China Railway Logistics Limited
中國鐵路貨運有限公司*

(incorporated in Bermuda with limited liability)

Stock Code: 8089

Annual Report 2008

* *For identification purpose only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

This annual report, for which the directors (the "Directors") of China Railway Logistics Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("GEM Listing Rules") for the purpose of giving information with regard to China Railway Logistics Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Yeung Sau Han Agnes
Ms. Chan Shui Sheung Ivy

Non-Executive Director

Mr. Xie Jintai

Independent Non-executive Directors

Ms. Yuen Wai Man
Mr. Law Wing Tak Jack
Mr. Lam Raymond Shiu Cheung
Mr. Lam Ka Wai Graham

AUTHORISED REPRESENTATIVES

Ms. Yeung Sau Han Agnes
Ms. Chan Shui Sheung Ivy

AUDIT COMMITTEE

Mr. Law Wing Tak Jack *(Chairman)*
Ms. Yuen Wai Man
Mr. Lam Raymond Shiu Cheung
Mr. Lam Ka Wai Graham

NOMINATION COMMITTEE

Ms. Yeung Sau Han Agnes *(Chairman)*
Ms. Yuen Wai Man
Mr. Law Wing Tak Jack
Mr. Lam Raymond Shiu Cheung
Mr. Lam Ka Wai Graham

REMUNERATION COMMITTEE

Mr. Lam Raymond Shiu Cheung *(Chairman)*
Ms. Yeung Sau Han Agnes
Ms. Yuen Wai Man
Mr. Law Wing Tak Jack
Mr. Lam Ka Wai Graham

COMPANY SECRETARY

Mr. Li Chak Hung

COMPLIANCE OFFICER

Ms. Yeung Sau Han Agnes

QUALIFIED ACCOUNTANT

Ms. Siu Yuk Wa Joe Joe

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

CORPORATE INFORMATION

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Skyline Commercial Centre
71-77 Wing Lok Street
Sheung Wan
Hong Kong

WEB-SITE

www.chinarailwaylogistics.com

E-MAIL

info@chinarailwaylogistics.com

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER AGENT OFFICE

Union Registrars Limited
Rooms 1901-02, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

AUDITOR

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd
China Construction Bank Corporation
Fuban Bank (Hong Kong) Limited

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover of the Group for the year ended 31 December 2008 was approximately HK$21,856,000 (2007: approximately HK$11,338,000), which represents an increase of approximately 93% as compared with the preceding financial year.

During the year ended 31 December 2008, turnover from telecommunications business increased by approximately 33% to approximately HK$4,766,000 (2007: approximately HK$3,583,000), representing approximately 22% (2007: approximately 32%) of the Group's total turnover. Turnover attributable to computer telephony business increased by approximately 8% to approximately HK$8,403,000 (2007: approximately HK$7,755,000), representing approximately 38% (2007: approximately 68%) of the Group's total turnover. Turnover attributable to voice search engine portal and one-stop value chain service, a newly acquired business during the year, was approximately HK$787,000 and approximately HK$7,900,000 respectively, representing approximately 4% and approximately 36% of the group's total turnover respectively.

The gross profit and gross profit margin for the year ended 31 December 2008 were approximately HK$6,872,000 and 31% respectively (2007: approximately HK$5,596,000 and 49% respectively).

Administrative expenses for the year ended 31 December 2008 was approximately HK$61,961,000 (2007: approximately HK$100,835,000), representing a decrease of approximately 39% over that of the previous year. The reduction in operating costs recorded for the year was primarily attributable to (i) decrease in staff costs including directors' emoluments to approximately HK$23,939,000 (2007: approximately HK$58,535,000); (ii) increase in professional and consultancy fees to approximately HK$19,169,000 (2007: approximately HK$13,859,000), principally related to the dealing and solving of problems encountered during the investigation and negotiation process in its railway logistics transportation business.

The impairment loss recognized for the year in respect of goodwill and a loan receivable amounted to approximately HK$103,001,000 and HK$151,980,000 respectively (2007: approximately HK$1,621,794,000 and Nil respectively).

The audited consolidated loss for the year attributable to equity holders decreased by approximately 83% to approximately HK$281,578,000 (2007: approximately HK$1,690,637,000). Loss per share was approximately HK55.8 cents for the year under review (2007: Loss per share HK422.3 cents).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

IT and Telecommunications

Despite the fact that the Mainland's overall economic growth has been affected by global financial meltdown, as well as the post-Olympic effect and a series of severe and unprecedented natural disasters, the IT and telecommunications markets remained relatively stable in 2008, having recovered from the difficult operating environment in recent years. In general, our overall IT and telecommunications business was steady with stable income generated from major customers, including various government departments, Citibank, VANCO and Hutchison Telecom.

The IT and telecommunications markets have continued to benefit from a number of factors, in particular, the recent launch of 3G in the People's Republic of China (the "PRC") has attracted numerous overseas corporations to focus on and participate intensively in this resurging market. The favourable commercial and geographical environment of Hong Kong makes it one of the most favorable Asian hubs for overseas corporations. In order to take full advantage of the potential growth, the Company in 2008 acquired 69.54% interest in Linefan Technology Holdings Limited ("Linefan"), a company incorporated in the Cayman Islands and continued into Bermuda with limited liability and the shares of which are listed on GEM of the Stock Exchange (stock code: 8166). Linefan and its subsidiaries are principally engaged in the business of sales, development and implementation of non-structural knowledge integration systems, knowledge management ("KM") related network application systems and technology, provision of voice search engine portal and one-stop value chain services.

Logistics

As stated in the Company's 2007 annual report, the Company had encountered problems in its adventure into the railway logistics transportation business in the PRC. The matters have been well documented by the Company and after lengthy investigation and negotiation, no satisfactory resolution was reached. As such, in November 2008, Dragon Billion Limited ("Dragon Billion"), a wholly owned subsidiary of the Company, disposed the entire shareholding interest (the "Sale Shares") in Eternity Profit Investments Limited ("Eternity Profit"), a wholly owned subsidiary of the Company. The consideration for Sale Shares is HK$6,095,000. In addition, Dragon Billion has agreed to sell the outstanding debts, consisting of the HK$151,980,000 advanced by Dragon Billion to Eternity Profit (the "Sale Debts") to independent third party. The face value of Sale Debts was HK$151,980,000 which is equal to the amount of the deposits of the capital contribution to the PRC company, and not interest bearing. The consideration for the Sale Debts is HK$135,000,000, representing a discount of approximately 11% to the face value of the Sale Debts.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The IT and telecommunications markets in Hong Kong remained relatively stable in 2008 after recovering from the difficult operating environment in recent years. During the past year, we have been able to maintain our relationship with our major customers and generated steady and stable income.

Despite the worst global downturn in recent history, we believe the local IT and telecommunications markets will continue to be in a dynamic state, especially with respect to the mobile, broadband and pay-TV sectors. There is increasing integration of the local market with their counterpart in Mainland China and indeed we are discovering more and more opportunities in the Mainland market. With the recent launch of 3G in the PRC, we expect to benefit from the closer integration with the resurgent Chinese IT and telecommunications markets. In response to this, we will focus our efforts on enhancing our technological capability in developing 3G focused application systems with the aim to penetrate both the vibrant local market and fast developing neighbouring markets.

Notwithstanding the above, the Board has taken a prudent approach to its future development and will not underestimate the ongoing impact of the global economic meltdown. The Board worked tirelessly to seek new business opportunities for the Group to reduce the risk of its overall investment and to enhance the Group's earning potentials.

On 21 October 2008, Asiaciti Management Limited ("Asiaciti"), a wholly owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding to (i) acquire 14% of the registered share capital of Changsha Xinxing Development Limited (the "Target Company"), and (ii) subscribe for subscription shares, being 30,000 new shares and representing 75% of the issued share capital of Gold Wide Holdings Limited as enlarged by the allotment and issue of subscription shares. Gold Wide Holdings Limited has held 54% of the Target Company, which itself is principally engaged in the provision of catering, entertainment services, rental of hotel rooms and office premises and property management. After completion of the possible acquisition, Asiaciti shall be effectively interested in 44% of the Target Company. The Target Company possesses the entire interest in the Changsha City Xinxing Hotel Property (the "Property") which is situated in the central business district of Changsha City, the PRC. The Property consists of a 15-storey commercial and hotel composite development with a total gross floor area of approximately 25,734.74 square metres. The aggregate consideration is RMB72,600,000, of which RMB25,000,000 was paid by cash on the signing of the memorandum of undertaking and a further supplemental deposit of approximately HK$15,841,000 (equivalent to RMB14,000,000) was also made on 6 January 2009 pursuant to the second memorandum of undertaking signed by the parties. On 10 March 2009, Asiaciti entered into the Formal Agreement and paid HK$11,325,000 (equivalent to RMB10,000,000) upon the signing of the Final Agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company shall work closely with its partner, Shenzhen Seg Company Limited ("Shenzhen Seg"), a company listed on the Shenzhen Stock Exchange, as well as the remaining shareholder of the Target Company, to modify the business activities of the Property from a hotel to an electronic products shopping mall. The Directors believe that with the prime location of the Property, which is in extremely close proximity with Changsha Railway Station and other public transport facilities, such as taxi ranks and bus stations, as well as the extensive experience and expertise of Shenzhen Seg, is the Changsha project will transpire into a good opportunity for the Group to expand into the electronic retail market in the PRC.

Despite of the global economic downturn, the Board remains positive and believes that attractive investment opportunities will become increasingly available as companies and businesses will be undervalued in the volatile financial market. The Group currently maintains a strong cash position and the Board is actively seeking viable investment opportunities with a view to enhancing shareholders' value in the long run.

LIQUIDITY AND FINANCIAL RESOURCES

The Group principally finances its operations through a combination of shareholders equity, new issue of shares and internally generated cash flows.

As at 31 December 2008, the Group had cash and cash equivalent of approximately HK$802,629,000 (2007: approximately HK$923,380,000) and had no bank borrowings (2007: Nil). The gearing ratio, measured on the basic of total non-current liabilities to total assets less current liabilities, was 0 times (2007: 0 times).

CAPITAL STRUCTURE

The total number of issued shares of the Company was 537,314,000 shares as at 31 December 2008.

On 28 January 2008, the Board exercised the general mandate granted by the shareholders at the annual general meeting held on 30 March 2007 and the Company repurchased a total of 2,000,000 shares in the share capital of the Company on the market at prices ranging from HK1.40 to HK$1.87 per share. The total consideration paid for the repurchase amounted to approximately HK$3,421,000. In addition, the Company issued 50,000,000 ordinary shares by means of placement to raise approximately HK$68,225,000 on 28 August 2008.

CHARGES ON ASSETS

As at 31 December 2008 and 31 December 2007, the Group did not have any charges on its assets.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save as disclosed in this announcement, there were no significant investment held, material acquisitions or disposals of subsidiaries during the year ended 31 December 2008.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The reporting currency adopted by the Group was Hong Kong dollars ("HK$"). Majority of the Group's sales, receivables and expenditures were denominated in HK$, United States dollars or Renminbi ("RMB"). HK$ is closely linked with United States dollars. On the other hand, although the exchange rate of HK$ against RMB had been steadily depreciated for the year under review, the Directors do not consider that the Group is exposed to any material foreign currency exchange risk as any specific five years currency other than RMB. Therefore, no hedging devices or other alternative have been implemented.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no contingent liabilities (2007: Nil).

