國際金融信息有限公司 (Beijing Shihua International Financial Information Company Limited)

Ms. Yang obtained a Master degree of International Public Policy from School of Advanced International Studies, Johns Hopkins University, USA and Bachelor degree of Public Communication and Spanish from American University, USA. Ms. Yang has extensive and professional experiences in information sector both domestically and internationally.

Prior to joining the Group, Ms. Yang was in position of vice president – public relations of Partnership for Caring, an American charitable organization, and was responsible for planning national public relation strategy, and negotiating with American legislative and administrative departments in view of the congress bills and the related policies.

Ms. Yang joined the Sino-i Group in 1999 and was appointed as a general manager of Shihua in 2007.

Ms. LIN Chuan Ju (aged 42)
General Manager
北京中企動力商務信息有限公司 (Beijing CE Dongli Business Information Company Limited)

Ms. Lin graduated from National Chiao Tung University in Taiwan, and got a Master degree of Marketing Communication from Emerson College of Boston University, and also obtained a qualification of university lecturer.

Prior to joining the Group, Ms. Lin worked in an international advertising company, and was responsible for integrated planning of sales and marketing, internet sales and e-commerce for various renowned corporations. Ms. Lin cooperated with famous Taiwanese artists to organize network alliances for promoting cultural life. Ms. Lin also worked in a magazine namely "Business Today" of Taiwan, and was responsible for the management on the marketing and distribution businesses of the magazine.

Ms. Lin joined the Sino-i Group in 2004. In 2005, Ms. Lin was a deputy general manager of CE Dongli, and was responsible for the related businesses of the corporate information and business promotion. In 2006, Ms. Lin dedicated to constructing "yidaba.com", making it to be a business community for SMEs' continuous development and accommodating corporations and individuals from various industries.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT (Continued)

Biographical Details of Senior Management (Continued)

Dr. WU Fa Ti (aged 39)
General Manager
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)

Dr. Wu graduated from the Information Science College of Beijing Normal University and obtained a Doctor of Education Technology.

Dr. Wu has hosted and/or participated in more than 20 national, provincial and departmental major scientific research projects. Dr. Wu published four academic writings, and published more than 20 academic theses in domestic and overseas core academic periodicals and international conferences. Dr. Wu is the expert member of technical committee of China-US E-Language Learning System (ELLS) of the Ministry of Education; expert member of resource development committee of "The Project of Modern Distance Education in Rural Area" of the Ministry of Education; member of China Educational Technology Association; member of Chinese Association for Artificial Intelligence Computer Based Education Society; and chairman of program committee of the 12th Global Chinese Conference on Computers in Education.

In June 1999, Dr. Wu joined the Sino-i Group as a director of education technology of Chinese Dadi and was promoted to general manager in 2006.

Mr. CHEN Ming Fei (aged 33)
Executive Deputy General Manager
CE Dongli Technology Group Company Limited

Mr. Chen has more than 10 years' sales experience and possesses with acute insight in IT business. Mr. Chen has extensive and professional experiences in product creation, business strategy planning and business management. Prior to joining the Group, Mr. Chen worked in Vorwerk of Co. KG, a German company.

In 2000, Mr. Chen joined CE Dongli and was appointed as a National Commercial Director in 2005, and was responsible for the overall business strategy planning and business management of CE Dongli. In 2006, Mr. Chen has been appointed as a deputy general manager of CE Dongli and has been appointed as an executive deputy general manager in June 2007.

Mr. XUE Bo Ying (aged 41)
Executive Deputy General Manager
Nan Hai Development Limited

Mr. Xue graduated from Huazhong University, and obtained his Master degree in architecture from Tsinghua University, and is a certified first-level architect, and a certified town planner in China. Prior to joining the Group, Mr. Xue worked in 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, and was responsible for overall architectural design of various property projects of the Group in China. In February 2009, Mr. Xue has been appointed as an executive deputy general manager of Nan Hai Development Limited ("Nan Hai Development"), a subsidiary of the Company, and is responsible for the overall planning design, engineering construction and management of contract budgeting in property development. Mr. Xue is also an executive deputy general manager of Nanhai Yitian.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT (Continued)

Biographical Details of Senior Management (Continued)

Mr. CHENG Chih Hung (aged 54)
Executive Director
Nan Hai Development Limited

Prior to joining the Group, Mr. Cheng was in senior position in United Task Marketing Ltd. and United Communication Inc., and has experience in management of international information and media business for many years, and 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. Mr. Cheng subsequently has been appointed as an executive director of Nan Hai Development, and is responsible for marketing and sales.

Ms. LIN Mei Yao (aged 38)
Deputy General Manager
Dadi Media (HK) Limited

Ms. Lin graduated from Shih Hsin University, major in Graphic Communications, and obtained a degree of Publishing and Communication from Chinese Culture University. 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 has been appointed as a director of marketing, and has been appointed as a deputy general manager of Dadi in August 2008, and is responsible for the related businesses in cinema operations and film distribution.

Mr. LIU Kai Jun (aged 35)
General Manager
大地影院發展有限公司 (Dadi Cinema Development Limited)

Mr. Liu graduated from Zhejiang Gongshang University, major in Financial Accounting, and is a qualified accountant in China. Mr. Liu worked in the finance department of OEG Group, a subsidiary of Siemens, during the period from 1995 to 2000.

Mr. Liu joined CE Dongli in August 2001, and was responsible for operation management of its branch offices. In August 2005, Mr. Liu involved in cinema investment, and was responsible for cinema development and facilities construction business. In November 2007, Mr. Liu has been appointed as a general manager of 大地影院發展有限公司 (Dadi Cinema Development Limited), and is responsible for cinema investment business of the Group.

Mr. SUN Zhong Wang (aged 36)
Deputy General Manager
Dadi Media (HK) Limited

Mr. Sun graduated from Graduate School of Jilin University, major in Engineering Management, and obtained a degree of EMBA in Beijing University, and is a qualified accountant in China. Mr. Sun worked in large domestic corporations and IT corporations, and was responsible for financial management. Mr. Sun has extensive experience in operation management, finance management, capital operations and capital restructuring etc.

Mr. Sun joined the Group in January 2005, was appointed as an assistant finance director in head office of CE Dongli, finance director in Beijing office of the Group; director and executive deputy general manager of finance centre in Beijing office of the Group. In February 2008, Mr. Sun has been appointed as a deputy general manager of Dadi.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2009, 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") as set out in Appendix 10 to the Listing Rules 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")	–	33,745,726,203 *(Note 1)*	69,326,400 *(Note 2)*	33,815,052,603	49.26%
Chen Dan	32,000,000	–	–	32,000,000	0.05%
Wang Gang	8,500,000	–	–	8,500,000	0.01%
Qin Tian Xiang	7,000,000	–	–	7,000,000	0.01%

Notes:

1. Out of these 33,745,726,203 shares, 30,003,232,705 shares were collectively held by Mr. Yu through Rosewood Assets Ltd., Pippen Limited and First Best Assets Limited, companies wholly owned by him; and 3,742,493,498 shares were held by Macro Resources Ltd., 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%
Liu Rong	7,000,000	Personal	0.01%
Lam Bing Kwan	3,000,000	Personal	0.004%

* 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	20-04-2009	0.0702	3,500,000	01-01-2010 to 31-12-2011
			3,500,000	01-01-2011 to 31-12-2011
Liu Rong	20-04-2009	0.0702	3,500,000	01-01-2010 to 31-12-2011
			3,500,000	01-01-2011 to 31-12-2011
Lam Bing Kwan	20-04-2009	0.0702	1,500,000	01-01-2010 to 31-12-2011
			1,500,000	01-01-2011 to 31-12-2011

REPORT OF THE DIRECTORS

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 2009, 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 2009, 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.

REPORT OF THE DIRECTORS

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 Group 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 per share.

On 20 April 2009, another share options to subscribe for a total of 185,200,000 shares, representing approximately 0.62% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors, employees of the Group and those who have contribution to the Group at an exercise price of HK$0.0702 per share. The closing price of share of the Company immediately preceding the date of grant was HK$0.070 per share.

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 2009**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31 December 2009**
Directors								
Chen Dan	18-01-2007	19-01-2008 to 18-01-2009	0.0714	7,000,000	–	–	(7,000,000)	–
	20-04-2009	01-01-2010 to 31-12-2011	0.0702	–	3,500,000	–	–	3,500,000
		01-01-2011 to 31-12-2011	0.0702	–	3,500,000	–	–	3,500,000
Liu Rong	20-04-2009	01-01-2010 to 31-12-2011	0.0702	–	3,500,000	–	–	3,500,000
		01-01-2011 to 31-12-2011	0.0702	–	3,500,000	–	–	3,500,000
Qin Tian Xiang	18-01-2007	19-01-2008 to 18-01-2009	0.0714	7,000,000	–	–	(7,000,000)	–
Lam Bing Kwan	20-04-2009	01-01-2010 to 31-12-2011	0.0702	–	1,500,000	–	–	1,500,000
		01-01-2011 to 31-12-2011	0.0702	–	1,500,000	–	–	1,500,000
Employees								
In aggregate	18-01-2007	19-01-2007 to 18-01-2009	0.0714	16,550,000	–	–	(16,550,000)	–
		19-01-2008 to 18-01-2009	0.0714	62,400,000	–	–	(62,400,000)	–
	20-04-2009	01-01-2010 to 31-12-2011	0.0702	–	76,300,000	–	(1,500,000)	74,800,000
		01-01-2011 to 31-12-2011	0.0702	–	80,000,000	–	(1,500,000)	78,500,000
Other participants								
In aggregate	20-04-2009	01-01-2010 to 31-12-2011	0.0702	–	5,950,000	–	–	5,950,000
		01-01-2011 to 31-12-2011	0.0702	–	5,950,000	–	–	5,950,000
Total				92,950,000	185,200,000	–	(95,950,000)	182,200,000

REPORT OF THE DIRECTORS

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 Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the 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 2,182,355,418 shares representing approximately 3.18% of the issued share capital of the Company.

(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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

(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 contract concerning the management and administration of the whole or any substantial part of the business of the Company was 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.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2009, 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	33,815,052,603	49.26%	1
Rosewood Assets Ltd.	Beneficial interest	7,668,000,210	11.17%	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 Ltd.	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 Security interest	60,900,000 7,700,000,000	0.09% 11.22%	

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 Limited, and its 40% owned company, Macro Resources Ltd.

3. Rosewood Assets Ltd., Pippen Limited, Righteous International Limited and First Best Assets Limited are companies wholly owned by Mr. Yu and Macro Resources Ltd. 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 Ltd. 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 2009, 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.

REPORT OF THE DIRECTORS

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 29 to 33.

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 2009, 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, 1 April 2010

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.

CODE ON CORPORATE GOVERNANCE PRACTICES

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 2009, except for the deviation from Code Provisions A.2.1 and A.4.1 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 2009.

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 four executive directors, two non-executive directors 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 16 to 17 under the heading "Biographical Details of Directors and Senior Management". The Board consists of the following:

Executive Directors

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

Non-executive Directors

Mr. QIN Tian Xiang
Mr. LAM Bing Kwan

Independent Non-executive Directors

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

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.