CAPITAL COMMITMENTS

The Group did not have any significant capital commitments as at 31 December 2008.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

The Group (excluding its associates) had about 60 full time employees (2007: 43) in Hong Kong and the PRC as at 31 December 2008. During the year ended 31 December 2008, the Group had incurred staff costs (including directors' emoluments) of approximately HK$23,939,000 (2007: approximately HK$58,535,000).

The emoluments of the Directors are recommended by the remuneration committee, and approved by the Board, as authorized by shareholders in the annual general meeting of the Company, having regard to their skills, knowledge and involvement in the Company's affairs. No Directors are involved in deciding their own remuneration.

We offer competitive remuneration package, including medical and retirement benefits, to eligible employees. Apart from basic salary, executive directors and employees are eligible to receive a discretionary bonus taking into account factors such as market conditions as well as corporate and individual's performance during the year.

In order to attract, retain and motivate the eligible employees, including the Directors, the Company has adopted a share option scheme. The scheme enables the eligible persons to obtain an ownership interest in the Company and thus will motivate them to optimize their continuing contributions to the Group. As at 31 December 2008, there are 2,200,000 share options remained outstanding.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Yeung Sau Han Agnes ("Ms. Yeung"), aged 43, was a graduate from the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a higher diploma in fashion design. Prior to joining the Company, Ms. Yeung worked in various garment companies for over 15 years and is currently the director of certain subsidiaries of the Company. Ms. Yeung previously served as an executive director for Le Roi Holdings Limited (Stock Code: 221), a company listed on the Main Board of the Stock Exchange, from 2002 to 2007. She was appointed as an executive director of PME Group Limited (Stock Code: 379), a company listed on the Main Board of the Stock Exchange, since 2 May 2007, and China Bio-Med Regeneration Technology Limited (Stock Code: 8158) ("China Bio-Med") since 8 June 2007, and Heng Xin China Holdings Limited (Stock Code: 8046) ("Heng Xin") since 11 July 2007, which both China Bio-Med and Heng Xin are listed on GEM Board of the Stock Exchange.

According to the service contract between the Company and Ms. Yeung, Ms. Yeung is entitled to an annual remuneration of HK$960,000, which is determined by the Board with reference to her duties and responsibilities within the Company, and a fixed bonus equal to the monthly salary of HK$80,000. All the remuneration and fixed bonus are covered by the service contract. Ms. Yeung has been appointed for an initial fixed term of two years which will continue thereafter until being terminated by either party giving not less than three-month prior notice. Ms. Yeung is subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Company's bye-laws.

Save as disclosed above, Ms. Yeung has not previously held any position with the Company or any of its subsidiaries and has not been a director in any other listed company in the past three years. Save for being an executive director of PME Group Limited, a substantial shareholder of the Company, Ms. Yeung is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Chan Shui Sheung Ivy ("Ms. Chan"), aged 44, is graduated from The University of South Australia with a Master of Business Administration degree. Ms. Chan has over 15 years of experience in investment and is currently the director of certain subsidiaries of the Company. She is also a director of Channel Enterprises (Int'l) Limited and Century 21 Surveyors Limited, and an executive director of PME Group Limited (Stock Code: 379) ("PME") and ZZNode Technologies Company Limited (Stock Code: 2371) ("ZZNode"), which both PME and ZZNode are listed on the Main Board of the Stock Exchange.

Ms. Chan has not entered into any service contract with the Company and has no fixed term of service with the Company, but she is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the bye-laws of the Company. Ms. Chan is entitled to a monthly emolument of HK$80,000. The emolument is determined by the Board with reference to her position, her level of responsibilities, the remuneration policy of the Company and prevailing market conditions.

Save as disclosed above, Ms. Chan has not held previously any other directorships in any listed public companies in the past three years and has not held any positions in the Company and its subsidiaries. Save for being an executive director of PME Group Limited, a substantial shareholder of the Company, Ms. Chan does not have any relationship with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company. Ms. Chan had the following interests in shares and underlying shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance:

Name	Personal Interest	Corporate Interest	Total	Approximate percentage of shareholding
Chan Shui Sheung Ivy	60,000	–	60,000	0.011%

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. Xie Jintai ("Mr. Xie"), aged 59, graduated from Xiamen University with a Bachelor's Degree in Economics Management. He has been the director of Xiamen Xinya Economic Technology Research Institute (厦門新亞經濟技術研究所), a senior economist, senior business analyst and the general manager and chairman of a corporate group for around 20 years. Mr. Xie has been working in economic research and corporate investment planning, and had participated in the business management of various industries including international trade, warehouse and logistics, construction and real estate etc. for many years. He is familiar with business management and has abundant experience in management and business operation.

Mr. Xie has entered into an appointment letter with the Company for a term of two years commenced from 22 December 2008, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company. Mr. Xie is entitled to a monthly emolument of HK$10,000. The emolument (which is covered by the appointment letter) is determined with reference to the expected time commitment of Mr. Xie to the Company's affairs.

Save as disclosed above, Mr. Xie has not previously held any position with the Company or any of its subsidiaries nor has been a director in any other listed company in the past three years. He is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Yuen Wai Man ("Ms. Yuen"), aged 37, is graduated from the University of Hong Kong with a degree in Business Administration in 1994. She is the fellow member of The Association of Chartered Certified Accountants, member of The Hong Kong Institute of Certified Public Accountants and The Chinese Institute of Certified Public Accountants. Prior to joining the Company, Ms. Yuen worked in accounting and auditing area for over 14 years.

Ms. Yuen has entered into an appointment letter with the Company for an initial term of two years commenced from 4 July 2008, which continues thereafter until terminated by either party serving on the other not less than three months' notice after expiration of the said initial fixed term. She is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the bye-laws of the Company, and is entitled to a monthly emolument of HK$20,000 without any bonus payment. The emolument (which is covered by the service contract) is determined with reference to the expected time commitment of Ms. Yuen to the Company's affairs.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, Ms. Yuen has not previously held any position with the Company or any of its subsidiaries and has not been a director in any other listed company in the past three years. Also, she is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Law Wing Tak Jack ("Mr. Law"), aged 55, is graduated from the Newcastle University with a degree in Economic and Accounting in 1982. He became a member of Institute of Chartered Accountants in England and Wales in 1984 and a member of Hong Kong Institute of Certified Public Accountants in 1985. Prior to joining the Company, Mr. Law worked in the corporate finance business for over 25 years. He was the executive director of Far East Golden Resources Group Limited (Stock Code: 1188), a company listed on the Main Board of the Stock Exchange, from 28 September 2004 to 28 February 2007. He was appointed as the director of Ford Eagle Capital Limited on 20 April 2007, Hollyhill Limited and Fortunate Capital Limited on 20 March 2007, Cross Century Marketing (Holdings) Limited on 7 March 2008 and the independent non-executive director of Wang Sing International Holdings Group Limited (Stock Code: 2389), a company listed on the Main Board of the Stock Exchange, on 22 October 2008.

Mr. Law has entered into an appointment letter with the Company for an initial term of two years commenced from 4 July 2008, which continues thereafter until terminated by either party serving on the other not less than three months' notice after expiration of the said initial fixed term. He is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the bye-laws of the Company, and is entitled to a monthly emolument of HK$20,000 without any bonus payment. The emolument (which is covered by the service contract) is determined with reference to the expected time commitment of Mr. Law to the Company's affairs.

Save as disclosed above, Mr. Law has not previously held any position with the Company or any of its subsidiaries and has not been a director in any other listed company in the past three years. Also, he is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lam Raymond Shiu Cheung ("Mr. Raymond Lam"), aged 43, graduated from the Victoria University of Melbourne, Australia with a Bachelor of Business Degree majoring in banking and finance. He also earned a Master Degree in Applied Finance from Macquarie University of Australia. Mr. Raymond Lam has 17 years extensive experience in business development and corporate finance. He started his career in corporate banking; he then joined one of the biggest oil companies in the USA specializing in the area of business development. Currently he is a senior manager of an investment company in Hong Kong. He is also the independent non-executive director of ZZNode Technologies Company Limited (Stock Code: 2371), a company listed on the Main Board of the Stock Exchange, and China Bio-Med Regeneration Technology Limited (Stock Code: 8158), a company listed on GEM Board of the Stock Exchange.

Mr. Raymond Lam has entered into an appointment letter with the Company for a term of two years commenced from 22 December 2008, subject to retirement by rotation and re-election at general meeting of the Company in accordance with the bye-laws of the Company. Mr. Raymond Lam is entitled to a monthly emolument of HK$20,000. The emolument (which is covered by the appointment letter) is determined with reference to the expected time commitment of Mr. Raymond Lam to the Company's affairs.

Save as disclosed above, Mr. Raymond Lam has not previously held any position with the Company or any of its subsidiaries nor has been a director in any other listed company in the past three years. He is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Lam Ka Wai Graham ("Mr. Graham Lam"), aged 41, graduated from the University of Southampton, England with a Bachelor of Science degree in Accounting and Statistics. He is a member of Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Graham Lam is currently a managing director and head of corporate finance of an investment bank and has around 14 years experience in investment banking as well as around 4 years experience in accounting and auditing. He is also an independent non-executive director of Cheuk Nang (Holdings) Limited (Stock Code: 131), China Fortune Group Limited (Stock Code: 290), Applied Development Holdings Limited (Stock Code: 519), Artfield Group Limited (Stock Code: 1229), ZZNode Technologies Company Limited (Stock Code: 2371) and Pearl Oriental Innovation Limited (Stock Code: 632), all of which are companies listed on the Main Board of the Stock Exchange.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Graham Lam has entered into an appointment letter with the Company for a term of two years commenced from 22 December 2008, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company. Mr. Graham Lam is entitled to a monthly emolument of HK$20,000. The emolument (which is covered by the appointment letter) is determined with reference to the expected time commitment of Mr. Graham Lam to the Company's affairs.

Save as disclosed above, Mr. Graham Lam has not previously held any position with the Company or any of its subsidiaries nor has been a director in any other listed company in the past three years. He is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

SENIOR MANAGEMENT

Mr. Tsang Chi Hin ("Mr. Tsang") holds a bachelor degree in economics and a higher certificate in electronic engineering with over 22 years of experience in telecommunications and electronic industries. Mr. Tsang started his marketing career in 1984. He then joined Hongkong Telecom as a consultant in marketing data communication services in 1987 and his last position in Hongkong Telecom was account director. Mr. Tsang is currently an executive director and chief executive officer of Linefan Technology Holdings Limited and directors of certain subsidiaries of the Company.

Mr. Chu Yu Man, Philip ("Mr. Chu") has over 25 years of extensive experience in sales and development of electronic and telecommunication products. Mr. Chu previously served as the sales and marketing director for a United States of America based company which is engaged in businesses in United States of America, Europe and the People's Republic of China. Mr. Chu is currently an executive director of Linefan Technology Holdings Limited, a subsidiary of the Company.

Ms. Siu Yuk Wa Joe Joe ("Ms. Siu") holds a Bachelor's Degree of Business Administration and is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 20 years' experience in accounting and financial management. Ms. Siu is currently the Chief Financial Officer of the Company.

REPORT OF DIRECTORS

The Board presents this annual report together with the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in investment holding, design, development and sale of value-added telecommunication products, computer telephony products and implementation of structural information integration and analysis systems.

CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the five largest customers accounted for approximately 68% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 93% of the Group's total purchases. The largest customer of the Group accounted for approximately 35% of the Group's total turnover while the largest supplier accounted for approximately 49% of the Group's total purchases.

During the year, none of the Directors, their associates, or any shareholders of the Company (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

RESULTS

Details of the Group's results for the year ended 31 December 2008 are set out in the consolidated income statement on page 39 of this annual report.

DIVIDEND

The Directors do not recommend payment of final dividend for the year ended 31 December 2008.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company are set out in respective Notes 29 and 30, to the accompanying financial statements.

REPORT OF DIRECTORS

RESERVES

Movements in reserves of the Group during the year are set out in the section headed "Consolidated Statement of Changes in Equity" on page 42 of this annual report.

The Company had no reserves available for distribution to shareholders as at 31 December 2008 (2007: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

During January 2008, the Board exercised the general mandate granted by the shareholders at the annual general meeting held on 30 March 2007 and the Company repurchased a total of 2,000,000 shares in the share capital of the Company on the market at prices ranging from HK$1.40 to HK$1.87 per share. The total consideration paid for the repurchase amounted to approximately HK$3,421,000. Apart from the above, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and the laws in Bermuda.

SUBSIDIARIES AND ASSOCIATE

Particulars of the Company's subsidiaries and the Group's associates are set out in Notes 38 and 17 to the accompanying financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 16 to the accompanying financial statements.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes are set out in Note 32 to the accompanying financial statements.

REPORT OF DIRECTORS

CHARITABLE DONATION

An amount about HK$50,000 charitable donation was made by the Group during the year (2007: HK$10,000).

CONNECTED AND RELATED PARTY TRANSACTIONS

On 13 October 2008, Dragon Billion, which is a wholly owned subsidiary of the Company, as vendor on the one part, has entered into a disposal agreement with Portstar Enterprises Limited ("Portstar"), a company incorporated in the British Virgin Islands with limited liability, as purchaser of the other part, pursuant to which Dragon Billion has agreed to sell the Sale Shares to Portstar and Portstar has agreed to purchase the Sale Shares.

The consideration for the Sale Shares is HK$6,095,000, which is determined after arm's length negotiations between parties, primarily by reference to the investment cost of the Company in the Sale Shares.

As the other shareholder of Onway Logistics Limited, a company incorporated in Hong Kong, in which Eternity Profit holds 61.25% interest, is a controller, according to rule 20.13(1)(b)(i) of the GEM Listing Rules, the disposal of Sale Shares constitutes a connected transaction for the Company.

Save as disclosed above, there were no transactions which need to be disclosed as connected in accordance with the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") during the year.

The related party transactions of the Group are disclosed in Note 33 to the accompanying financial statements.

REPORT OF DIRECTORS

EMOLUMENT POLICY

The emoluments of the Directors are recommended by the Remuneration Committee, and approved by the Board, as authorized by shareholders in the annual general meeting of the Company, having regard to their skills, knowledge and involvement in the Company's affairs. No Directors are involved in deciding their own remuneration.

We offer competitive remuneration package, including medical and retirement benefits, to eligible employees. Apart from basic salary, executive directors and employees are eligible to receive a discretionary bonus taking into account factors such as market conditions as well as corporate and individual's performance during the year.

In order to attract, retain and motivate the eligible employees, including the Directors, the Company has adopted a share option scheme. The scheme enables the eligible persons to obtain an ownership interest in the Company and thus will motivate them to optimize their continuing contributions to the Group.

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 pages 115 and 116 in this annual report.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business segment is set out in Note 8 to the accompanying financial statements.

DIRECTORS' AND SENIOR MANAGEMENTS BIOGRAPHIES

Biographical details of the Directors and senior management of the Group as at the date of this annual report are set out on pages 10 to 15.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Notes 12 and 13 to the financial statements.

REPORT OF DIRECTORS

DIRECTORS

The Directors who held office during the year and up to the date of this annual report are:

Executive Directors

Ms. Yeung Sau Han Agnes	(appointed on 8 May 2008)
Ms. Chan Shui Sheung Ivy	(appointed on 25 August 2008).
Mr. Lim Kwok Choi	(resigned on 6 October 2008)
Mr. Zeng Bangjian	(resigned on 28 April 2008)
Mr. Ng Kam Wing	(resigned on 28 July 2008)
Mr. Koh Tat Lee Michael	(resigned on 20 May 2008)
Mr. Lok Shing Kwan, Sunny	(resigned on 25 August 2008)
Mr. Ha Shu Tong	(resigned on 11 March 2008)

Non-Executive Directors

Mr. Xie Jintai	(appointed on 22 December 2008)
Mr. Tsang Chi Hin	(resigned on 17 October 2008)

Independent Non-executive Directors

Ms. Yuen Wai Man	(appointed on 4 July 2008)
Mr. Law Wing Tak Jack	(appointed on 4 July 2008)
Mr. Lam Raymond Shiu Cheung	(appointed on 22 December 2008)
Mr. Lam Ka Wai Graham	(appointed on 22 December 2008)
Mr. Leung Lok Ming	(retired on 2 May 2008)
Mr. Chan Ho Wah, Terence	(resigned on 27 October[2] 2008)
Mr. Chong Cha Hwa	(resigned on 4 July 2008)
Dr. James Wing Ho Wong	(resigned on 4 July 2008)
Mr. Lok Shing Kwan, Sunny	(appointed on 22 January 2007, re-designated to executive director on 10 March 2008 and resigned on 25 August 2008)

In accordance with bye-law no. 86(2) of the Company's bye-laws, Ms. Yeung Sau Han Agnes, Ms. Chan Shui Sheung Ivy, Mr. Xie Jintai, Ms. Yuen Wai Man, Mr. Law Wing Tak Jack, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai Graham will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

REPORT OF DIRECTORS

The Independent Non-executive Directors are appointed for a specific term, subject to retirement by rotation in accordance with the Company's bye-laws.

None of the Directors being proposed for re-elections at the forthcoming annual general meeting of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2008, the interests and short positions of the Directors and Chief Executives in the 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 (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") adopted by the Company, or to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares and underlying shares of the Company

Name of Directors	Type of interests	Number of issued ordinary shares held	Total interests	Total approximate percentage of the issued share capital
Ms. Chan Shui Sheung Ivy	Beneficial owner	60,000	60,000	0.011%

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules.

REPORT OF DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed in the above section headed "Directors' and Chief Executives' Interests in Shares", at no time during the year ended 31 December 2008 was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Directors or Company's members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the Directors, their spouse or their children under the age 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year ended 31 December 2008.

SHARE OPTION SCHEME

A summary of the share option scheme and details of the movements in share options of the Company during the year are set out on pages 101 to 104.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors or Company's members of its management had a material interest, whether directly or indirectly, subsisted at the year ended 31 December 2008 or at any time during the year.

MANAGEMENT CONTRACTS

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 ended 31 December 2008.

REPORT OF DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, persons who had interests or short positions directly or indirectly in the Company's shares, underlying shares and debentures recorded in the register kept by the Company pursuant to section 336 of the SFO or to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules were as follows:

Name	Capacity	Number of shares	Percentage of interests
PME Group Limited	Interest of corporation controlled	76,644,000 (Note 1)	14.26%
Sunbright Asia Limited	Beneficial owner	71,000,000 (Note 1)	13.21%
Well Support Limited	Beneficial owner	52,415,466 (Note 2)	9.76%
Liu Yi Dong	Trustee of Liu Yi Dong Family Trust	52,415,466 (Note 2)	9.76%
Century Dragon Development Limited	Beneficial owner	27,000,000 (Note 3)	5.02%
Wu Wai Leung	Interest of corporation controlled	27,000,000 (Note 3)	5.02%

Notes:

1. PME Group Limited through its various controlled corporations is interested in an aggregate of 76,644,000 shares of the Company.

   i. 71,000,000 shares are directly held by Sunbright Asia Limited, by virtue of CR Investment Group Limited's 100% interest in Sunbright Asia Limited and PME Group Limited's 100% interests in CR Investment Group Limited; and

   ii. 5,644,000 shares are directly held by Betterment Enterprises Limited, by virtue of Richcom Group Limited's 99.49% interest in Betterment Enterprises Limited, CR Investment Group Limited's 100% interest in Richcom Group Limited and PME Group Limited's 100% interest in CR Investment Group Limited.

2. These shares are held by Well Support Limited, which is beneficially owned by Liu Yi Dong Family Trust and the beneficiaries of which are Liu Yi Dong and his family members.

3. These shares are held by Century Dragon Development Limited, a company wholly-owned by Wu Wai Leung.

REPORT OF DIRECTORS

Save as disclosed above, the Directors were not aware of any other shareholders or other persons who had an interest or a short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of the Company, or any other substantial shareholders whose interest or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO as at 31 December 2008.

COMPETING INTERESTS

During the year ended 31 December 2008, Tsang Chi Hin ("Mr. Tsang"), a former non-executive Director who resigned on 17 October 2008, is a director of Beijing Teletron Systems Integration Company Limited which is also engaged in the provision of telecommunications and computer telephony solutions. The Board believes that there is a risk that such business may compete with those of the Group. However, the Board is also of the view that the invaluable experience of Mr. Tsang in the telecommunications and computer telephony industry will complement the development of the Group's business. In addition, as Mr. Tsang is a non-executive Director, the Board believes that the competing risk to the business of the Group is minimal.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or any of their respective associates had an interest in business which competes or may compete with the business of the Group or has any other conflict of interest which any such person has or may have with the Group during the year ended 31 December 2008.

SERVICE CONTRACT OF DIRECTORS

Ms. Yeung Sau Han Agnes has entered into a service contract with the Company for an initial fixed term of two years commenced from 8 May 2008, which will continue thereafter until terminated by either party giving not less than three-month prior notice. Ms. Chan Shui Sheung Ivy has not entered into any service contract or appointment letter with the Company.

Each of Mr. Xie Jintai, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai Graham has entered into an appointment letter with the Company for a term of two years commenced from 22 December 2008.

Each of Ms. Yeun Wai Man and Mr. Law Wing Tak Jack has entered into an appointment letter with the Company for an initial term of two years commenced from 4 July 2008, which continues thereafter until terminated by either party serving on the other not less than three months' notice after expiration of the said initial fixed term.

REPORT OF DIRECTORS

CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company's principal place of business in Hong Kong has been changed to Units 01-03, 5/F, Skyline Commercial Centre, 71-77 Wing Lok Street, Sheung Wan, Hong Kong with effect from 6 March 2009.

AUDITOR

A resolution to re-appoint SHINEWING (HK) CPA LIMITED as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Chan Shui Sheung Ivy
Executive Director

Hong Kong, 27 March 2009

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the provisions of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 to the GEM Listing Rules throughout the year ended 31 December 2008 except for the deviations as disclosed in the following relevant paragraphs.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2008. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with such code of conduct and required standard of dealings.