To the best knowledge of the Company, the Board members do not have any financial, business and family or other material/relevant relationship with each other. During the year, the Board held eleven meetings.

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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

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)*
Ms. CHEN Dan
Ms. LIU Rong
Mr. WANG Gang

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 thirteen 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 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 seven 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 2008 and the unaudited interim results for the six months ended 30 June 2009, and discussed the auditing, financial control, internal control and risk management systems.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

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 six meetings 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 2009:

	Attendance/Number of Meetings			
Name of Director	**Board**	**Executive Committee**	**Audit Committee**	**Remuneration Committee**
Executive Directors				
Mr. YU Pun Hoi	11/11	11/13	N/A	N/A
Ms. CHEN Dan	11/11	10/13	N/A	N/A
Ms. LIU Rong (appointed on 10 March 2009)	10/11	6/13	N/A	N/A
Mr. WANG Gang (appointed on 10 March 2009)	10/11	9/13	N/A	N/A
Non-executive Directors				
Mr. QIN Tian Xiang (re-designated on 12 June 2009)	1/11	1/13	N/A	N/A
Mr. LAM Bing Kwan	11/11	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. HUANG Yaowen	11/11	N/A	7/7	6/6
Prof. JIANG Ping	10/11	N/A	6/7	6/6
Mr. LAU Yip Leung	11/11	N/A	7/7	6/6
Number of meetings held during the year	11	13	7	6

CORPORATE GOVERNANCE REPORT

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 2009.

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 34.

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 2009 amounted to HK$5,413,000 and HK$241,000 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 responsibilities and authorities to the senior management.

During the year under review, the Board, Audit Committee and Executive Committee have 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, 1 April 2010

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 35 to 118, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

1 April 2010

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Revenue/Turnover	5(a)	**4,008,375**	494,861
Cost of sales and services provided		**(2,479,610)**	(188,711)
Gross profit		**1,528,765**	306,150
Other operating income	5(b)	**70,247**	57,605
Gain arising on acquisition of additional interests in subsidiaries		**–**	9,991
Gain on disposal and dissolution of subsidiaries	34(b)	**56,170**	56,626
Gain on early repayment of amounts due to shareholders	26(e)	**51,145**	–
Selling and marketing expenses		**(340,861)**	(284,952)
Administrative expenses		**(360,795)**	(321,167)
Other operating expenses		**(171,866)**	(150,055)
Finance costs	7	**(256,047)**	(186,586)
Impairment loss on goodwill		**–**	(17,000)
Share of results of associates	17	**639**	(3)
Profit/(Loss) before income tax	8	**577,397**	(529,391)
Income tax expense	9	**(438,504)**	(5,372)
Profit/(Loss) for the year		**138,893**	(534,763)
Profit /(Loss) for the year attributable to:			
Owners of the Company	10	**200,833**	(492,238)
Minority interests		**(61,940)**	(42,525)
		138,893	(534,763)
		HK cent	HK cent
Earnings/(Loss) per share for profit/(loss) attributable to the owners of the Company during the year	11		
– Basic		**0.2926**	(0.7171)
– Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Profit/(Loss) for the year	**138,893**	(534,763)
Other comprehensive income, including reclassification adjustments		
Exchange gain on translation of financial statements of foreign operations	**15,400**	206,401
Exchange differences realised on disposal and dissolution of subsidiaries	**(1,384)**	(47,844)
Reserve released on disposal of subsidiaries	**(4,246)**	–
Other comprehensive income for the year, including reclassification adjustments	**9,770**	158,557
Total comprehensive income for the year	**148,663**	(376,206)
Total comprehensive income attributable to:		
Owners of the Company	**210,420**	(325,179)
Minority interests	**(61,757)**	(51,027)
	148,663	(376,206)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**529,361**	264,941
Investment property	14	**11,409**	12,015
Prepaid land lease payments under operating leases	15	**57,019**	58,111
Interest in associates	17	**117,374**	2,623
Available-for-sale financial assets		**324**	324
Deposits and other receivables	18	**275,561**	176,084
Intangible assets	19	**307,626**	303,073
Deferred tax assets	30	**33,369**	7,990
Pledged bank deposits	23	**118,254**	–
		1,450,297	825,161
Current assets			
Inventories	20	**6,916,215**	7,921,036
Financial assets at fair value through profit or loss	21	**414,031**	346,432
Trade receivables	22	**138,055**	28,256
Deposits, prepayments and other receivables	18	**838,290**	1,367,513
Amount due from an associate	26(d)	**4,828**	20
Pledged bank deposits	23	**2,280**	–
Cash and cash equivalents	23	**610,341**	211,145
		8,924,040	9,874,402
Current liabilities			
Trade payables	24	**375,716**	129,046
Other payables and accruals	25	**670,268**	671,552
Deferred revenue		**82,404**	54,731
Provision for tax		**497,231**	85,468
Amount due to a director	26(a)	**147,184**	24,361
Amounts due to shareholders	26(b)	**5,006**	5,006
Amount due to a minority shareholder	26(c)	**406**	12,000
Amounts due to associates	26(d)	**19,156**	5,507
Bank and other borrowings	27	**473,364**	1,430,658
Finance lease liabilities	28	**16**	249
		2,270,751	2,418,578
Net current assets		**6,653,289**	7,455,824
Total assets less current liabilities		**8,103,586**	8,280,985

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current liabilities			
Bank and other borrowings	27	**439,957**	831,172
Finance lease liabilities	28	**49**	56
Finance from third parties	29	**2,658,182**	2,128,047
Amounts due to shareholders	26(e)	**–**	437,482
Deferred tax liabilities	30	**226,542**	226,457
		3,324,730	3,623,214
Net assets		**4,778,856**	4,657,771
EQUITY			
Share capital	31	**686,450**	686,450
Reserves	33	**3,268,857**	3,076,981
Equity attributable to the Company's owners		**3,955,307**	3,763,431
Minority interests		**823,549**	894,340
Total equity		**4,778,856**	4,657,771

Yu Pun Hoi
Director

Wang Gang
Director

STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**288**	206
Interests in subsidiaries	16	**–**	–
		288	206
Current assets			
Amounts due from subsidiaries	26(f)	**5,783,219**	6,581,054
Other receivables and deposits		**1,846**	1,173
Cash and cash equivalents	23	**17,285**	5,249
		5,802,350	6,587,476
Current liabilities			
Other payables and accruals		**5,882**	5,576
Amount due to a director	26(a)	**105,520**	18,204
Amounts due to subsidiaries	26(g)	**989,621**	2,864,352
Finance lease liabilities	28	**16**	–
		1,101,039	2,888,132
Net current assets		**4,701,311**	3,699,344
Total assets less current liabilities		**4,701,599**	3,699,550
Non-current liabilities			
Amounts due to shareholders	26(e)	**–**	437,482
Loan from subsidiaries	26(h)	**1,544,576**	–
Finance lease liabilities	28	**49**	–
		1,544,625	437,482
Net assets		**3,156,974**	3,262,068
EQUITY			
Share capital	31	**686,450**	686,450
Reserves	33	**2,470,524**	2,575,618
Total equity		**3,156,974**	3,262,068

Yu Pun Hoi
Director

Wang Gang
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Profit/(Loss) before income tax		**577,397**	(529,391)
Adjustments for:			
Interest income		**(22,396)**	(22,287)
Interest expenses		**32,349**	37,852
Finance costs on finance from third parties		**223,698**	148,734
Dividend income		**(449)**	(80)
Depreciation of property, plant and equipment		**58,359**	41,045
Depreciation of investment property		**649**	643
Amortisation of intangible assets other than goodwill		**32,622**	35,159
Write-off of property, plant and equipment		**886**	1,162
Gain on disposal and dissolution of subsidiaries		**(56,170)**	(56,626)
Gain on early repayment of amounts due to shareholders		**(51,145)**	–
Impairment loss on goodwill		**–**	17,000
Operating lease charges on prepaid land leases		**1,308**	1,295
Bad debt written-off and provision for impairment of receivables		**7,224**	20,676
Write-off of loan interest receivables		**5,200**	–
Loss on disposal of property, plant and equipment		**36**	730
Fair value (gain)/loss on financial assets at fair value through profit or loss		**(34,974)**	8,950
Equity-settled share-based compensation expenses		**3,752**	86
Gain arising on acquisition of additional interests in subsidiaries		**–**	(9,991)
Share of results of associates		**(639)**	3
Operating profit/(loss) before working capital changes		**777,707**	(305,040)
Decrease/(Increase) in inventories		**1,165,077**	(1,196,721)
Decrease/(Increase) in trade receivables, deposits, prepayments and other receivables		**198,438**	(843,686)
Increase in trade payables, other payables and accruals		**252,971**	367,987
Increase in deferred revenue		**27,339**	1,265
Increase in amount due from an associate		**(4,808)**	(4)
Increase in amounts due to associates		**13,649**	–
Decrease in amount due to a director		**(84,788)**	(19,048)
Cash generated from/(used in) operations		**2,345,585**	(1,995,247)
Interest received		**15,604**	22,287
Interest paid		**(4,880)**	(5,560)
Income taxes (paid)/refunded		**(53,872)**	9,699
Net cash generated from/(used in) operating activities		**2,302,437**	(1,968,821)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from investing activities			
Payments to acquire intangible assets		**(20,761)**	(9,258)
Payments to acquire property, plant and equipment		**(299,284)**	(107,078)
Acquisition of associates		**(113,636)**	(2,079)
Net cash inflow/(outflow) arising from acquisition of subsidiaries	34(a)	**250**	(422)
Acquisition of financial assets at fair value through profit or loss		**(321,754)**	(352,416)
Proceeds from disposal of financial assets at fair value through profit or loss		**288,952**	–
Increase in deposits and other receivables		**(121,611)**	(109,288)
Decrease in time deposits		**–**	224,694
Increase in pledged bank deposits		**(120,534)**	–
Proceeds from disposal of property, plant and equipment		**278**	1,121
Net cash (outflow)/ inflow arising from disposal and dissolution of subsidiaries	34(b)	**(97)**	54,300
Dividend income		**449**	80
Net cash used in investing activities		**(707,748)**	(300,346)
Cash flows from financing activities			
Repayments of bank and other borrowings		**(1,623,385)**	(326,109)
Repayments of finance lease liabilities		**(318)**	(539)
Repayments of finance from third parties		**(234,523)**	(111,403)
Proceeds from bank and other borrowings		**272,387**	567,352
Proceeds from finance from a third party		**387,525**	2,145,000
Proceeds from/(Repayments to) security brokers and margin financiers		**1,306**	(34,816)
Net cash (used in)/generated from financing activities		**(1,197,008)**	2,239,485
Net increase/(decrease) in cash and cash equivalents		**397,681**	(29,682)
Cash and cash equivalents at 1 January		**210,875**	231,876
Effect of foreign exchange rate changes, on cash held		**1,785**	8,681
Cash and cash equivalents at 31 December		**610,341**	210,875
Analysis of the balances of cash and cash equivalents			
Cash at banks and in hand		**610,341**	211,145
Bank overdrafts		**–**	(270)
		610,341	210,875

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Equity attributable to the Company's owners									
	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/ (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 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
Equity-settled share-based compensation expenses	–	–	–	–	86	–	–	86	–	86
Released on acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	(9,991)	(9,991)
Transactions with owners	–	–	–	–	86	–	–	86	(9,991)	(9,905)
Loss for the year	–	–	–	–	–	–	(492,238)	(492,238)	(42,525)	(534,763)
Other comprehensive income										
Exchange loss on translation of financial statements of foreign operations	–	–	–	–	–	214,903	–	214,903	(8,502)	206,401
Exchange difference realised on disposal and dissolution of subsidiaries	–	–	–	–	–	(47,844)	–	(47,844)	–	(47,844)
Total comprehensive income for the year	–	–	–	–	–	167,059	(492,238)	(325,179)	(51,027)	(376,206)
Released on expiry/forfeiture of share options	–	–	–	–	(249)	–	249	–	–	–
Transfer to general reserve	–	–	–	19	–	–	(19)	–	–	–
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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Equity attributable to the Company's owners									
	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/ (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2009	686,450	965,881	1,933,719	16,428	2,120	313,453	(154,620)	3,763,431	894,340	4,657,771
Equity-settled share-based compensation expenses	–	–	–	–	3,752	–	–	3,752	–	3,752
Released on disposal and dissolution of subsidiaries	–	–	(22,296)	–	–	–	–	(22,296)	(9,034)	(31,330)
Transactions with owners	–	–	(22,296)	–	3,752	–	–	(18,544)	(9,034)	(27,578)
Profit for the year	–	–	–	–	–	–	200,833	200,833	(61,940)	138,893
Other comprehensive income										
Exchange loss on translation of financial statements of foreign operations	–	–	–	–	–	15,217	–	15,217	183	15,400
Exchange difference realised on disposal and dissolution of subsidiaries	–	–	–	–	–	(1,384)	–	(1,384)	–	(1,384)
Reserve released on disposal of subsidiaries	–	–	–	(4,246)	–	–	–	(4,246)	–	(4,246)
Total comprehensive income for the year	–	–	–	(4,246)	–	13,833	200,833	210,420	(61,757)	148,663
Released on expiry/forfeiture of share options	–	–	–	–	(2,180)	–	2,180	–	–	–
Transfer to general reserve	–	–	–	654	–	–	(654)	–	–	–
At 31 December 2009	686,450	965,881*	1,911,423*	12,836*	3,692*	327,286*	47,739*	3,955,307	823,549	4,778,856

* These reserve accounts comprise the consolidated reserves of HK$3,268,857,000 (2008: HK$3,076,981,000) in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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 for the year ended 31 December 2009 were approved for issue by the board of directors (the "Board") on 1 April 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 35 to 118 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 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 adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3.

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.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see note 2.3 below) made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation (Continued)

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

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 statement of financial position within equity, separately from the equity attributable to the owners of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated statement of comprehensive income 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 interests 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 interests only after the minority's share of losses previously absorbed by the Group has been recovered.

Amount due to a minority shareholder and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 2.14.

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 2.9.

2.3 Subsidiaries

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.

In consolidated financial statements, acquisition of subsidiaries (other than those under common control) is accounted for by applying the purchase method. This involves the estimation of 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 statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 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. 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 goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. 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. 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 the period in which the investment is acquired.

Under the equity method, the Group's interest in the associates 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 profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associates recognised for the year.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associates are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. 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.

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.

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 reporting 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 (higher of value in use and fair value less costs to sell) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 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 reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

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 reporting 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 recognised in other comprehensive income and accumulated 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 reclassified from equity to profit or loss as part of the gain or loss on sale.

2.6 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.

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 reporting date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

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 profit or loss.

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 profit or loss during the financial period in which they are incurred.

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.

2.7 Operating lease prepayments and land use right

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any accumulated impairment losses. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 2.16. Amortisation is calculated on a straight-line basis over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

2.8 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.

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

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 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 2.4.

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 2.22).

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, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

2.10 Other intangible assets and research and development activities

Other intangible assets

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Computer software	4 years
Customer relationships	2 years

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.

Intangible assets, such as trademark and masthead, with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in note 2.22.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Other intangible assets and research and development activities (Continued)

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to the development activities 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.

2.11 Financial assets

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

Financial assets are classified into the following categories:

– financial assets at fair value through profit or loss

– loans and receivables

– 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

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.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

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

Financial assets 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.

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 profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 2.19 to these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 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 profit or loss 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 in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve 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 is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment of financial assets

At each reporting 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, and the failure to renegotiate the repayment terms of loan and receivables that would otherwise be past due or impaired.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

Impairment of financial assets (Continued)

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

(i) Financial assets at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

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

(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 profit or loss 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 profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the profit or loss. The subsequent increase in fair value is recognised directly in other comprehensive income. 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 profit of loss.

Financial assets other than financial assets at fair value through profit or loss and loans and receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of loans and receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of loans and receivables is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

(i) Property development

The cost of properties under development for sale comprises the acquisition cost of land, materials, labour and other direct expenses and an appropriate proportion of overheads, and capitalised borrowing costs (see note 2.24). The cost of completed properties held for sale developed by the Group is determined by apportionment of the total development costs for that development project attributable to the unsold properties.

(ii) Confectionery and merchandise goods

Cost comprises the cost of purchased goods calculated using FIFO method.

2.13 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 with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. 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.

2.14 Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, finance from third parties, trade and other payables and finance lease liabilities. They are included in line items in the statement of financial position as bank and other borrowings, finance lease liabilities, finance from third parties, trade payables, other payables and accruals, amount due to a director, amounts due to shareholders, amount due to a minority shareholder, amounts due to associates and amounts due to subsidiaries.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All related finance costs are recognised in accordance with the Group's accounting policy for finance costs (see note 2.24).

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Financial liabilities (Continued)

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 profit or loss 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 reporting date.

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.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 2.16).

Finance from third parties

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

2.15 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 profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 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.

(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 profit or loss 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 time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

(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 time 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 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 of the amount of the obligation 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 reporting 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.

2.18 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.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable 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:

Revenue arising from the sale of properties held for sale is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under other payables and accruals.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition (Continued)

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.

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.

2.20 Deferred revenue

Deferred revenue consists primarily of deferred revenue from prepaid service fees received from subscribers and fair value of bonus liabilities granted to customers in accordance with the announced bonus point scheme and the Group's past experience on the level of redemption of points. Revenue from prepaid service fees and bonus liabilities are recognised when the relevant services are rendered.

2.21 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 are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are included in liabilities as deferred government grants in the statement of financial position and are recognised in profit or loss on a straight-line basis over the expected lives of the related assets.

Government grants relating to income is presented in gross under "Other operating income" in the profit or loss.

2.22 Impairment of non-financial assets

Goodwill arising on an acquisition of subsidiary, other intangible assets, 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 and other intangible assets with indefinite useful life or those not yet available for use are 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Impairment of non-financial assets (Continued)

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.

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.

2.23 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 reporting date.

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

(ii) Retirement benefits

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Employee benefits (Continued)

(ii) Retirement benefits (Continued)

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.

(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 recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 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.

Finance costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, finance costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of finance costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed.

2.25 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 reporting 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 profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting 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, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

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

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

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Segment reporting

The Group identifies operating segments and prepare segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

(a) Financial information services

(b) Corporate IT application services

(c) Distance learning education services

(d) Property development

(e) Culture and media services

Information about other business activities and operating segments that are not reportable are combined and disclosed in "All other segments". All other segments included trading of securities and property management.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm length prices.

The measurement polices the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

- Share of results of associates
- Certain bank and other interest income
- Gain on disposal and dissolution of subsidiaries
- Gain arising on acquisition of additional interests in subsidiaries
- Certain finance costs
- Income tax expense
- Corporate income and expenses which are not directly attributable to the business activities or any operating segment

are not included in arriving at the operating results of the operating segment.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Segment reporting (Continued)

Segment assets include all assets but interest in associates, available-for-sale financial assets and deferred tax assets. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include provision for tax, amounts due to a director/shareholders/a minority shareholder/associates and certain corporate borrowings.

No asymmetrical allocations have been applied to reportable segments.

2.27 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 the Group's parent, 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

3. ADOPTION OF NEW AND AMENDED HKFRSs

3.1 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 2009:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK (IFRIC) – Int 13	Customer Loyalty Programmes
HK (IFRIC) – Int 15	Agreements for the Construction of Real Estate
Various	Annual Improvements to HKFRSs 2008

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of Financial Statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or parent company statement of financial position at 1 January 2008 and accordingly the third statement of financial position as at 1 January 2008 is not presented.

HKAS 27 (Amendments) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries, jointly controlled entity or associates (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Group's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

3.1 Impact of new and amended HKFRSs which are effective during the year (Continued)

HKFRS 7 (Amendment) Improving Disclosures about Financial Instruments

The amendment requires additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

HKFRS 8 Operating Segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives have been restated on a basis consistent with the new standard.

HK(IFRIC) – Int 13 Customer Loyalty Programmes

HK(IFRIC) – Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group's current policy for customer loyalty award credits align with the requirements of the interpretation, the adoption of the interpretation has had no impact on the financial position or results of operations of the Group.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

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

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

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 pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. The directors are currently assessing the impact of other new and 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.

HKFRS 3 Business Combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 27 Consolidated and Separate Financial Statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

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

Annual Improvements to HKFRSs 2009

The HKICPA has issued *Improvements to Hong Kong Financial Reporting Standards* 2009. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The Group expects the amendment to HKAS 17 Leases to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment.

The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The directors are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

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 33-1/3% per annum and 25% to 50% 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

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 2.22. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates about future cash flows and discount rates. In the process of estimating expected future cash flows management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Details of the estimates of the recoverable amounts of cash generating units containing goodwill are disclosed in note 19.