BOARD OF DIRECTORS

As at the date of this annual report, the Board consists of seven Directors, of whom two are the Executive Directors, namely Ms. Yeung Sau Han Agnes and Ms. Chan Shui Sheung Ivy, one is the Non-executive Director, namely Mr. Xie Jintai and four are the Independent Non-executive Directors, namely Ms. Yuen Wai Man, Mr. Law Wing Tak Jack, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai Graham.

Biographical details of each Director is set out in the section headed "Profile of Directors and Senior Management" in pages 10 to 15 of this annual report.

The Board includes a balanced composition of Executive Directors, Non-executive Director and Independent Non-executive Directors, and possesses a wide spectrum of relevant skills and experience. The participation of the Independent Non-executive Directors in the Board brings independent opinion on issues relating to the Group's strategy, performance, conflicts of interest and management process in order to ensure the interests of all shareholders of the Company have been duly considered. To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among members of the Board.

CORPORATE GOVERNANCE REPORT

The Company has complied with rule 5.05(1) of the GEM Listing Rules throughout the year ended 31 December 2008 except for the period from 27 October 2008 to 21 December 2008. Following the resignation of Mr. Chan Ho Wah, Terence, the former Independent Non-executive Director, on 27 October 2008, the Company has only two Independent Non-executive Directors, the number of which falls below the minimum number required under rules 5.05(1) of the GEM Listing Rules. The Company strived to find the suitable person to fill the casual vacancy for the post of Independent Non-executive Director. Finally, Mr. Lam Raymond Shiu Cheung has been appointed as the Independent Non-executive Director with effect from 22 December 2008 to fill the casual vacancy of the position and to comply with the rule 5.05(1) of the GEM Listing Rules. Throughout the year ended 31 December 2008, at least one Independent Non-executive Director has appropriate qualification, or accounting or related financial management expertise as required by rule 5.05(2) of the GEM Listing Rules.

Pursuant to rule 5.09 of the GEM Listing Rules, the Company has received a written confirmation from each Independent Non-executive Director of his/her independence to the Company. The Company considers all of the Independent Non-executive Directors to be independent.

The Board is responsible for approving and monitoring business plans, evaluating the performance of the Group and oversight of management. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to the Executive Directors and senior management of the Company, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through the Executive Directors who have attended the Board meetings.

CORPORATE GOVERNANCE REPORT

The Board held 39 meetings during the year ended 31 December 2008. Details of the attendance of the Board are as follows:

		Attendance
Executive Directors		
Mr. Lim Kwok Choi	(resigned on 6 October 2008)	28/31
Mr. Zeng Bangjian	(resigned on 28 April 2008)	4/15
Mr. Ng Kam Wing	(resigned on 28 July 2008)	22/22
Mr. Koh Tat Lee Michael	(resigned on 20 May 2008)	11/16
Mr. Lok Shing Kwan, Sunny	(resigned on 25 August 2008)	15/16
Mr. Ha Shu Tong	(resigned on 11 March 2008)	6/8
Ms. Yeung Sau Han Agnes	(appointed on 8 May 2008)	22/24
Ms. Chan Shui Sheung Ivy	(appointed on 25 August 2008)	15/15
Non-Executive Directors		
Mr. Tsang Chi Hin	(resigned on 17 October 2008)	19/34
Mr. Xie Jintai	(appointed on 22 December 2008)	0/0
Independent Non-executive Directors		
Mr. Leung Lok Ming	(retired on 2 May 2008)	6/15
Mr. Chan Ho Wah Terence	(resigned on 27 October 2008)	11/34
Mr. Chong Cha Hwa	(resigned on 4 July 2008)	10/19
Dr. James Wing Ho Wong	(resigned on 4 July 2008)	14/19
Mr. Lok Shing Kwan, Sunny	(appointed on 22 January 2007 and re-designated to executive Director on 10 March 2008)	5/8
Ms. Yuen Wai Man	(appointed on 4 July 2008)	12/20
Mr. Law Wing Tak Jack	(appointed on 4 July 2008)	8/20
Mr. Lam Raymond Shiu Cheung	(appointed on 22 December 2008)	0/0
Mr. Lam Ka Wai Graham	(appointed on 22 December 2008)	0/0

Apart from the regular Board meetings, the Board meets on other occasions when a board-level decision on a particular matter is required. Sufficient notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special Board meetings. The Directors will receive details of agenda items for decision and minutes of the committee meetings in advance of each Board meeting.

CORPORATE GOVERNANCE REPORT

The company secretary of the Company (the "Company Secretary") is responsible for distributing detailed documents to the Directors prior to the Board meetings to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. And all Directors have access to the advice and services of the Company Secretary with a view to ensuring that the Board procedures, and all applicable rules and regulations, are followed.

During the year, the Company fully complied with rules 5.14 and 5.15 of the GEM Listing Rules except for the period from 12 March 2008 to 24 March 2008. The Company tried its best endeavours to identify suitable candidate(s) to fill the vacancies of company secretary and qualified accountant. On 25 March 2008, Mr. Leung Ming Fai (who has resigned on 2 September 2008) has been appointed as the Company Secretary and qualified accountant of the Company to fill the casual vacancies of the posts.

Any Director wishing to do so in the furtherance of his or her duties may take independent professional advice at the Company's expense. The Directors are encouraged to update their skills, knowledge and familiarity with the Group through their initial induction, ongoing participation at the Board and Committee meetings, and through meeting key members of management.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the Non-executive Directors has been appointed for a specific term for two years, and is subject to retirement by rotation and re-election at the next following annual general meeting of the Company following their appointment in accordance with the bye-laws of the Company, except for Mr. Lam Raymond Shiu Cheung, who is appointed to fill the casual vacancy of the post of Independent Non-executive Director. Mr. Lam Raymond Shiu Cheung is subject to retirement by rotation and re-election at the next general meeting of the Company following his appointment in accordance with the bye-laws of the Company.

Under the bye-laws of the Company, all Directors (including Executive Directors, Non-executive Director and Independent Non-executive Directors) are subject to retirement by rotation at least once every three years.

Induction program is arranged for the newly appointed Director on the latest information of the Group. The comprehensive orientation package is also provided the detailed responsibilities and duties of being a Director and the requirements under the applicable rules and regulations of the Company.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Lim Kwok Choi, the former Executive Director, was appointed as Chairman of the Company on 10 March 2008, and resigned as Chairman and Executive Director on 6 October 2008. Subsequent to the resignation of Mr. Lim Kwok Choi, no replacement of the post of the chairman has been fixed as at 31 December 2008. The post of Chief Executive Officer has been vacant since the resignation of Mr. Ha Shu Tong on 11 March 2008. The Board will keep reviewing the current structure from time to time. If candidate with suitable knowledge, skills and experience is identified, the Company will make appointment to fill the posts as appropriate.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established on 12 August 2005 with written terms of reference. It currently consists of five members, including four Independent Non-executive Directors, namely Ms. Yuen Wai Man, Mr. Law Wing Tak Jack, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai Graham, and the Executive Director, namely Ms. Yeung Sau Han Agnes. Mr. Lam Raymond Shiu Cheung is the chairman of this committee.

The role and function written in the terms of reference of the remuneration committee are no less exacting terms than CG Code. The remuneration committee makes recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management. No committee member can be involved in deciding his own remuneration. The remuneration committee will consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration to determine the remuneration package of all Executive Directors and senior management; and expected time commitment to the Company's affair would be considered for determination of the remuneration packages of all Non-executive Directors and Independent Non-executive Directors.

The remuneration committee of the Company will consult the Board about its proposals relating to the remuneration of other Executive Directors and the senior management of the Company and has the right to require the Company's management to furnish any remuneration related information of the Company for the purposes of discharging its duties.

CORPORATE GOVERNANCE REPORT

During the year under review, the remuneration committee of the Company held 6 meetings and significant matters discussed are summarized as follows:

– To review the remuneration package of Directors and senior management

– To recommend the remuneration package of the newly appointed Directors to the Board for approval

Details of the attendance of the Company's remuneration committee meetings are as follows:

Members		Attendance
Mr. Lam Raymond Shiu Cheung	(appointed as Chairman and member on 22 December 2008)	0/0
Ms. Yeung Sau Han Agnes	(appointed on 4 July 2008)	2/2
Ms. Yuen Wai Man	(appointed on 18 July 2008)	2/2
Mr. Law Wing Tak Jack	(appointed on 18 July 2008)	2/2
Mr. Lam Ka Wai Graham	(appointed on 22 December 2008)	0/0
Mr. Chong Cha Hwa	(resigned as Chairman and member on 4 July 2008)	4/4
Mr. Chan Ho Wah, Terence	(resigned on 27 October 2008)	3/5
Dr. James Wing Ho Wong	(resigned on 4 July 2008)	4/4
Mr. Tsang Chi Hin	(appointed on 28 April 2008 and resigned on 17 October 2008)	1/2

NOMINATION COMMITTEE

The nomination committee of the Company was established on 12 August 2005 with written terms of reference. It currently comprises five members, including four Independent Non-executive Directors, namely Ms. Yuen Wai Man, Mr. Law Wing Tak Jack, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai Graham, and the Executive Director, namely Ms. Yeung Sau Han Agnes. Ms. Yeung Sau Han Agnes is the chairman of this committee.

The duties and responsibilities of the nomination committee include the following:

1. To review regularly the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regards to any changes;

CORPORATE GOVERNANCE REPORT

2. To give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are needed on the Board in the future;

3. To be responsible for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise but will make no prior commitment in advance of Board approval to such candidates;

4. Before any appointment is made by the Board, evaluate the balance of skills, knowledge and experience on the Board and, with reference to such evaluation, prepare a description of the role and capabilities required for a particular appointment.

5. To make recommendations to the Board concerning:

    (a) Succession plans for both Executive and Non-executive Directors and in particular for the key roles of Chairman of the Board and Chief Executive Officer;

    (b) Suitable plans for the role of senior independent Director, if thought appropriate;

    (c) Membership of the audit and remuneration committees, in consultation with the chairmen of those committees;

    (d) The re-appointment of any Non-executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;

    (e) The continuation (or not) in service of any Director who has reached the age of 70;

    (f) The re-election by shareholders of any Director under the 'retirement by rotation' provisions in the company's bye-laws having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;

    (g) Any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the company subject to the provisions of the law and their service contract; and

    (h) The appointment of any Director to executive or other office other than to the position of Chairman of the Board and Chief Executive Officer, the recommendation for which would be considered at a meeting of the full Board.

The nomination committee of the Company considers the past performance, qualification, general market conditions and the Company's bye-laws in selecting and recommending candidates for directorship during the year under review.

CORPORATE GOVERNANCE REPORT

During the year, the nomination committee met 6 times and significant matters discussed are summarized as follows:

- To be involved in the assessment of the appointment of the Directors (including Executive Directors, Non-executive Director and Independent Non-executive Directors) and members of the remuneration committee and audit committee before a recommendation was made to the Board;

- To review the structure, size and composition of the Board, including the balance of skills, knowledge and experience and independence of the Independent Non-executive Directors and make recommendation to the Board accordingly.