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 judgement 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. Judgements are based on the best information available at each reporting date. In addition, all internal activities related to the research and development of new software products are continuously monitored by the Group's management.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

5. REVENUE /TURNOVER AND OTHER OPERATING INCOME

(a) The Group's turnover represents revenue from its principal activities as set out below:

	2009 HK$'000	2008 HK$'000
Sales of properties	**3,376,953**	–
Distance learning education services	**5,798**	7,171
Corporate IT application services	**427,267**	394,323
Property management	**10,142**	8,288
Financial information services	**18,340**	22,549
Culture and media services	**7,006**	16,325
Ticketing income	**141,200**	39,536
Confectionery sales	**21,669**	6,669
	4,008,375	494,861

(b) Other operating income:

	2009 HK$'000	2008 HK$'000
Exchange gain	**–**	4,270
Dividend income	**449**	80
Interest income on financial assets designated at fair value through profit or loss	**13,285**	6,357
Bank interest income	**2,973**	15,930
Other interest income	**6,138**	15,769
Total interest income on financial assets not at fair value through profit or loss	**9,111**	31,699
Net fair value gain on financial assets at fair value through profit or loss	**34,974**	–
Rental income	**2,837**	4,483
Write back of sundry creditors	**–**	4,161
Government grants	**3,610**	2,242
Sundry income	**5,981**	4,313
	70,247	57,605

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

6. SEGMENT INFORMATION

The executive directors have identified the Group's five product and service lines as operating segments as further described in note 2.26.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

	2009						
	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$'000	All other segments HK$'000	Total HK$'000
Revenue							
From external customers	18,340	427,267	3,376,953	5,798	169,875	10,142	4,008,375
From other segments	–	–	–	–	–	–	–
Reportable segment revenue	18,340	427,267	3,376,953	5,798	169,875	10,142	4,008,375
Reportable segment profit/(loss)	(43,276)	(188,414)	833,938	(4,118)	(31,896)	(709)	565,525
Interest income on financial assets designated at fair value through profit or loss	–	–	13,285	–	–	–	13,285
Bank interest income	5	446	2,374	2	38	19	2,884
Other interest income	–	–	1,327	–	–	–	1,327
Total interest income on financial assets not at fair value through profit or loss	5	446	3,701	2	38	19	4,211
Finance costs	–	(4,847)	(223,728)	–	–	(1)	(228,576)
Depreciation and amortisation of non-financial assets	(631)	(61,003)	(1,620)	(1,133)	(27,958)	(289)	(92,634)
(Provision)/Reversal for impairment of receivables	9	(1,240)	–	77	(784)	–	(1,938)
Share of results of associates	–	642	–	–	(3)	–	639
Reportable segment assets	10,079	832,815	8,327,132	919	482,431	310,208	9,963,584
Additions to non-current segment assets during the year	211	144,279	10,643	9	184,989	1,390	341,521
Reportable segment liabilities	(21,700)	(221,146)	(4,575,917)	(2,400)	(61,099)	(5,014)	(4,887,276)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

6. SEGMENT INFORMATION (Continued)

	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$'000	All other segments HK$'000	Total HK$'000
Revenue							
From external customers	22,549	394,323	–	7,171	62,530	8,288	494,861
From other segments	–	33,704	–	2,415	–	–	36,119
Reportable segment revenue	22,549	428,027	–	9,586	62,530	8,288	530,980
Reportable segment loss	(37,942)	(198,884)	(183,261)	(1,739)	(30,665)	(7,977)	(460,468)
Interest income on financial assets designated at fair value through profit or loss	–	–	6,357	–	–	–	6,357
Bank interest income	14	504	15,236	5	20	4	15,783
Other interest income	–	–	6,237	–	–	–	6,237
Total interest income on financial assets not at fair value through profit or loss	14	504	21,473	5	20	4	22,020
Finance costs	(14)	(5,471)	(148,810)	–	–	(1,880)	(156,175)
Depreciation and amortisation of non-financial assets	(799)	(66,330)	(1,682)	(402)	(8,530)	(118)	(77,861)
Impairment of goodwill	–	(17,000)	–	–	–	–	(17,000)
(Provision)/ Reversal for impairment of receivables	–	(14,428)	(3,412)	160	–	–	(17,680)
Share of results of associates	–	–	–	–	(3)	–	(3)
Reportable segment assets	7,770	678,127	9,502,250	5,732	177,010	6,119	10,377,008
Additions to non-current segment assets during the year	111	40,991	18,716	12	124,408	1,182	185,420
Reportable segment liabilities	(21,683)	(190,491)	(4,769,131)	(2,172)	(76,861)	(4,608)	(5,064,946)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

6. SEGMENT INFORMATION (Continued)

The totals presented for the Group's operating segments are reconciled to the Group's key financial figures as presented in the financial statements as follows:

	2009 HK$'000	2008 HK$'000
Reportable segment revenues	**3,998,233**	522,692
All other segments revenues	**10,142**	8,288
Elimination of inter segment revenues	**–**	(36,119)
Group revenues	**4,008,375**	494,861
Reportable segment results	**566,234**	(452,491)
All other segment results	**(709)**	(7,977)
Bank interest income	**89**	147
Other interest income	**4,811**	9,532
Total interest income on financial assets not at fair value through profit or loss	**4,900**	9,679
Depreciation and amortisation	**(502)**	(365)
Gain on disposal and dissolution of subsidiaries	**56,170**	56,626
Gain arising on acquisition of additional interests in subsidiaries	**–**	9,991
Gain on early repayment of amounts due to shareholders	**51,145**	–
Impairment of trade and other receivables	**–**	(2,001)
Finance costs	**(27,471)**	(30,411)
Share of results of associates	**639**	(3)
Unallocated corporate expenses	**(73,009)**	(78,735)
Elimination of inter segment profits	**–**	(33,704)
Profit/(Loss) before income tax	**577,397**	(529,391)

	2009 HK$'000	2008 HK$'000
Reportable segment assets	**9,653,376**	10,370,889
All other segment assets	**310,208**	6,119
Interest in associates	**117,374**	2,623
Amount due from an associate	**4,828**	20
Deferred tax assets	**33,369**	7,990
Available-for-sale financial assets	**324**	324
Other financial and corporate assets	**254,858**	311,598
Group assets	**10,374,337**	10,699,563
Reportable segment liabilities	**4,882,262**	5,060,338
All other segment liabilities	**5,014**	4,608
Amount due to a director	**147,184**	24,361
Amounts due to shareholders	**5,006**	442,488
Amount due to a minority shareholder	**406**	12,000
Amounts due to associates	**19,156**	5,507
Provision for tax	**497,231**	85,468
Bank and other borrowings	**–**	270
Other corporate liabilities	**39,222**	406,752
Group liabilities	**5,595,481**	6,041,792

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

6. SEGMENT INFORMATION (Continued)

The Group's revenues from external customers and its non-current assets (other than deferred tax assets and financial instruments) are divided into the following geographical areas:

	Revenue from external customer		Non-current assets	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Mainland China (domicile)	**3,999,444**	494,689	**1,279,403**	813,869
Hong Kong	**2,561**	172	**2,079**	2,978
USA	**6,370**	–	**16,868**	–
Singapore	**–**	–	**79,616**	–
Kuwait	**–**	–	**38,638**	–
Total	**4,008,375**	494,861	**1,416,604**	816,847

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets is based on the physical location of the assets. The Company is an investment holding company incorporated in Bermuda where the Group does not have any activities, the Group has the majority of its operations and workforce in the Mainland China, and therefore, the Mainland China is considered as the Group's country of domicile for the purpose of the disclosures as required by HKFRS 8 "Operating Segments".

7. FINANCE COSTS

	2009	2008
	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**125,510**	187,047
Finance costs on finance from third parties wholly repayable within five years	**375,619**	148,734
Interest on other payables	**–**	1,894
Interest on finance leases	**32**	75
Interest on amounts due to shareholders	**27,468**	30,411
Total finance costs on financial liabilities not at fair value through profit or loss	**528,629**	368,161
Less: Amount directly attributable to properties held for and under development capitalised*	**(272,582)**	(181,575)
	256,047	186,586

* The finance costs have been capitalised at a rate of 4.87% to 16.02% (2008: 6.93% to 8.34%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

8. PROFIT/(LOSS) BEFORE INCOME TAX

	2009 HK$'000	2008 HK$'000
Profit/(Loss) before income tax is arrived at after charging/(crediting):		
Amortisation of intangible assets other than goodwill*	32,622	35,159
Auditors' remuneration	5,413	4,877
Bad debts written off*	5,286	995
Cost of provision of corporate IT application services	120,788	115,361
Cost of sales of properties	2,252,468	–
Cost of confectionery	10,980	3,164
Cost of provision of financial information services	9,774	10,875
Cost of provision of culture and media services	76,440	50,504
Cost of inventories sold – distance learning materials	1,111	1,279
Cost of provision of property management services	8,049	7,528
Cost of sales and services provided	2,479,610	188,711
Gross depreciation of property, plant and equipment – owned assets	58,535	40,753
Less: Amounts included in cost of provision of corporate IT application services	(190)	(158)
Amounts capitalised in intangible assets	(198)	(84)
Amount included in research and development expenses	(75)	(120)
Net depreciation of owned assets*	58,072	40,391
Depreciation of leased assets*	22	376
Depreciation of investment property*	649	643
Write-off of property, plant and equipment*	886	1,162
Loss on disposal of property, plant and equipment*	36	730
Net fair value (gain)/loss on financial assets at fair value through profit or loss	(34,974)	8,950
Net foreign exchange loss/(gain)	2,032	(4,270)
Gross operating lease charges on land and buildings	62,010	53,078
Less: Amounts included in cost of provision of corporate IT application services	(556)	(804)
Amounts capitalised in intangible assets	(846)	(244)
Amounts included in research and development expenses	–	(156)
Net operating lease charges on land and buildings	60,608	51,874
Operating lease charges on prepaid land lease*	1,308	1,295
Provision for impairment of receivables, net*	1,938	19,681
Write-off of loan interest receivables*	5,200	–
Research and development expenses*	12,999	10,335

* included in other operating expenses

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

9. INCOME TAX EXPENSE

	2009 HK$'000	2008 HK$'000
The tax expense comprises:		
Current tax		
– Hong Kong Profits Tax		
Tax charge for the year	**13,599**	12,184
– PRC Enterprise Income Tax		
Tax charge/(credit) for the year	**265,857**	(5,563)
Over-provision in respect of prior years	**(491)**	(79)
– PRC land appreciation tax	**184,775**	–
	463,740	6,542
Deferred tax		
– Credit for the year (note 30)	**(25,236)**	(1,170)
	(25,236)	(1,170)
	438,504	5,372

For the year ended 31 December 2008 and 2009, Hong Kong profit tax has been provided at the rate of 16.5% on the estimated assessable profit for the year.

PRC Enterprise Income Tax ("EIT") has been provided on the estimated assessable profits of subsidiaries operating in Mainland China at 25% (2008: 25%), 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% (2008:15%).

No provision for US federal income tax and state income tax was made as the subsidiaries of the Group did not derive any assessable profit in US for the year ended 31 December 2009 (2008: Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

9. INCOME TAX EXPENSE (Continued)

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

	2009 HK$'000	2008 HK$'000
Profit/(Loss) before income tax	**577,397**	(529,391)
Tax on profit/(loss) before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**125,065**	(97,407)
Tax effect of non-deductible expenses	**155,613**	97,733
Tax effect of non-taxable income	**(19,924)**	(20,995)
Tax effect of unused tax losses not recognised	**29,202**	40,438
Utilisation of tax loss previously not recognised	**(177)**	(4,310)
Tax effect on PRC land appreciation tax	**(33,221)**	–
Tax effect on temporary differences not recognised	**(2,338)**	(46)
Tax refund on reinvestment in a PRC subsidiary	**–**	(9,962)
PRC land appreciation tax	**184,775**	–
Over-provision in prior years	**(491)**	(79)
Income tax expense	**438,504**	5,372

10. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of HK$200,833,000 (2008: consolidated loss of HK$492,238,000), a loss of HK$108,846,000 (2008: HK$211,358,000) has been dealt with in the financial statements of the Company.

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to the owners of the Company of HK$200,833,000 (2008: loss of HK$492,238,000) and 68,645,035,794 (2008: 68,645,035,794) ordinary shares in issue during the year.

The share options have no dilutive effect on the earnings/(loss) per share for the year ended 31 December 2009 and 31 December 2008, respectively, as the exercise price of the options outstanding during the year exceeds the average market price of ordinary shares.

12. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2009 HK$'000	2008 HK$'000
Directors' fee (note 36(a))	**978**	727
Wages and salaries	**420,527**	370,065
Pension costs – defined contribution plans	**69,139**	61,563
Equity-settled share-based compensation expenses	**3,752**	86
Staff welfare	**26,489**	33,910
	520,885	466,351
Less: Amounts capitalised in intangible assets	**(14,896)**	(6,118)
	505,989	460,233

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Construction in progress HK$'000	Motor vehicles/ Yacht HK$'000	Total HK$'000
At 1 January 2008					
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 (note 34(a))	–	69,895	–	185	70,080
Disposals	–	(1,670)	–	(180)	(1,850)
Disposal and dissolution of subsidiaries (note 34(b))	–	(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 and 1 January 2009					
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
Year ended 31 December 2009					
Opening net carrying amount	**22,345**	**193,429**	**29,205**	**19,962**	**264,941**
Additions	**–**	**195,943**	**111,795**	**13,857**	**321,595**
Acquisition of subsidiaries (note 34(a))	**–**	**300**	**–**	**–**	**300**
Disposals	**–**	**(237)**	**–**	**(77)**	**(314)**
Disposal and dissolution of subsidiaries (note 34(b))	**–**	**(39)**	**–**	**–**	**(39)**
Write-off	**–**	**(715)**	**–**	**(171)**	**(886)**
Depreciation	**(1,207)**	**(55,803)**	**–**	**(1,547)**	**(58,557)**
Exchange differences	**81**	**1,501**	**611**	**128**	**2,321**
Closing net carrying amount	**21,219**	**334,379**	**141,611**	**32,152**	**529,361**
At 31 December 2009					
Cost	**24,250**	**523,854**	**141,611**	**34,538**	**724,253**
Accumulated depreciation	**(3,031)**	**(189,475)**	**–**	**(2,386)**	**(194,892)**
Net carrying amount	**21,219**	**334,379**	**141,611**	**32,152**	**529,361**

The carrying amount of the Group's property, plant and equipment includes an amount of HK$56,000 (2008: HK$311,000) in respect of assets held under finance lease.

Certain buildings of the Group were charged to secure banking facilities as detailed in note 39.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements, furniture, fixtures and equipment HK$'000
At 1 January 2008	
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 and 1 January 2009	
Cost	467
Accumulated depreciation	(261)
Net carrying amount	206
Year ended 31 December 2009	
Opening net carrying amount	**206**
Additions	**244**
Depreciation	**(162)**
Closing net carrying amount	**288**
At 31 December 2009	
Cost	**711**
Accumulated depreciation	**(423)**
Net carrying amount	**288**

The carrying amount of the Company's property, plant and equipment includes an amount of HK$56,000 (2008: Nil) in respect of assets held under finance lease.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

14. INVESTMENT PROPERTY

Group

	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 and 1 January 2009	
Cost	12,989
Accumulated depreciation	(974)
Net carrying amount	12,015
Year ended 31 December 2009	
Opening net carrying amount	**12,015**
Depreciation	**(649)**
Net exchange differences	**43**
Closing net carrying amount	**11,409**
At 31 December 2009	
Cost	**13,039**
Accumulated depreciation	**(1,630)**
Net carrying amount	**11,409**

The fair value of the Group's investment property as at 31 December 2009 of approximately HK$41,236,000 (2008: 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.

As at 31 December 2009, no investment property was charged to secure banking facilities.

As at 31 December 2008, the Group's investment property was charged to secure banking facilities as detailed in note 39.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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	
	2009	2008
	HK$'000	HK$'000
Outside Hong Kong, held on land with:		
Unexpired terms of leases of between 10 to 50 years	**57,019**	58,111

	Group	
	2009	2008
	HK$'000	HK$'000
Opening net carrying amount	**58,111**	55,915
Annual charges of prepaid operating lease payment	**(1,308)**	(1,295)
Net exchange differences	**216**	3,491
Closing net carrying amount	**57,019**	58,111

At 31 December 2009 and 31 December 2008, certain leasehold land was pledged to secure certain banking facilities granted to the Group (note 39).

16. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**578**	31,177
Less: Provision for impairment	**(578)**	(31,177)
	–	–

Particulars of the principal subsidiaries at 31 December 2009 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	–	58.05	Information technology business
China Enterprise ASP Limited ("CE ASP")	Hong Kong	9,000,000 ordinary shares of HK$1 each	–	62.85	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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	
Chinese Media Net, Inc.	United States of America ("USA")	90,000,000 ordinary shares of US$0.01 each	–	53.06	Media network, online news and newspaper publishing
Dadi Entertainment Limited ("Dadi Entertainment")	Hong Kong	2 ordinary shares of HK$1 each	–	100	Investment holding, film distribution and production
Dadi Media Limited ("Dadi Media")	Hong Kong	2 ordinary shares of HK$1 each	–	62.85	Investment holding
Dadi Media (HK) Limited	Hong Kong	1 ordinary share of HK$1 each	100	–	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	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
Nan Hai Development (HK) Limited (previous named as South Sea Development (HK) Limited)	Hong Kong	2 ordinary shares of HK$1 each	100	–	Investment holding
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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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	
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
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	Property investment and 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
北京紅旗貳仟軟件技術有限公司 (note c)	PRC	RMB98,000,000	–	54.68	Information technology business
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
北京新網科技發展有限公司 (note b)	PRC	RMB14,485,000	–	62.85	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	Information technology business
深圳市半島城邦物業管理有限公司 (note b)	PRC	RMB3,000,000	–	100	Property management

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for the year ended 31 December 2009

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	
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	Operation of digital cinemas
大地影院發展有限公司 (note b)	PRC	RMB150,000,000	–	100	Operation of digital cinemas
大地時代電影發行(北京)有限公司 (note b)	PRC	RMB1,000,000	–	100	Dormant

The above table lists out the subsidiaries of the Company as at 31 December 2009 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

17. INTEREST IN ASSOCIATES

	Group 2009 HK$'000	2008 HK$'000
Balance at 1 January	**2,623**	–
Share of net assets on acquisition of associates	**31,549**	2,626
Share of results of associates – Profit/(Loss) after income tax	**639**	(3)
	639	(3)
Share of net assets	**34,811**	2,623
Goodwill	**82,563**	–
Balance at 31 December	**117,374**	2,623

Particulars of the associates at 31 December 2009 are as follows:

Name	Country of incorporation/ establishment and operations	Particulars of issued capital/ registered capital	Percentage of interest held by the Group 2009	2008	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**	20	Inactive
Beijing Loongson Technology Service Co., Ltd*	PRC	RMB13,333,000	**25**	–	Development of central processing unit

* unlisted limited liability company

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for the year ended 31 December 2009

17. INTEREST IN ASSOCIATES (Continued)

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

	2009 HK$'000	2008 HK$'000
Assets	**181,502**	39,334
Liabilities	**(47,993)**	(33,409)
Revenue	**3,726**	–
Profit/(Loss) for the year	**1,767**	(803)

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 (2008: HK$247,000) and HK$2,662,000 (2008: HK$2,415,000) respectively.

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group	
	2009 **HK$'000**	2008 HK$'000
Deposits and prepayments	**543,169**	493,987
Outstanding consideration receivable arising from the disposal of a subsidiary	**72,913**	124,459
Loan receivables	**132,319**	175,371
Others	**389,328**	781,817
	1,137,729	1,575,634
Less: Provision for impairment of receivables	**(23,878)**	(32,037)
	1,113,851	1,543,597
Less non-current portion:		
Long term rental deposits	**18,104**	7,352
Loan receivables	**100,319**	–
Deposits for purchase of intangible assets	**142,199**	141,650
Deposits for purchase of property, plant and equipment	**14,939**	27,082
	275,561	176,084
	838,290	1,367,513

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18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

The outstanding consideration receivable arising from the disposal of a subsidiary was unsecured, bore interest at the rate of 5% per annum and would be repayable on 24 September 2009. On 25 September 2009, the Group entered into supplemental agreement to extend the loan which bear interest at the rate of 5% per annum and will be repayable on 24 September 2010.

The short term loan receivables are unsecured. Short term loan receivable of HK$10,000,000, which will mature in August 2010, bears interest at the rate of 15% per annum. The other short term loan receivables of HK$22,000,000, which will mature in September 2010 and bears interest at the rate of 22.5% per annum.

The long term loan receivable is unsecured, bears interest at the rate of 4.54% per annum and repayable on May 2012.

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	
	2009	2008
	HK$'000	HK$'000
At the beginning of the year	**32,037**	18,177
Provision for impairment	**–**	18,803
Amount written off as uncollectible	**(8,233)**	(5,738)
Exchange differences	**74**	795
At the end of the year	**23,878**	32,037

At each of the reporting 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

19. INTANGIBLE ASSETS

Group

	Computer software HK$'000	Development cost HK$'000	Goodwill HK$'000	Others* HK$'000	Total HK$'000
At 1 January 2008					
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 and 1 January 2009					
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
Year ended 31 December 2009					
Opening net carrying amount	**60,339**	**16,716**	**224,938**	**1,080**	**303,073**
Additions	**34**	**20,925**	**–**	**–**	**20,959**
Acquisition of subsidiaries (note 34(a))	**–**	**–**	**15,400**	**378**	**15,778**
Amortisation charge for the year	**(29,089)**	**(3,520)**	**–**	**(13)**	**(32,622)**
Exchange differences	**104**	**142**	**192**	**–**	**438**
Closing net carrying amount at 31 December 2009	**31,388**	**34,263**	**240,530**	**1,445**	**307,626**
At 31 December 2009					
Gross carrying amount/Cost	**143,652**	**41,007**	**547,330**	**1,458**	**733,447**
Accumulated amortisation	**(112,264)**	**(6,744)**	**–**	**(13)**	**(119,021)**
Accumulated impairment	**–**	**–**	**(306,800)**	**–**	**(306,800)**
Net carrying amount	**31,388**	**34,263**	**240,530**	**1,445**	**307,626**

* Other intangible assets include customer relationship, trademark and masthead.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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"):

	2009 HK$'000	2008 HK$'000
Property development	143,111	143,111
Corporate IT application services	82,100	81,789
Culture and media services - Cinema business	39	38
Culture and media services - Newspaper publishing	15,280	–
Net carrying amount at 31 December	240,530	224,938

The recoverable amounts for the CGU given above were determined based on value-in-use calculations, covering a detailed five-year financial budget, 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		Culture and media services – Cinema business		Culture and media services – Newspaper publishing	
	2009	2008	2009	2008	2009	2008	2009	2008
Discount rates	6%	8%	7%	8%	15%	–	20%	–
Growth rate used to extrapolate cashflows beyond the budgeted period	–	–	3%	3%	–	–	–	–

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 2009, 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.

For the year ended 31 December 2008, an impairment loss of HK$17,000,000 regarding goodwill in relation to CGU engaging in corporate IT application services 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.