Details of the attendance of the meetings are as follows:

Members		**Attendance**
Ms. Yeung Sau Han Agnes	(appointed on 4 July 2008 and appointed as Chairman on 15 October 2008)	2/2
Ms. Yuen Wai Man	(appointed on 18 July 2008)	2/2
Mr. Law Wing Tak Jack	(appointed on 18 July 2008)	2/2
Mr. Lam Raymond Shiu Cheung	(appointed on 22 December 2008)	0/0
Mr. Lam Ka Wai Graham	(appointed on 22 December 2008)	0/0
Mr. Chan Ho Wah, Terence	(resigned as Chairman and member on 27 October 2008)	3/5
Mr. Chong Cha Hwa	(resigned on 4 July 2008)	4/4
Dr. James Wing Ho Wong	(resigned on 4 July 2008)	4/4
Mr. Tsang Chi Hin	(appointed as Chairman and member on 4 July 2008 and 28 April 2008 respectively, resigned as Chairman and member on 17 October 2008)	1/1
Mr. Lim Kwok Choi	(appointed as Chairman and member on 18 July 2008, resigned as Chairman and member on 6 October 2008)	1/1

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and financial statements, interim reports and quarterly reports and to provide advice and comments thereon to the Board.

CORPORATE GOVERNANCE REPORT

The audit committee in conjunction with the external auditors of the Company have reviewed the Group's financial statements for the year ended 31 December 2008 and have provided advice and comments thereon. The Company's audit committee has met 4 times during the year.

As at the date of this annual report, the Company's audit committee comprises four Independent Non-executive Directors, namely Ms. Yuen Wai Man, Mr. Law Wing Tak Jack, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai Graham. Mr. Law Wing Tak Jack is the Chairman of the committee.

The Company has complied with rule 5.28 of the GEM Listing Rules throughout the year ended 31 December 2008 except for the period from 27 October 2008 to 21 December 2008. Following the resignation of Mr. Chan Ho Wah, Terence, the former member of audit committee, on 27 October 2008, the Company has only two audit committee members, the number of which falls below the minimum number required under rules 5.28 of the GEM Listing Rules. The Company strived to find the suitable person to fill the casual vacancy for the post. Finally, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai Graham have been appointed as the audit committee members with effect from 22 December 2008 to fill the casual vacancy of the position and to comply with the rule 5.28 of the GEM Listing Rules.

The audit committee of the Company held 4 meetings during the year ended 31 December 2008. Details of the attendance of the meetings are as follows:

Members		Attendance
Mr. Law Wing Tak Jack	(appointed as Chairman and member on 4 July 2008)	2/2
Ms. Yuen Wai Man	(appointed on 4 July 2008)	2/2
Mr. Lam Raymond Shiu Cheung	(appointed on 22 December 2008)	0/0
Mr. Lam Ka Wai Graham	(appointed on 22 December 2008)	0/0
Mr. Leung Lok Ming	(resigned as Chairman and member on 29 February 2008 and 2 May 2008 respectively)	1/1
Mr. Chan Ho Wah, Terence	(appointed as Chairman on 10 March 2008 and resigned as Chairman and member on 28 April 2008 and 27 October 2008 respectively)	2/3
Mr. Chong Cha Hwa	(resigned on 4 July 2008)	2/2
Mr. Lok Shing Kwan, Sunny	(resigned on 10 March 2008)	0/0
Dr. James Wing Ho Wong	(appointed as Chairman and member on 8 May 2008 and 28 April 2008 respectively, resigned as Chairman and member on 4 July 2008)	1/1

CORPORATE GOVERNANCE REPORT

The Group's unaudited quarterly and interim results and audited annual results in respect of the year ended 31 December 2008 have been reviewed by the Company's audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

AUDITOR'S REMUNERATION

During the year, the remuneration paid/payable to the Company's external auditor, SHINEWING (HK) CPA LIMITED, is set out below:

	HK$'000
Services rendered to the Group	
– Audit services	750
– Non-audit services	420
	1,170

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

Annual Report and Financial Statements

The Directors acknowledge their responsibilities to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the quarterly and annual financial statements, and announcements to the shareholders of the Company, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

Accounting Period

The Directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

Accounting Records

The Directors are responsible for ensuring that the Group had kept the accounting records, which disclose with reasonable accuracy of the financial position of the Group, and also enable the preparation of the financial statements in accordance with the applicable accounting standards.

CORPORATE GOVERNANCE REPORT

Going Concern

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Investor and Shareholder Relations

The Board recognizes the importance of maintaining clear, timely and effective communication with the shareholders of the Company and investors. Therefore, the Board maintains close communications with the investors by uploading the announcements and news onto the Company's website. The Board also welcomes the views of the shareholders of the Company on matters affecting the Group and encourages them to attend the shareholders' meetings to communicate with the Board or Management directly.

Internal Control

The Board had conducted a review of the effectiveness of the Group's internal control system. Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control system on an ongoing basis.

On behalf of the Board
Chan Shui Sheung Ivy
Executive Director

Hong Kong, 27 March 2009

INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF CHINA RAILWAY LOGISTICS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Railway Logistics Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 114, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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, 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 consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

OPINION

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

SHINEWING (HK) CPA Limited
Certified Public Accountants

Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
27 March 2009

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	7	**21,856**	11,338
Cost of sales		**(14,984)**	(5,742)
Gross profit		**6,872**	5,596
Other income	7	**28,625**	26,529
Distribution and selling expenses		**(28)**	(25)
Administrative expenses		**(61,961)**	(100,835)
Impairment loss recognised in respect of goodwill	18(a)	**(103,001)**	(1,621,794)
Impairment loss recognised in respect of a loan receivable	18(c)	**(151,980)**	–
Finance costs	9	**(22)**	(108)
Loss before tax		**(281,495)**	(1,690,637)
Income tax expense	10	**(83)**	–
Loss for the year	11	**(281,578)**	(1,690,637)
Attributable to:			
– Equity holders of the Company		**(281,578)**	(1,690,637)
– Minority interests		**–**	–
		(281,578)	(1,690,637)
Loss per share			
– Basic	15	**(55.8) cents**	(422.3) cents

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	16	**17,802**	3,010
Interest in an associate	17	**–**	–
Goodwill	18(a)	**–**	–
Deposits paid for acquisition of investments	18(b)&(d)	**28,275**	151,980
Available-for-sale financial assets	19	**–**	–
Loan receivable	20	**–**	3,823
		46,077	158,813
Current assets			
Loan receivable	20	**4,723**	3,900
Convertible bond designated at financial assets at fair value through profit or loss	21	**7,047**	–
Inventories	22	**261**	348
Trade receivables	23	**9,221**	976
Prepayments, deposits and other receivables	24	**48,562**	14,098
Financial assets at fair value through profit or loss	25	**3,281**	25,758
Bank balances and cash	26	**802,629**	923,380
		875,724	968,460
Current liabilities			
Trade payables	27	**2,544**	973
Accruals and other payables		**10,970**	3,064
Unsecured loans	33(a)	**3,000**	–
Receipts in advance		**567**	556
Obligations under finance leases	28	**–**	159
		17,081	4,752
Net current assets		**858,643**	963,708
Total assets less current liabilities		**904,720**	1,122,521
Non-current liability			
Obligations under finance leases	28	**–**	654
Net assets		**904,720**	1,121,867

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Notes	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	29	**537**	489
Reserves		**904,183**	1,121,378
		904,720	1,121,867
Minority interest		**–**	–
Total equity		**904,720**	1,121,867

The consolidated financial statements on pages 39 to 114 were approved and authorised for issue by the Board of Directors on 27 March 2009 and are signed by:

Chan Shui Sheung Ivy
Director

Yeung Sau Han Agnes
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Exchange translation reserve HK$'000	Accumulated losses HK$'000	Equity attributable to equity holders of the Company HK$'000	Minority interest HK$'000	Total HK$'000
At 1 January 2007	278	10,719	7,914	–	146	(3,073)	15,984	–	15,984
Exchange differences arising on translation of foreign operations	–	–	–	–	174	–	174	–	174
Net income recognised directly in equity	–	–	–	–	174	–	174	–	174
Loss for the year	–	–	–	–	–	(1,690,637)	(1,690,637)	–	(1,690,637)
Total recognised expense for the year	–	–	–	–	–	(1,690,637)	(1,690,637)	–	(1,690,637)
Recognition of equity-settled share-based payments	–	–	–	34,357	–	–	34,357	–	34,357
Shares issued pursuant to placements and acquisition of subsidiaries *(Notes 29(c), (d), (e) & (f))*	211	2,808,869	–	–	–	–	2,809,080	–	2,809,080
Shares issued expenses on placements	–	(47,091)	–	–	–	–	(47,091)	–	(47,091)
At 31 December 2007 and 1 January 2008	489	2,772,497	7,914	34,357	320	(1,693,710)	1,121,867	–	1,121,867
Exchange differences arising on translation of foreign operations	–	–	–	–	(373)	–	(373)	–	(373)
Net expense recognised directly in equity	–	–	–	–	(373)	–	(373)	–	(373)
Loss for the year	–	–	–	–	–	(281,578)	(281,578)	–	(281,578)
Total recognised expense for the year	–	–	–	–	–	(281,578)	(281,578)	–	(281,578)
Issue of new shares, net of share issue expenses *(Note 29(b))*	50	68,175	–	–	–	–	68,225	–	68,225
Shares repurchased and cancelled, net of share repurchase expenses *(Note 29(a))*	(2)	(3,419)	–	–	–	–	(3,421)	–	(3,421)
Share option cancelled	–	–	–	(30,767)	–	30,767	–	–	–
At 31 December 2008	537	2,837,253	7,914	3,590	(53)	(1,944,521)	904,720	–	904,720

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 **HK$'000**	2007 HK$'000
OPERATING ACTIVITIES		
Loss before tax	**(281,495)**	(1,690,637)
Adjustments for:		
Interest income	**(20,372)**	(21,915)
Finance costs	**22**	108
Depreciation of property, plant and equipment	**1,688**	850
Loss on disposal of property, plant and equipment	**440**	654
Impairment loss recognised in respect of goodwill	**103,001**	1,621,794
Impairment loss on other receivables	**2,050**	–
Impairment loss on available-for-sale financial assets	**–**	286
Impairment loss recognised in respect of a loan receivable	**151,980**	–
Gain on disposal of subsidiaries	**(6,194)**	–
Equity-settled share-based payments	**–**	34,357
Change in fair values of financial assets at fair value through profit or loss	**1,902**	(460)
Change in fair value of convertible bond designated at financial assets at fair value through profit or loss	**(715)**	–
Loss on disposal of financial assets at fair value through profit or loss	**92**	–
Written back of amount due from an associate	**–**	(189)
Written back of impairment loss made in respect of trade receivables	**(646)**	(100)
Allowance for inventories	**30**	20
Operating cash flows before movements in working capital	**(48,217)**	(55,232)
Decrease (increase) in inventories	**57**	(334)
(Increase) decrease in trade receivables	**(5,929)**	1,106
Decrease (increase) in prepayments, deposits and other receivables	**7,231**	(9,076)
(Decrease) increase in trade payables	**(1,533)**	95
Increase (decrease) in accruals and other payables	**9,272**	(100,108)
Increase in receipts in advance	**11**	4
NET CASH USED IN OPERATING ACTIVITIES	**(39,108)**	(163,545)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Net cash (outflow) inflow from acquisition of subsidiaries, net of acquisition cost	36	(100,271)	100,488
Deposits paid for acquisition of investments		(73,275)	(151,980)
Purchase of property, plant and equipment		(16,132)	(2,516)
Acquisition of convertible bond		(6,332)	–
Acquisition of financial assets at fair value through profit or loss		–	(25,354)
Proceeds on disposal of financial assets at fair value through profit or loss		20,483	–
Interest received		20,372	21,915
Net cash inflow from disposal of subsidiaries	37	6,000	–
Decrease (increase) in a loan receivable		3,000	(7,723)
Proceeds on disposal of property, plant and equipments		922	666
NET CASH USED IN INVESTING ACTIVITIES		(145,233)	(64,504)
FINANCING ACTIVITIES			
Proceeds from issue of shares, net of shares issue expenses		68,225	1,146,989
Payment on repurchase of shares		(3,421)	–
Repayment to the obligations under finance leases		(813)	(434)
Interest paid		(22)	(108)
Inception of short-term bank loan		–	2,400,000
Repayment of short-term bank loan		–	(2,400,000)
Repayment from an associate		–	206
Repayment to minority interest		–	(222)
NET CASH GENERATED FROM FINANCING ACTIVITIES		63,969	1,146,431
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(120,372)	918,382
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		923,380	4,773
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE		(379)	225
CASH AND CASH EQUIVALENTS AT END OF THE YEAR Represented by, bank balances and cash		802,629	923,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