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for the year ended 31 December 2009

20. INVENTORIES

	Group	
	2009	2008
	HK$'000	HK$'000
Property development:		
Properties under development	**6,063,902**	7,788,408
Completed properties held for sale	**850,208**	131,706
Other operations:		
Confectionery	**2,105**	922
	6,916,215	7,921,036

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$6,063,902,000 (2008: HK$7,788,408,000). All of the other inventories are expected to be recovered within one year.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2009	2008
	HK$'000	HK$'000
Listed equity securities in Hong Kong, at fair value	**3,198**	2,618
Listed equity securities in PRC, at fair value	**254,142**	376
Listed debt securities in overseas, at fair value	**125,358**	312,186
Unlisted debt securities, at fair value	**31,333**	31,252
	414,031	346,432
Market value of listed equity securities	**257,340**	2,994
Market value of listed debt securities	**125,358**	312,186
Unlisted debt securities, at fair value	**31,333**	31,252
	414,031	346,432

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 income/other operating expenses in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

22. TRADE RECEIVABLES

Based on the invoice dates, the aging analysis of the trade receivables is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
0-90 days	**118,121**	8,768
91-180 days	**2,381**	1,688
181-270 days	**1,339**	1,308
271-360 days	**1,194**	934
Over 360 days	**25,918**	30,611
Trade receivables, gross	**148,953**	43,309
Less: Provision for impairment of receivables	**(10,898)**	(15,053)
Trade receivables, net	**138,055**	28,256

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	
	2009	2008
	HK$'000	HK$'000
At the beginning of the year	**15,053**	38,560
Provision for impairment	**1,938**	878
Amounts written off as uncollectible	**(6,133)**	(25,924)
Exchange differences	**40**	1,539
At the end of the year	**10,898**	15,053

At each of the reporting date, 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

22. TRADE RECEIVABLES (Continued)

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

	Group	
	2009	2008
	HK$'000	HK$'000
0-90 days past due	**118,121**	8,768
91-180 days past due	**2,343**	1,688
181-270 days past due	**1,221**	1,308
271-360 days past due	**1,086**	934
Overdue for more than 360 days	**15,284**	15,558
	138,055	28,256

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 AND PLEDGED BANK DEPOSITS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**730,875**	211,145	**17,285**	5,249
Less: Pledged bank deposits included in non-current assets	**(118,254)**	–	**–**	–
Pledged bank deposits included in current assets	**(2,280)**	–	**–**	–
Cash and cash equivalents as stated in the statement of financial position	**610,341**	211,145	**17,285**	5,249

Included in bank and cash balance of the Group is an aggregate amount of approximately HK$416,229,000 (2008: HK$104,156,000), 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.

Pledged deposits earn 0.12% to 0.36% interest per annum (2008: Nil). They have been pledged to secure borrowings (note 39).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

24. TRADE PAYABLES

Based on the invoice dates, the aging analysis of the trade payables is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
0-90 days	**307,104**	65,811
91-180 days	**4,695**	6,740
181-270 days	**35,337**	1,589
271-360 days	**239**	1,039
Over 360 days	**28,341**	53,867
	375,716	129,046

All amounts are short term and hence the carrying values of the Group's trade payables are considered to be a reasonable approximation of fair value.

25. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals as at 31 December 2009 were amounts of HK$Nil (2008: HK$6,000 bearing interest at 8.25% per annum) due to certain securities brokers and margin financiers. As at 31 December 2008, the amounts due to securities brokers and margin financiers were secured by 2,346,993,316 shares in Sino-i and by the Company's shares held by certain shareholders.

Included in other payables and accruals as at 31 December 2009 was HK$25,431,000 (2008: HK$18,814,000) 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. LOAN FROM/AMOUNT(S) DUE FROM/(TO) A DIRECTOR/A MINORITY SHAREHOLDER/SHAREHOLDERS/SUBSIDIARIES/ASSOCIATES

(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

At 31 December 2009, the amount due is unsecured, and represents the liability component of the convertible preferred stocks issued by a subsidiary, Chinese Media Net Inc. ("CMN"), and the dividend in arrears on these convertible preferred stock; with initial recognised amounts of HK$297,000 and HK$78,000, respectively, and the amounts are stated at amortised cost calculated using an effective interest rate of 19.64% subsequent to the date of acquisition of CMN.

At 31 December 2008, the amount due was unsecured, interest-free and repayable on demand.

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

(d) Amounts due from/(to) associates

The amounts due from/(to) associates are unsecured, interest-free and repayable on demand.

(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 were initially recognised at fair value of HK$336,110,000 and the amounts were stated at amortised cost calculating using an effective interest rate of 9.05%.

Pursuant to an agreement dated 21 October 2009 among certain shareholders and the Company, the shareholders agreed to accept a discounted amount in one-off payment from the Company as full settlement for the amounts due to these shareholders, which were initially recognised at fair value of HK$336,110,000, prior to the maturity date of 30 August 2010. The amounts due to shareholders were fully repaid on 24 November 2009 and the difference between the amortised cost of amounts due to shareholders extinguished of HK$464,950,000 and the consideration paid of HK$413,805,000 are recorded as gain on early repayment of amounts due to shareholders in profit or loss.

(f) Amounts due from subsidiaries

	Company	
	2009	2008
	HK$'000	HK$'000
Amounts due from subsidiaries	**5,809,186**	7,025,496
Less: Allowances for amount due from subsidiaries	**(25,967)**	(444,442)
	5,783,219	6,581,054

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

(g) Amounts due to subsidiaries – current liabilities

As at 31 December 2009, the amounts due are unsecured, interest-free and repayable on demand.

As at 31 December 2008, included in the total amount due to subsidiaries, HK$1,649,588,000 was secured by share mortgage of a subsidiary, bore interest at 8% per annum and would be repayable on or before 30 June 2009 or any other date to be mutually agreed. The remaining balance was unsecured, interest-free and repayable on demand.

(h) Loan from subsidiaries – non-current liabilities

On 29 May 2009, the Company entered into loan agreement with certain subsidiaries to advance a loan with principal of HK$1,645,530,000, which bears interest at 6% per annum, will be repayable on or before 29 June 2011 and secured by share mortgage of a subsidiary.

As at 31 December 2009, included in the outstanding balance of approximately HK$1,499,588,000 bears interest at 6% per annum and the remaining balance is interest-free, will be repayable on or before 29 June 2011 and secured by share mortgage of a subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

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27. BANK AND OTHER BORROWINGS

	Note	Group 2009 HK$	2008 HK$
Bank overdrafts		–	270
Bank loans	(a)	913,321	2,261,560
		913,321	2,261,830
Secured		913,321	2,261,560
Unsecured		–	270
		913,321	2,261,830

At 31 December 2009, the bank and other borrowings of the Group were repayable as follows:

	Group 2009 HK$'000	2008 HK$'000
Within one year	473,364	1,430,658
In the second year	432,057	539,405
In the third to fifth years	7,900	291,767
Wholly repayable within 5 years	913,321	2,261,830
Less: Portion due within one year under current liabilities	(473,364)	(1,430,658)
Portion due over one year under non-current liabilities	439,957	831,172

(a) At 31 December 2009, bank loans amounted to HK$913,321,000 (2008: HK$2,261,560,000) carry interest at floating rates ranging from 4.86% to 6.34% per annum (2008: 5.40% to 8.51% 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 2009 HK$'000	2008 HK$'000
RMB	913,321	2,261,560
Euro	–	270
	913,321	2,261,830

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28. FINANCE LEASE LIABILITIES

(a) Total minimum lease payments is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due within one year	**18**	274	**18**	–
Due in the second to fifth years	**58**	60	**58**	–
	76	334	**76**	–
Future finance charges on finance leases	**(11)**	(29)	**(11)**	–
Present value of finance lease liabilities	**65**	305	**65**	–

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due within one year under current liabilities	**16**	249	**16**	–
Due in the second to fifth years under non-current liabilities	**49**	56	**49**	–
	65	305	**65**	–

The Group has entered into finance leases for item of office equipment (2008: motor vehicles) with remaining lease terms of four years (2008: ranging from one to two years). Interest rate under the leases is fixed at 3.46% (2008:2.50% 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 underlying assets 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 THIRD PARTIES

The finance from third parties of HK$387,112,000 and HK$2,271,070,000 (2008: HK$2,128,047,000) will mature on 16 January 2011 and 22 July 2011 (2008: 22 July 2011), respectively. Finance costs on which are calculated at an effective rate of return of 15% and 16% per annum (2008: 16% per annum), respectively.

These finances from third parties are secured by share mortgage and assignment of shareholders' loan of three wholly-owned subsidiaries of the Company, by corporate guarantee given by the Company and personal guarantee given by a director. The finance costs payable to these third parties would be equal to an annualised internal rate of return of 13% and 15% (2008: 15%), respectively for the period from the drawdown date to the maturity date.

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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 2008	790	212,187	212,977
Exchange differences	–	13,480	13,480
At 31 December 2008 and 1 January 2009	**790**	**225,667**	**226,457**
Disposal and dissolution of subsidiaries (note 34(b))	**(790)**	**–**	**(790)**
Exchange differences	**–**	**875**	**875**
Gross deferred tax liabilities at 31 December 2009	**–**	**226,542**	**226,542**

Deferred tax assets

Group

	Loss available for offset against future taxable profits HK$'000	Provision of PRC land appreciation tax HK$'000	Total HK$'000
At 1 January 2008	6,400	–	6,400
Deferred tax credited to the income statement (note 9)	1,170	–	1,170
Exchange differences	420	–	420
At 31 December 2008 and 1 January 2009	**7,990**	**–**	**7,990**
Deferred tax (charged)/credited to the income statement (note 9)	**(7,985)**	**33,221**	**25,236**
Exchange differences	**(5)**	**148**	**143**
Gross deferred tax assets at 31 December 2009	**–**	**33,369**	**33,369**

At 31 December 2009, the amount of unused tax losses for which no deferred tax assets is recognised in the statement of financial position is as follows:

	Group	
	2009 HK$'000	2008 HK$'000
Temporary differences attributable to:		
– unused tax losses	**448,727**	706,942

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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$338,694,000 (2008:HK$231,829,000) can be carried forward for 5 years, while tax losses of the subsidiaries operating in Hong Kong amounted to HK$60,421,000 (2008:HK$475,113,000) can be carried forward indefinitely under the current tax legislation. The tax losses of the subsidiaries operating in US amounted to HK$49,612,000 (2008: Nil) will be expired between 2025 to 2029.

31. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each	HK$'000
Authorised:		
At 1 January 2008, 31 December 2008 and **31 December 2009**	500,000,000,000	5,000,000
Issued and fully paid:		
At 1 January 2008, 31 December 2008 and **31 December 2009**	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 the Company.

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 Group at an exercise price of HK$0.0714 per share.

On 20 April 2009, another share options to subscribe for a total of 185,200,000 shares, representing approximately 0.62% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors, employees of the Group and those who have contributions to the Group at an exercise price of HK$0.0702 per share.

The share options vest upon the commencement of the exercise period which is determined by the Board at the date of grant. The grantees are entitled to exercise the share options upon fulfilment of all requirements set out in the Scheme.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

32. SHARE OPTION SCHEME (Continued)

Company (Continued)

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

	2009 Number	2009 Weighted average exercise price per share HK$	2008 Number	2008 Weighted average exercise price per share HK$
Outstanding at 1 January	92,950,000	0.0714	94,350,000	0.0714
Granted during the year	185,200,000	0.0702	–	–
Expired during the year	(92,950,000)	0.0714		
Forfeited during the year	(3,000,000)	0.0702	(1,400,000)	0.0714
Outstanding at 31 December	182,200,000	0.0702	92,950,000	0.0714
Exercisable at 31 December	–	–	92,950,000	0.0714

All share options as at 31 December 2009 and 2008 have been accounted for under HKFRS 2 "Share-based payment". The exercisable periods of the share options of the Company are as follows:

	2009 Number	2009 Weighted average exercise price per share HK$	2008 Number	2008 Weighted average exercise price per share HK$
Exercisable period:				
19-1-2007 to 18-1-2009	–	–	16,550,000	0.0714
19-1-2008 to 18-1-2009	–	–	76,400,000	0.0714
1-1-2010 to 31-12-2011	89,250,000	0.0702	–	–
1-1-2011 to 31-12-2011	92,950,000	0.0702	–	–
	182,200,000	0.0702	92,950,000	0.0714

The Company's share options outstanding at 31 December 2009 had a weighted average remaining contractual life of 2 years (2008: 0.05 year).

The fair values of options granted during 2009 of HK$5,552,000 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.

Key assumptions used in the valuation of the options granted on 20 April 2009 include: (i) an expected dividend yield of 0% per annum, (ii) volatility of share price of 82% per annum determined based on the historical volatility of the Company's share prices in the past two years immediately before the date of grant of the share options, (iii) a risk free rate of interest of 1.07% per annum, (iv) that the directors, employees and other participant will exercise their share options if the share price is above the exercise price by 2 times, 1.5 times and 2 times respectively, (v) an exit rate of 0% per annum and (vi) share price at date of grant of HK$0.069 per share.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

32. SHARE OPTION SCHEME (Continued)

Company (Continued)

At 31 December 2009, the Company had 182,200,000 (2008: 92,950,000) 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 182,200,000 additional ordinary shares of the Company and additional share capital of approximately HK$1,822,000 and share premium of HK$10,968,000 (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 of directors.

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:

	2009		2008	
	Number	**Weighted average exercise price per share HK$**	Number	Weighted average exercise price per share HK$
Outstanding at 1 January	–	–	67,550,000	0.16
Expired	–	–	(67,550,000)	0.16
Outstanding at 31 December	–	–	–	–
Exercisable at 31 December	–	–	–	–

At the reporting date, all share options of the Subsidiary were expired. No additional options were granted during the years ended 31 December 2009 and 2008.

In total, HK$3,752,000 of employee compensation expense has been included in the consolidated income statement for 2009 (2008: HK$86,000), 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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 pages 42 and 43 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.

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 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 and 1 January 2009	**965,881**	**1,971,857**	**7,467**	**2,120**	**(371,707)**	**2,575,618**
Equity-settled share-based compensation expenses	**–**	**–**	**–**	**3,752**	**–**	**3,752**
Released on expiry/forfeiture of share options	**–**	**–**	**–**	**(2,180)**	**2,180**	**–**
Loss for the year	**–**	**–**	**–**	**–**	**(108,846)**	**(108,846)**
At 31 December 2009	**965,881**	**1,971,857**	**7,467**	**3,692**	**(478,373)**	**2,470,524**

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 option reserve when the share options are exercised.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Business combination – acquisition of subsidiaries

In January and July 2009, the Group, through its subsidiaries, entered into sales and purchases agreements to acquire 100% and 53.06% equity interest in subsidiaries, 北京紅旗貳仟軟件技術有限公司 and CMN for consideration of RMB10,000,000 and USD423,000 respectively.

In year 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:

	2009 HK$'000	2008 HK$'000
Cash consideration	**14,636**	61,312
Fair value of net liabilities assumed/(assets acquired)	**764**	(21,283)
Goodwill (note 19)	**15,400**	40,029

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

	2009		2008	
	Fair Value HK$'000	**Acquiree's carrying amount HK$'000**	Fair Value HK$'000	Acquiree's carrying amount HK$'000
Property, plant and equipment	**300**	**300**	70,080	70,080
Intangible assets	**378**	**378**	–	–
Interest in an associate	**–**	**–**	547	547
Long term receivables	**–**	**–**	2,888	2,888
Inventories	**–**	**–**	48	48
Trade receivables	**3,648**	**3,648**	467	467
Deposits, prepayments and other receivables	**23,788**	**23,788**	14,888	14,888
Financial assets at fair value through profit or loss	**1,550**	**1,550**	–	–
Amount due from an associate	**–**	**–**	16	16
Cash and cash equivalents	**3,530**	**3,530**	1,534	1,534
Accruals and other payables	**(17,730)**	**(38,601)**	(69,185)	(69,185)
Tax payables	**(3)**	**(3)**	–	–
Convertible preferred stock – liabilities component	**(16,225)**	**(16,225)**	–	–
Net (liabilities assumed)/assets acquired	**(764)**	**(21,635)**	21,283	21,283

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

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

The net cash (inflow)/outflow arising from the acquisition are as follows:

	2009 HK$'000	2008 HK$'000
Purchase consideration		
– Cash consideration	**14,636**	61,312
– Offset with other receivables	**(11,242)**	–
– Consideration payables	**(114)**	(59,356)
Settled in cash	**3,280**	1,956
Cash and cash equivalents in subsidiary acquired	**(3,530)**	(1,534)
Cash (inflow)/outflow on acquisition	**(250)**	422

Since the acquisition, the subsidiaries in aggregate contributed HK$6,721,000 (2008: HK$46,108,000) to the Group's turnover and a loss of HK$8,186,000 to the consolidated profit for the year ended 31 December 2009 (2008: a loss of 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 profit of the Group for the year would have been HK$4,022,000,000 (2008: HK$530,857,000) and HK$137,078,000 (2008: a loss of HK$566,267,000), respectively.

(b) Disposal and dissolution of subsidiaries

	2009 HK$'000	2008 HK$'000
Net assets disposed of:		
Property, plant and equipment	**39**	2,036
Inventories	**13**	328,141
Trade receivables	**6**	–
Deposits, prepayments and other receivables	**1,080**	16,839
Cash and cash equivalents	**97**	53
Minority interests	**(9,034)**	–
Trade payables	**(2,152)**	(2,155)
Other payables and accruals	**(5,140)**	(9,848)
Dividend payable	**(12,000)**	–
Tax payable	**(93)**	–
Deferred tax	**(790)**	–
Bank borrowings	**(270)**	–
Amounts due to group companies	**–**	(65,554)
Amount due to a director	**–**	(70,654)
	(28,244)	198,858
Exchange reserve released on disposal and dissolution	**(1,384)**	(47,844)
Capital reserve released on disposal and dissolution	**(22,296)**	–
General reserve released on disposal	**(4,246)**	–
Gain on disposal and dissolution of subsidiaries	**56,170**	56,626
	–	207,640
Satisfied by:		
Cash received	**–**	54,353
Consideration receivable	**–**	153,287
	–	207,640

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Disposal and dissolution of subsidiaries (Continued)

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

	2009 HK$'000	2008 HK$'000
Cash received	–	54,353
Cash and cash equivalents disposed of	(97)	(53)
Net cash (outflow)/inflow on disposal	(97)	54,300

(c) Major non-cash transactions

During the year ended 31 December 2009, the Group had the following major non-cash transactions:

(i) the trade and other receivables of HK$206,194,000 was offset against the amount due to a director in accordance with the debts assignments signed among these parties; and

(ii) the repayment of the amounts due to shareholders of HK$413,805,000 was taken up by a director in accordance with the debts assignment signed amongst these parties.

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 assignments 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 amongst 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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$69,139,000 (2008: HK$61,563,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

Contributions payable of HK$27,000 as at 31 December 2009 (2008: HK$35,000) 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
2009					
Executive directors					
YU Pun Hoi	–	2,680	–	14	2,694
CHEN Dan	–	818	156	62	1,036
LIU Rong *	–	572	156	50	778
WANG Gang *	–	692	–	60	752
Non-executive directors					
QIN Tian Xiang **	133	329	–	3	465
LAM Bing Kwan	–	244	67	10	321
Independent non-executive directors					
HUANG Yaowen	317	–	–	–	317
Prof. JIANG Ping	408	–	–	–	408
LAU Yip Leung	120	–	–	–	120
	978	5,335	379	199	6,891

* Appointed as executive directors with effect from 10 March 2009.

** Re-designated as non-executive director with effect from 12 June 2009.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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

(a) Directors' emoluments (Continued)

	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					
YU Pun Hoi	–	2,640	–	12	2,652
CHEN Dan	–	851	8	–	859
QIN Tian Xiang	–	1,314	8	12	1,334
Non-executive directors					
YU Lin Hoi*	–	–	–	–	–
LAM Bing Kwan	–	300	–	12	312
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.

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included two (2008: three) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2008: two) employees are as follows:

	2009 HK$'000	2008 HK$'000
Basic salaries, other allowances and benefits in kind	**3,374**	2,509
Pension contributions	**12**	12
	3,386	2,521

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

Emolument band	**Number of highest paid individuals** **2009**	2008
HK$1,000,001 – HK$1,500,000	**3**	2

During the years ended 31 December 2009 and 31 December 2008, 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.

None of the directors have waived or agreed to waive any emoluments in respect of the years ended 31 December 2008 and 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

37. COMMITMENTS AND OPERATING LEASES

(a) Capital commitments

At 31 December 2009, the Group had outstanding commitments as follows:

	2009 HK$'000	2008 HK$'000
Contracted but not provided for in respect of:		
- construction in progress	177,358	197,875
- property, plant and equipment	65,237	43,763
	242,595	241,638

At 31 December 2009 and 31 December 2008, the Company did not have any significant capital commitments.

(b) Operating lease arrangement

At 31 December 2009, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings	
	2009 HK$'000	2008 HK$'000
Within one year	79,700	49,005
In the second to fifth years	231,984	97,741
Over five years	644,523	245,867
	956,207	392,613

The Group leases a number of properties under operating leases. The leases run for an initial period of one to twenty years (2008: one to twenty 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 2009, the Group's total future minimum lease receivables under non-cancellable operating leases are as follows:

	Land and buildings	
	2009 HK$'000	2008 HK$'000
Within one year	3,800	3,786
In the second to fifth years	4,750	8,518
	8,550	12,304

The Group leases its investment property (note 14) under operating lease arrangements which run for an initial period of three years (2008: three to five years), with an option to renew the lease terms at the expiry date or at dates as mutually agreed between certain companies within the Group and the respective tenants. No specific terms of the lease require the tenants to pay security deposits.

At 31 December 2009 and 31 December 2008, the Company had no operating lease commitments as lessor or lessee.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

38. CONTINGENT LIABILITIES

Guarantees given in connection with credit facilities granted to:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Subsidiaries	**–**	–	**3,540,803**	5,296,412
Associates (Note)	**13,197**	12,412	**–**	–
Third parties (Note)	**65,370**	65,333	**–**	–
	78,567	77,745	**3,540,803**	5,296,412

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 2009, 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$23,990,000 (2008: HK$58,111,000);

(b) charge over buildings with a net carrying value of approximately HK$18,435,000 (2008: HK$22,345,000);

(c) charge over investment property with a net carrying value of approximately HK$Nil (2008: HK$12,015,000);

(d) charge over certain properties held for and under development for sale with carrying value of HK$537,757,000 (2008: HK$223,084,000);

(e) personal guarantee given by a director;

(f) charge over financial assets at fair value through profit or loss with a net carrying value of HK$3,198,000 (2008: HK$2,618,000);

(g) pledge of 962,999,000 (2008: 2,346,993,316) shares in Sino-i held by the Company indirectly in favour of certain securities brokers, the total of which represents approximately 7.69% (2008: 18.75%) of total interest of the Company in Sino-i. The market value of such listed shares as at 31 December 2009 was approximately HK$50,076,000 (2008: HK$100,921,000);

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

39. CREDIT FACILITIES (Continued)

(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; and

(i) pledge of certain bank deposits of HK$120,534,000 (2008: Nil) (note 23).