1. GENERAL

The Company was incorporated in Bermuda on 25 February 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited since 18 May 2000. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

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

The principal activities of the Company is investment holding and the principal activities of its subsidiaries are set out in Note 38.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 (Revised)	First-time Adoption of HKFRS[3]
HKFRS 1 & HKAS27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellation[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7	Financial instruments: Disclosures-Improving about Financial Instrument[2]
HKFRS 8	Operating segments[2]
HK (IFRIC) – INT 9 and HKAS39	Reassessment of Embedded Derivatives[6]
HK (IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK (IFRIC) – INT 15	Agreements for the Construction of Real Estates[2]
HK (IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operations[5]
HK (IFRIC) – INT 17	Distribution of Non-cash Assets to Owners[3]
HK (IFRIC) – INT 18	Transfers of Assets from Customers[3]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008
6 Effective for annual periods ending on or after 30 June 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

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

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

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiaries at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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

Any excess of the cost of the 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.

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

Foreign currencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

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

Financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets

The Group classifies its financial assets into one of the following categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Convertible bond

Convertible bond acquired by the Group (including related embedded derivatives) are designated at financial assets at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible bond are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loan receivable, trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit and loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequent reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(ii) Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade payables, accruals and other payables, obligations under finance leases and unsecured loans are subsequently measured at amortised cost, using the effective interest method.

Borrowing costs

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

(iii) Derecognition

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits scheme contribution

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Share based payments

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

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

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Leasing

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a consultant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

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

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Computer equipment	30%
Equipment on lease to customers	30%
Equipment for development	30%
Motor vehicles	30%
Vessel	10%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Rental income from leasing of telecommunication and computer telephony equipment recognised on a straight-line basis over the respective period of the leases.

Service fees income is recognised when services are provided.

Revenue from sales of financial assets at fair value through profit or loss is recognised when the significant risks and rewards have been passed and is on a trade date basis.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income taxes

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets other than goodwill (see the accounting policy in respect of goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and tangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in note 3, the directors of the Company are required to make the following key assumptions that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(a) Critical judgement in applying accounting policies

In the process of applying the Group's accounting policies, management has made judgement apart from those involving estimation as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2008, an impairment loss of approximately HK$103,001,000 (2007: approximately HK$1,621,794,000) has been recognised in the consolidated income statement.

(b) Key sources of estimation uncertainty

Estimated Impairment loss on a loan receivable

Loan receivable are reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The directors make judgements on whether such events or changes in circumstances have occurred, and makes estimates in determining the recoverable amount.

Fair value of convertible bond

The fair value of the convertible bond involves assumptions on the issuer's credit spread, discount rate, expected credit rating and future cash flows. Should these assumptions change, there would be material changes to the valuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 **HK$'000**	2007 HK$'000
Financial assets		
Available-for-sale financial assets	**–**	–
Financial assets at FVTPL	**3,281**	25,758
Loan and receivables (including bank balances and cash)	**817,744**	942,904
Convertible bond designated at financial assets at FVTPL	**7,047**	–
	828,072	968,662
Financial liabilities		
Trade payables	**2,544**	973
Unsecured loans	**3,000**	–
Accruals and other payables	**10,970**	3,064
Obligations under finance leases	**–**	813
	16,514	4,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity, trade receivables, and other receivables, loan receivable, deposits paid for acquisition of investments, bank balances, financial assets at fair value through profit or loss, trade payables, accruals and other payables, unsecured loans and obligations under finance leases. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The functional currency of certain subsidiaries is RMB since certain of the revenue of the Group are derived from operations in the People's Republic of China ("PRC"). The RMB is not freely convertible into other currencies however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. Other than the above, the Group did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of HK$ against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each balance sheet date for a 5% change in foreign currency rates.

	2008 **HK$'000**	2007 HK$'000
Increase (decrease) in loss for the year		
– if HK$ weakens against RMB	**123**	2
– if HK$ strengthens against RMB	**(123)**	(2)

A change of 5% in exchange rate of HK$ against RMB does not affect other components of equity except the exchange translation reserve.

(ii) Interest rate risk

The Group's exposure to interest rate risk mainly arises on certain bank deposits at variable-interest rate. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

Sensitivity analysis

If the interest rates had been increased/decreased by 100 basis points at the beginning of the year and all other variables were held constant, the Group's loss after tax and accumulated losses would decrease/increase by approximately HK$8,026,000 (2007: HK$9,234,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis *(Continued)*

The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities, unlisted investments in funds and FVTPL (including convertible bond). The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's other price risk is mainly concentrated on equity instruments quoted in The Stock Exchange of Hong Kong Limited and on fund investments quoted by the financial institutions.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 10% (2007: 10%) higher (lower), the post-tax loss for the year ended 31 December 2008 would decrease (increase) by approximately HK$328,000 (2007: decrease (increase) by approximately HK$2,576,000) as a result of the changes in financial assets at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has 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 receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer; The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain degree of concentration of credit risk as 71% (2007: 17%) and 91% (2007: 64%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively. However, the directors consider the credit risk under control since the management exercise due care in granting credit and check the financial background of these customers on a regular basis.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's exposure to liquidity risk is minimal.

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

	Less than 1 year HK$'000	**More than 1 year** HK$'000	**Total undiscounted cash flows** HK$'000	**Carrying amount** HK$'000
2008				
Non-derivative financial liabilities				
Trade payables	**2,544**	**–**	**2,544**	**2,544**
Accruals and other payables	**10,970**	**–**	**10,970**	**10,970**
Unsecured loan	**3,000**	**–**	**3,000**	**3,000**
	16,514	**–**	**16,514**	**16,514**
2007				
Non-derivative financial liabilities				
Trade payables	973	–	973	973
Accruals and other payables	3,064	–	3,064	3,064
Obligations under finance leases	221	753	974	813
	4,258	753	5,011	4,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

7. TURNOVER AND OTHER INCOME

The analysis of the Group's turnover and other income is as follows:

Turnover comprises:

	2008 **HK$'000**	2007 HK$'000
Sales of goods	**12,380**	4,462
Rental income from leasing of telecommunication and computer telephony equipment	**4,078**	2,463
Service fees income	**5,398**	4,413
	21,856	11,338

Other income comprises:

	2008 **HK$'000**	2007 HK$'000
Bank interest income	**20,372**	21,915
Gain on disposal of subsidiaries	**6,194**	–
Change in fair value of convertible bond designated at financial assets at fair value through profit or loss	**715**	–
Written back of impairment loss made in respect of trade receivables	**646**	100
Fair value gain on financial assets at fair value through profit or loss	**–**	460
Exchange gain	**–**	2,567
Others	**698**	1,487
	28,625	26,529

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

8. SEGMENT INFORMATION

The primary segment is defined by major product and operational units, while secondary segment is defined by geographical location of customers.

(a) Primary segment

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

(a) The voice portal segment engages in the provision of voice search engine portal;

(b) The one-stop value chain services segment engages in the provision of total solution services including trading, packaging and logistic solutions;

(c) The knowledge management ("KM") systems segment engages in the sale, development and implementation of non-structural knowledge integration systems and KM related network application system and technology;

(d) The telecommunications products and computer telephony products units derive revenue from supply, development and integration of telecommunications and computer telephony system and solutions, respectively. These activities also earn rental income from leasing telecommunications equipments and computer telephony systems and earn fees for consulting and maintenance services; and

(e) The logistic segment had no active businesses during the two years ended 31 December 2008. However, expenses are incurred for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

8. SEGMENT INFORMATION *(Continued)*

(a) Primary segment *(Continued)*

Analysis by business segment is as follows:

	2008 HK$'000	2007 HK$'000
Turnover		
Voice search engine portal	**787**	–
One-stop value chain service	**7,900**	–
KM system	**–**	–
Telecommunications	**4,766**	3,583
Computer telephony	**8,403**	7,755
Logistic	**–**	–
	21,856	11,338
Segment results		
Voice search engine portal	**(121,434)**	–
One-stop value chain service	**(148)**	–
KM system	**(559)**	–
Telecommunications	**282**	1,250
Computer telephony	**1,501**	4,346
Logistic	**(151,980)**	(1,621,794)
	(272,338)	(1,616,198)
Unallocated corporate expenses	**(29,507)**	(96,246)
	(301,845)	(1,712,444)
Interest income	**20,372**	21,915
Finance costs	**(22)**	(108)
Loss before tax	**(281,495)**	(1,690,637)
Income tax expenses	**(83)**	–
Loss for the year	**(281,578)**	(1,690,637)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

8. SEGMENT INFORMATION *(Continued)*

(a) Primary segment *(Continued)*

Analysis by business segment is as follows: *(Continued)*

	2008 **HK$'000**	2007 HK$'000
Other information:		
Depreciation of property, plant and equipment		
Telecommunications	**43**	73
Computer telephony	**161**	142
Voice search engine portal	**647**	–
One-stop value chain service	**552**	–
KM System	**34**	–
Unallocated	**251**	635
	1,688	850
Capital expenditures of property, plant and equipment		
Telecommunications	**–**	107
Computer telephony	**8**	–
Unallocated	**16,124**	3,656
	16,132	3,763
Written back of impairment loss made in respect of trade receivables		
Telecommunications	**(38)**	10
Computer telephony	**(608)**	(110)
	(646)	(100)
Allowance for inventories		
Computer telephony	**30**	20
Loss on disposal of property, plant and equipment		
Telecommunications	**–**	2
Unallocated	**440**	652
	440	654

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

8. SEGMENT INFORMATION *(Continued)*

(a) Primary segment *(Continued)*

Analysis by business segment is as follows: *(Continued)*

	2008 **HK$'000**	2007 HK$'000
Other information: *(Continued)*		
Impairment loss recognised in respect of goodwill		
Logistic	**–**	1,621,794
Voice search engine portal	**103,001**	–
	103,001	1,621,794
Segment assets		
Telecommunications	**2,304**	280
Computer telephony	**5,318**	1,843
Voice search engine portal	**1,865**	–
One-stop value chain service	**6,883**	–
KM system	**741**	–
Logistic	**–**	204,313
Unallocated corporate assets	**904,690**	920,837
Consolidated total assets	**921,801**	1,127,273
Segment liabilities		
Telecommunications	**935**	484
Computer telephony	**1,902**	1,611
Voice search engine portal	**2,008**	–
One-stop value chain service	**204**	–
KM System	**469**	–
Logistic	**–**	–
Unallocated corporate liabilities	**11,563**	3,311
Consolidated total liabilities	**17,081**	5,406

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

8. SEGMENT INFORMATION *(Continued)*

(b) Secondary segment

Analysis by geographical location is as follows:

	2008 **HK$'000**	2007 HK$'000
Turnover		
Hong Kong	**21,831**	11,296
PRC	**25**	42
	21,856	11,338
Segment asset		
Hong Kong	**918,026**	1,126,686
PRC	**3,775**	587
	921,801	1,127,273
Additions to machinery and equipment		
Hong Kong	**15,987**	3,656
PRC	**145**	107
	16,132	3,763

9. FINANCE COSTS

	2008 **HK$'000**	2007 HK$'000
Interest expenses on:		
bank overdrafts and borrowings wholly repayable within five years	**–**	66
obligations under finance leases	**22**	42
	22	108

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

10. INCOME TAX EXPENSE

	2008 **HK$'000**	2007 HK$'000
Current tax:		
Hong Kong	**83**	–
PRC	**–**	–
	83	–

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

In March 2007, the PRC government announced a united tax rate arrangements among different types of PRC entities which results in a reduction of income tax rate from 33% to 25% with effect from 1 January 2008. No change of tax rate is applied for those High and New Technology Enterprises ("HNTE").

According to the relevant PRC tax regulations, HNTE operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax ("EIT") rate of 15%. Certain subsidiaries are recognised as HNTE and accordingly, are subject to EIT at 15%. The recognition as a HNTE is subject to a review on every three year by the relevant government bodies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

10. INCOME TAX EXPENSE *(Continued)*

The tax charge for the years can be reconciled to the loss before tax per the consolidated income statement as follows:

	2008 **HK$'000**	2007 HK$'000
Loss before tax	**(281,495)**	(1,690,637)
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	**(46,447)**	(295,861)
Tax effect of expenses not deductible for tax purpose	**51,518**	300,371
Tax effect of income not taxable for tax purpose	**(4,045)**	(4,385)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(24)**	42
Tax effect of deductible temporary differences not recognised	**(276)**	(14)
Effect of change in tax rate	**(357)**	–
Utilisation of tax losses previously not recognised	**(286)**	(153)
Tax charge for the year	**83**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

10. INCOME TAX EXPENSE *(Continued)*

The principal components of the Group's deferred tax assets not provided for, on the cumulative temporary differences at the balance sheet date are as follows:

	Other temporary differences HK$'000	Estimated tax losses HK$'000	Total HK$'000
At I January 2007	307	6,123	6,430
Movement for the year	(14)	(153)	(167)
At 31 December 2007 and 1 January 2008	293	5,970	6,263
Effect of change in tax rate	(16)	(341)	(357)
Movement for the year	(276)	(286)	(562)
At 31 December 2008	1	5,343	5,344

No deferred tax assets attributable to other temporary differences and tax losses of the Group has been recognised due to unpredictability of future profit streams (2007: Nil). At the balance sheet date, the Group had unexpired estimated tax losses available for off-setting future taxable profits and temporary difference of approximately HK$32,382,000 (2007: HK$34,115,000) and HK$6,000 (2007: HK$1,674,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

11. LOSS FOR THE YEAR

	2008 HK$'000	2007 HK$'000
Loss for the year has been arrived at after charging:		
Staff costs including directors' emoluments:		
Salaries and allowances	23,452	23,817
Contributions to retirement benefits scheme	487	361
Share-based payment	–	34,357
	23,939	58,535
Auditor's remuneration		
Current year	550	412
Underprovision for prior year	200	–
Depreciation of property, plant and equipment	1,688	850
Impairment loss on available-for-sale financial assets	–	286
Impairment loss on other receivables	2,050	–
Changes in fair values of financial assets at fair value through profit or loss	1,902	–
Loss on disposal of financial assets at fair value through profit or loss	92	–
Minimum lease payments under operating leases	4,417	3,748
Loss on disposal of machinery and equipment	440	654
Allowance for inventories (included in cost of sales)	30	20
Cost of inventories recognised as an expense	14,897	5,434

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

12. DIRECTORS' EMOLUMENTS

	2008 HK$'000	2007 HK$'000
Executive Directors:		
Fees	–	–
Salaries and other benefits *(Note 1)*	6,175	5,300
Discretionary bonus *(Note 2)*	84	7,760
Contributions to retirement benefits scheme	47	68
Payments for loss of office	2,038	–
Share-based payment expense	–	29,787
	8,344	42,915
Independent Non-Executive Directors:		
Fees	824	411
	9,168	43,326

Note 1:

Other benefits include housing allowance.

Note 2:

Discretionary bonus is determined by individual performance.

No directors waived his emoluments in the two years ended 31 December 2008. No incentive payment for joining the Group but compensation of approximately HK$2,038,000 for loss of office was paid or payable to three executive directors for the year (2007: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

12. DIRECTORS' EMOLUMENTS *(Continued)*

The details of directors' remuneration of each director for the two years ended 31 December 2008 are set out below:

For the year ended 31 December 2008

Name of director	Non-executive directors' fees HK$'000	Executive directors' salaries HK$'000	Payment for loss of office HK$'000	Discretionary bonus HK$'000	Contributions to retirement benefits scheme HK$'000	Share-based payment HK$'000	Total HK$'000
Lim Kwok Choi, Roger *(Note 1)*	–	1,735	1,080	–	10	–	2,825
Yeung Sau Han, Agnes *(Note 2)*	–	628	–	52	8	–	688
Chan Shui Sheung, Ivy *(Note 3)*	–	341	–	32	5	–	378
Chan Ho Wah, Terence *(Notes 11 & 16)*	200	–	–	–	–	–	200
Law Wing Tak, Jack *(Notes 12 & 16)*	118	–	–	–	–	–	118
Yuen Wai Man *(Notes 12 & 16)*	118	–	–	–	–	–	118
Lam Shiu Cheung, Raymond *(Notes 13 & 16)*	6	–	–	–	–	–	6
Lam Ka Wai, Graham *(Notes 13 & 16)*	6	–	–	–	–	–	6
Xie Jintai *(Note 4)*	3	–	–	–	–	–	3
Ha Shu Tong *(Note 5)*	–	335	–	–	3	–	338
Koh Tat Lee, Michael *(Note 6)*	–	1,492	–	–	5	–	1,497
Zeng Bangjian *(Note 7)*	–	93	–	–	3	–	96
Ng Kam Wing, Peter *(Note 8)*	–	620	240	–	7	–	867
Lok Shing Kwan, Sunny *(Notes 9 & 16)*	46	931	718	–	6	–	1,701
Leung Lok Ming *(Note 15 & 16)*	81	–	–	–	–	–	81
Chong Cha Hwa *(Note 14 & 16)*	123	–	–	–	–	–	123
Wong Wing Ho, James *(Notes 10 & 16)*	123	–	–	–	–	–	123
	824	6,175	2,038	84	47	–	9,168

Notes:

1. Resigned on 6 October 2008
2. Appointed on 8 May 2008
3. Appointed on 25 August 2008
4. Appointed as non-executive director on 22 December 2008
5. Appointed on 4 January 2008 and resigned on 11 March 2008
6. Resigned on 20 May 2008
7. Resigned on 28 April 2008
8. Resigned on 28 July 2008
9. Re-designated as executive director on 10 March 2008 and resigned on 25 August 2008
10. Previously independent non-executive director and appointed as executive director on 8 May 2008 and resigned on 4 July 2008
11. Resigned on 27 October 2008
12. Appointed on 4 July 2008
13. Appointed on 22 December 2008
14. Resigned on 4 July 2008
15. Retired on 2 May 2008
16. The independent non-executive directors

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

12. DIRECTORS' EMOLUMENTS *(Continued)*

For the year ended 31 December 2007

Name of director	Non-executive directors' fees HK$'000	Executive directors' salaries HK$'000	Housing allowance HK$'000	Discretionary bonus HK$'000	Contributions to retirement benefits scheme HK$'000	Share-based payment HK$'000	Total HK$'000
Tsang Chi Hin *(Note 4)*	–	250	220	–	12	–	482
Koh Tat Lee, Michael *(Note 2)*	–	2,920	–	6,000	12	5,434	14,366
Lim Kwok Choi *(Note 2)*	–	430	–	500	12	979	1,921
Zeng Bangjian	–	360	–	60	12	5,434	5,866
Ng Kam Wing	–	440	–	400	12	5,434	6,286
Wong Chi Tak, Brence *(Note 3)*	–	340	–	400	4	6,253	6,997
Zhu Xirong *(Note 3)*	–	340	–	400	4	6,253	6,997
Lok Shing Kwan, Sunny *(Notes 2, 5 & 6)*	120	–	–	–	–	–	120
Wong Wing Ho, James *(Notes 2 & 6)*	120	–	–	–	–	–	120
Li Siu Ming *(Note 1)*	–	–	–	–	–	–	–
Chan Ho Wah, Terence *(Note 6)*	57	–	–	–	–	–	57
Chong Cha Hwa *(Note 6)*	57	–	–	–	–	–	57
Leung Lok Ming *(Note 6)*	57	–	–	–	–	–	57
	411	5,080	220	7,760	68	29,787	43,326

Notes:

1. Resigned on 1 January 2007
2. Appointed on 22 January 2007
3. Appointed on 25 September 2007 and resigned on 20 December 2007
4. Resigned on 16 October 2007 as executive director and remains as non-executive director
5. Re-designated as executive director on 10 March 2008
6. The independent non-executive directors

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

13. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included four directors (2007: five directors) of the Company, whose emoluments have been included in Note 12 above. The emoluments of the remaining one individual for the year ended 31 December 2008 were as follows:

	2008 **HK$'000**	2007 HK$'000
Salaries and allowances	**1,335**	–
Contributions to retirement benefits scheme	**10**	–
	1,345	–

The emolument for the one individual was within the band from HK$1,000,001 to HK$1,500,000.

14. DIVIDEND

No dividend was paid or proposed during the two years ended 31 December 2008, nor has any dividend been proposed since the balance sheet date.

15. LOSS PER SHARE

The calculation of basic loss per share for the year is based on the loss for the year attributable to equity holders of the Company of approximately HK$281,578,000 (2007: HK$1,690,637,000) and the weighted average of 504,674,656 (2007: 400,296,427) ordinary shares in issue during the year.