In addition, as at 31 December 2008, several shareholders of the Company pledged their certain interests in the Company for the Group's credit facilities.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

40. PENDING LITIGATIONS (Continued)

In January 2009, 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 another pleading from Yitian. 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. In early February 2010, LWD, LWI and Nanhai Yitian received summons from High People's Court of Guangdong Province for cross examination of evidences between the plaintiff and defendants on 26 February 2010, and received another summons for trial on 10 March 2010. Upon the presentation of lawyers acting for the plaintiff and defendants respectively in the first trial, no further hearing has been fixed by the court.

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 AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including currency risk, interest risk and other price risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the Board. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. The Treasury Department works under the policies approved by the Board. It identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the Board.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

42.1 Categories of financial assets and liabilities

The carrying amounts presented in the statements of financial position relate to the following categories of financial assets and financial liabilities:

	Group		Company	
	2009	2008	**2009**	2008
	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	**414,031**	346,432	**–**	–
Loans and receivables:				
– Trade receivables	**138,055**	28,256	**–**	–
– Other receivables	**592,858**	1,049,610	**1,259**	900
– Amounts due from subsidiaries	**–**	–	**5,783,219**	6,581,054
– Pledged bank deposits	**120,534**	–	**–**	–
– Amount due from an associate	**4,828**	20	**–**	–
Cash and cash equivalents	**610,341**	211,145	**17,285**	5,249
	1,880,971	1,635,787	**5,801,763**	6,587,203
Financial liabilities				
Financial liabilities measured at amortised cost:				
– Trade payables	**375,716**	129,046	**–**	–
– Other payables and accruals	**626,706**	652,950	**5,882**	5,576
– Amount due to a director	**147,184**	24,361	**105,520**	18,204
– Amounts due to subsidiaries	**–**	–	**989,621**	2,864,352
– Loan from subsidiaries	**–**	–	**1,544,576**	–
– Amounts due to shareholders	**5,006**	442,488	**–**	437,482
– Amount due to a minority shareholder	**406**	12,000	**–**	–
– Amounts due to associates	**19,156**	5,507	**–**	–
– Bank and other borrowings	**913,321**	2,261,830	**–**	–
– Finance lease liabilities	**65**	305	**65**	–
– Finance from third parties	**2,658,182**	2,128,047	**–**	–
	4,745,742	5,656,534	**2,645,664**	3,325,614

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

42.2 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 States 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	
	2009	2008
	HK$'000	HK$'000
Financial assets at fair value through profit or loss	**156,691**	343,438
Cash and cash equivalents	**251,423**	64,255
Short term loan receivables	**–**	97,371
Other receivables	**–**	589,180
Other payables	**(49,862)**	–
Finance from third parties	**(2,658,182)**	(2,128,047)
Gross exposure arising from recognised financial assets and financial liabilities	**(2,299,930)**	(1,033,803)

The Company does not have any exposures to foreign currencies at 31 December 2008 and 2009.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

42.2 Foreign currency risk (Continued)

Sensitivity analysis

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

	2009			2008		
	Changes in foreign exchange rates	(Decrease)/ Increase in profit for the year HK$'000	(Decrease)/ Increase in equity HK$'000	Changes in foreign exchange rates	(Increase)/ Decrease in loss for the year HK$'000	(Decrease)/ Increase in equity HK$'000
US$	+0.5%	(11,499)	(11,499)	+0.5%	(5,169)	(5,169)
	-0.5%	11,499	11,499	-0.5%	5,169	5,169

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the reporting 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 reporting date.

42.3 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

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

Cash flow interest rate risk sensitivity

At 31 December 2009, 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 profit/(loss) for the year and retained earnings to a change in interest rates of +100 basis points and -100 basis points (2008: +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 reporting date. All other variables are held constant.

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
If interest rates were 100 basis points (2008: 100 basis points) higher				
Increase/Decrease in profit/(loss) for the year	**5,294**	1,272	**173**	52
If interest rates were 100 basis points (2008: 100 basis points) lower				
Decrease/Increase in profit/(loss) for the year	**(5,294)**	(1,272)	**(173)**	(52)

Fair value interest rate risk sensitivity

At 31 December 2009, 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 profit/(loss) 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 reporting date. All other variables are held constant.

	Group	
	2009	2008
	HK$'000	HK$'000
If interest rates were 50 basis points higher		
Net profit/(loss) for the year	**(284)**	(2,456)
If interest rates were 50 basis points lower		
Net profit/(loss) for the year	**286**	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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

42.4 Other Price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group is exposed to change in market prices in respect of its investments in listed equity securities classified as financial assets at fair value through profit and loss.

To manage its market price risk arising from these investments, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by Board. The Group's listed investments are listed on the Stock Exchange of Hong Kong, Shenzhen and Shanghai, Mainland China. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the index and other industry indicators, as well as the Group's liquidity needs. Investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The policies to manage other price risk have been followed by the Group since prior years and are considered to be effective.

Equity price sensitivity

For listed equity securities, an average volatility of 23% has been observed in 2009 (2008: 33%). If the quoted price for the Group's listed equity securities existing as at 31 December 2009 increased or decreased by that amount, profit or loss for the year and retained earnings would have increased or decreased by HK$58,699,000 (2008: HK$989,000) in respect of listed equity securities classified as held for trading. The assumed volatilities of listed securities represent the management's assessment of a reasonably possible change in these security prices over the next twelve month period.

42.5 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. As at 31 December 2009, 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 statement of financial position; 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 reporting 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 and other receivables are set out in note 22 and note 18, respectively.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

42.6 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 reporting 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 reporting 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 2009					
Trade payables	**375,716**	**375,716**	**375,716**	**–**	**–**
Other payables and accruals	**626,706**	**626,706**	**626,706**	**–**	**–**
Amount due to a director	**147,184**	**147,184**	**147,184**	**–**	**–**
Amounts due to shareholders	**5,006**	**5,006**	**5,006**	**–**	**–**
Amounts due to associates	**19,156**	**19,156**	**19,156**	**–**	**–**
Bank and other borrowings	**913,321**	**947,751**	**501,511**	**438,130**	**8,110**
Amount due to a minority shareholder	**406**	**406**	**406**	**–**	**–**
Finance lease liabilities	**65**	**76**	**18**	**18**	**40**
Finance from third parties	**2,658,182**	**3,329,854**	**230,562**	**3,099,292**	**–**
	4,745,742	**5,451,855**	**1,906,265**	**3,537,440**	**8,150**
Financial guarantees issued					
Maximum amount guaranteed	**–**	**78,567**	**78,567**	**–**	**–**

	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
Financial guarantees issued					
Maximum amount guaranteed	–	77,745	77,745	–	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

42.6 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 2009					
Other payables and accruals	5,882	5,882	5,882	–	–
Amounts due to subsidiaries	989,621	989,621	989,621	–	–
Amount due to a director	105,520	105,520	105,520	–	–
Loan from subsidiaries	1,544,576	1,679,538	–	1,679,538	–
Finance lease liabilities	65	76	18	18	40
	2,645,664	2,780,637	1,101,041	1,679,556	40
Financial guarantees issued					
Maximum amount guaranteed	–	3,540,803	3,540,803	–	–

	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	–
Financial guarantees issued					
Maximum amount guaranteed	–	5,296,412	5,296,412	–	–

42.7 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: pledged bank deposits, 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.

The Group adopted the amendments to HKFRS 7 Improving Disclosures about Financial Instruments effective from 1 January 2009. These amendments introduce a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements. The Group has taken advantage of the transitional provisions in the amendments to HKFRS 7 and accordingly, no comparative for the hierarchy for fair value measurement disclosures have been presented.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

42.7 Fair value (Continued)

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

– Level 1: quoted price (unadjusted) in active markets for identical assets and liabilities

– Level 2: inputs other than quoted prices included within Level 1 that are observable of the assets and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirely is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Assets				
Available-for-sale financial assets	**–**	**324**	**–**	**324**
Listed securities held for trading	**382,698**	**–**	**–**	**382,698**
Unlisted securities held for trading	**–**	**31,333**	**–**	**31,333**
Total fair values	**382,698**	**31,657**	**–**	**414,355**

There have been no significant transfers between level 1 and 2 in the reporting period. The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

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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 third parties and finance lease liabilities less the sum of pledged bank deposits, and cash and cash equivalents as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios as at the reporting date were as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current liabilities				
Bank and other borrowings	**473,364**	1,430,658	**–**	–
Finance lease liabilities	**16**	249	**16**	–
Non-current liabilities				
Amounts due to shareholders	**–**	437,482	**–**	437,482
Loan from subsidiaries	**–**	–	**1,544,576**	–
Bank and other borrowings	**439,957**	831,172	**–**	–
Finance lease liabilities	**49**	56	**49**	–
Finance from third parties	**2,658,182**	2,128,047	**–**	–
Total debt	**3,571,568**	4,827,664	**1,544,641**	437,482
Less: Pledged bank deposits	**(120,534)**	–	**–**	–
Cash and cash equivalents	**(610,341)**	(211,145)	**(17,285)**	(5,249)
Net debt	**2,840,693**	4,616,519	**1,527,356**	432,233
Total equity	**4,778,856**	4,657,771	**3,156,974**	3,262,068
Total equity and net debt	**7,619,549**	9,274,290	**4,684,330**	3,694,301
Net debt to equity ratio	**37.28%**	49.78%	**32.61%**	11.70%

LIST OF PROPERTIES

PROPERTIES UNDER DEVELOPMENT

Location	Interest attributable to the Group in percentage	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	1,033,000	Commercial/ residential	2014	Preparatory
Reclaimed site located at Liu Wan, Shekou, Shenzhen, Guangdong Province, the PRC	100	593,000	Shopping arcade/ residential/ hotel/ recreational facilities	2013	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 2009 HK$'000	Year ended 31 December 2008 HK$'000	Year ended 31 December 2007 HK$'000	Year ended 31 December 2006 HK$'000	Year ended 31 December 2005 HK$'000
Revenue/Turnover	**4,008,375**	494,861	673,031	2,099,237	154,843
Profit/(Loss) for the year	**138,893**	(534,763)	21,537	(34,702)	56,006
Minority interests	**61,940**	42,525	(36,107)	56,583	(35,376)
Profit/(Loss) attributable to the owners of the Company	**200,833**	(492,238)	(14,570)	21,881	20,630
Total assets	**10,374,337**	10,699,563	8,449,650	7,042,066	7,239,658
Total liabilities	**(5,595,481)**	(6,041,792)	(3,405,768)	(2,157,273)	(2,369,441)
	4,778,856	4,657,771	5,043,882	4,884,793	4,870,217

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