No diluted loss per share has been presented for the two years ended 31 December 2008 and 2007 as the outstanding share options during the year had an anti-dilutive effect on the basic loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Equipment on lease to customers HK$'000	Equipment for development HK$'000	Motor vehicles HK$'000	Vessel HK$'000	Total HK$'000
Cost								
At 1 January 2007	–	1,977	3,579	229	1,293	–	–	7,078
Exchange adjustment	–	6	–	–	–	–	–	6
Additions	–	1,540	976	–	–	1,247	–	3,763
Disposals	–	(1,261)	(2,154)	–	(507)	–	–	(3,922)
Transferred to inventories	–	–	147	–	29	–	–	176
At 31 December 2007 and 1 January 2008	–	2,262	2,548	229	815	1,247	-	7,101
Acquisition of subsidiary	36	6	1,662	–	–	–	–	1,704
Exchange adjustment	(2)	4	(90)	–	42	–	–	(46)
Additions	–	39	91	–	–	1,992	14,010	16,132
Disposals	–	(464)	(7)	(41)	(491)	(1,790)	–	(2,793)
Transfer	–	120	–	(120)	–	–	–	–
At 31 December 2008	34	1,967	4,204	68	366	1,449	14,010	22,098
Accumulated depreciation								
At 1 January 2007	–	1,090	3,463	102	1,187	–	–	5,842
Exchange adjustment	–	1	–	–	–	–	–	1
Charge for the year	–	254	235	48	64	249	–	850
Written back on disposals	–	(129)	(1,968)	–	(505)	–	–	(2,602)
At 31 December 2007 and 1 January 2008	–	1,216	1,730	150	746	249	–	4,091
Exchange adjustment	–	(3)	(49)	–	–	–	–	(52)
Charge for the year	9	294	1,110	–	57	218	–	1,688
Transfer	–	42	–	(42)	–	–	–	–
Eliminated on disposals	–	(464)	(7)	(41)	(491)	(428)	–	(1,431)
At 31 December 2008	9	1,085	2,784	67	312	39	–	4,296
Net carrying values								
At 31 December 2008	25	882	1,420	1	54	1,410	14,010	17,802
At 31 December 2007	–	1,046	818	79	69	998	–	3,010

As at the 31 December 2007, the net carrying value of motor vehicles of HK$998,000 was held under finance lease (2008: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

17. INTEREST IN AN ASSOCIATE

	2008 **HK$'000**	2007 HK$'000
Cost of investment in an associate – unlisted in PRC	**377**	377
Share of post-acquisition losses	**(377)**	(377)
	–	–

As at 31 December 2008, the Group had interests in the following associate:

Name	Form of business structure	Place of incorporation and operations	Particulars of issued/ paid-up capital	Percentage of effective equity interest attributable to the Group	Principal activities
Beijing Teletron System Integration Company Limited ("Beijing Teletron")	Limited liability company	PRC	Ordinary	40%	Inactive

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

17. INTEREST IN AN ASSOCIATE *(Continued)*

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

	2008 **HK$'000**	2007 HK$'000
Total assets	**220**	510
Total liabilities	**(2,323)**	(2,192)
Net liabilities	**(2,103)**	(1,682)
Group's share of net liabilities of the associates	**–**	–
Revenue	**–**	1,998
(Loss) profit for the year	**(314)**	1,029
Group's share of result of an associate for the year	**–**	–

The Group has discontinued recognising of its share of loss of Beijing Teletron since the Group's share of loss of the associate has exceeded its interest in this associate. The amounts of unrecognised share of the associate, extracted from the summarised financial information in respect of the Group's associate is set out below:

	2008 **HK$'000**	2007 HK$'000
Unrecognised share of (loss) profit of Beijing Teletron for the year	**(126)**	412
Accumulated unrecognised share of loss of Beijing Teletron	**(723)**	(597)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

18. GOODWILL AND DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

(a) Goodwill

	2008	2007
	HK$'000	HK$'000
Goodwill arising from acquisition of subsidiaries during the year *(Note 36)*	**103,001**	1,621,794
Less: Impairment loss recognised	**(103,001)**	(1,621,794)
	–	–

For the year ended 31 December 2008

During the year, the Group acquired 53,715,000 ordinary shares (69.54%) and 173,913,043 convertible preference shares of Linefan Technology Holdings Limited ("Linefan"), a company listed on the GEM of the Stock Exchange of Hong Kong Limited, at consideration of approximately HK$26,800,000 and HK$86,900,000 respectively. Together with other costs for acquisition of approximately HK$7,904,000, the total cost of acquisition for Linefan was approximately HK$121,604,000 and goodwill of approximately HK$103,001,000 was recorded upon acquisition.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill is allocated to the segment of voice portal business, KM system and one-stop value chain service.

The Group tests goodwill annually for impairment if there are indications that goodwill might be impaired. The Group assesses the value of goodwill by reference to a cash-flow projection of the relevant financial budgets approved by the management covering a period of five years. The discount rate applied to the cash flow projection is 8% and cash flows beyond the five-year period are extrapolated using a zero growth rate. Based on these, the directors considered that the recoverable amount of the Group's investment in Linefan as at 31 December 2008 is less than the carrying value of Linefan as a CGU. Accordingly, an impairment loss in respect of the full amount of goodwill of HK$103,001,000 is recognised in the consolidated financial statements of the Group for the year.

The market capitalisation of Linefan was approximately HK$19,315,000 as at 31 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

18. GOODWILL AND DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

(Continued)

(a) Goodwill *(Continued)*

For the year ended 31 December 2007

On 5 December 2006, Dragon Billion Limited ("Dragon Billion"), a wholly-owned subsidiary of the Group, entered into a non-legally binding memorandum of understanding (the "MOU") with Shellybeach Investment Limited ("Shellybeach") in relation to the acquisition (the "Acquisition") of the entire equity interests in Eternity Profit Investments Limited ("Eternity"). A cash deposit of HK$6,000,000 was paid upon signing of the MOU.

On 12 March 2007, Dragon Billion entered into a conditional sale and purchase agreement (the "Agreement") with Shellybeach to formalise the terms and conditions of the Acquisition, which involved the acquisition of the entire equity interests in Eternity (the "Sales Shares") and all obligations, liabilities and debts owing or incurred by Eternity to Shellybeach on or at any time prior to completion of the Acquisition (the "Sales Loan"). The total consideration for the Sale Shares and the Sale Loan was HK$681,450,000, which was satisfied by the cash deposit of HK$6,000,000 already paid by the Group under the MOU and the balance of HK$675,450,000 by the Company allotting and issuing to Shellybeach 95,000,000 new shares (the "Consideration Shares") at a published price of HK$17 each.

The Acquisition contemplated the completion of a reorganisation involving (i) the formation of a joint venture, Onway Logistics Limited ("Onway Logistics"), between Eternity and China Railway Investments Group (Hong Kong) Limited ("China Railway Hong Kong"), in which Eternity has a 61.25% equity interests; and (ii) the formation of another joint venture, CR Onway Freight Logistics and Transport Company Limited ("**中鐵安時**"), between Onway Logistics, Guangdong China Railway Television Media Limited and Beijing Run Tong Transportation Consulting Company Limited, in which Onway Logistics has an 80% equity interests. The objective of **中鐵安時** is to participate in a project which involves the purchase of cargo trains, management and operation of a railway transportation and related logistics business in the PRC.

The Acquisition was completed on 12 July 2007 and the Consideration Shares were issued as fully paid to Shellybeach on 12 July 2007. The Group has also contributed approximately HK$151,980,000 as capital injection into **中鐵安時**.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

18. GOODWILL AND DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

(Continued)

(a) Goodwill *(Continued)*

For the year ended 31 December 2007 *(Continued)*

The amount of goodwill arising from acquisition of subsidiaries represents the excess of the aggregate cost of acquisition paid and the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiaries acquired on the date of acquisition. The railway logistics and transportation business of Eternity was intended to be carried out by **中鐵安時**. Due to the problems encountered with **中鐵安時** principally involving the control of the board of directors of **中鐵安時** and the fact that **中鐵安時** has not been converted into a foreign Chinese cooperative joint venture, Onway Logistics has not been formally registered as a shareholder of **中鐵安時** and **中鐵安時** has not commenced any business to date. It is uncertain whether the Company would be able to resolve the problems with **中鐵安時**. In view of these, the directors consider that the recoverable amount of the investment in Eternity and Onway Logistics is less than the carrying value of the investment cost and an impairment loss in the amount equal to the entire balances of the goodwill should be recognised in the consolidated financial statements of the Group for the year ended 31 December 2007.

During the year ended 31 December 2008, the Group disposed of the entire equity interests in Eternity to Portstar Enterprises Limited ("Portstar"), an independent third party. The cash consideration is HK$6,095,000.

The full details of the disposal transaction are set out in the Company's announcement on 4 November 2008 and a circular published by the Group on 2 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

18. GOODWILL AND DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

(Continued)

(b) Deposits paid for acquisition of investments of 中鐵安時

As at 31 December 2007, the balances of deposits paid for acquisition of investments represented a proposed capital investment of the Group in **中鐵安時**.

During the year ended 31 December 2008, the Group (i) disposed of the entire equity interests in Eternity and (ii) sold an amount due from Eternity of HK$151,980,000 to the Group at the date of disposal, to an independent third party, Portstar. The Group had advanced the aforesaid deposits paid for investments of HK$151,980,000 in **中鐵安時** in prior year.

Included in the disposal of equity interests in Eternity is a call option for the Group to buy back Eternity if the sale of debts of HK$151,980,000 cannot be completed by 31 December 2009 (or a later date as mutually agreed). As more fully explained in the circular issued on 2 December 2008, the completion of the disposal of debts of HK$151,980,000 is subject to, among other things, the release of monies currently subject to a court injunction and being freezed in **中鐵安時** as at the date of disposal, on or before 31 December 2009 or any later date being agreed later with Portstar.

(c) Loan receivable from Eternity

As the Group disposed of Eternity, the amount due from Eternity to the Group was recorded as a loan receivable of the Group.

After the disposal of Eternity, the Group is in close contact with Portstar to follow up the status of relevant legal and business procedures to recover the previous amount of deposits paid. Based on legal advice and update from Portstar, the directors consider the possibility of recovery of HK$151,980,000 is remote and impossible, and accordingly, full impairment loss in respect of the loan receivable was made in the year ended 31 December 2008.

The movements of the loan receivable from Eternity were as follows:

	HK$'000
Arising from disposal of Eternity	151,980
Less: Impairment loss recognised	(151,980)
Balance as at 31 December 2008	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

18. GOODWILL AND DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

(Continued)

(d) Deposits paid for intended acquisition of 44% equity interests in Changsha Xinxing Development Limited

	2008 HK$'000	2007 HK$'000
Deposits paid	**28,275**	–

The balance as at 31 December 2008 represents RMB25,000,000 (approximately HK$28,275,000) paid as a refundable deposit. The Group entered into a non-legally binding memorandum of understanding with Gold Wide Holdings Limited, an independent third party, in relation to the acquisition of 44% equity interests in Changsha Xinxing Development Limited, a company which engaged in the provision of catering, entertainment services, rental of hotel rooms and office premises and property management.

The directors consider this investment can diversify the Group's investments to different businesses and reduce concentration of investment risks.

Subsequent to year end, the Group had entered into a formal agreement. The details are set out in note 39(c). As the formal agreement was signed subsequent to 31 December 2008, the aforesaid deposits paid of HK$28,275,000 were classified as non-current assets of the Group as at 31 December 2008.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets comprise:

	2008 HK$'000	2007 HK$'000
Golf club membership	**286**	286
Impairment loss recognised	**(286)**	(286)
At 31 December	**–**	–

The golf club membership is measured at cost less impairment at each balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

20. LOAN RECEIVABLE

The loan receivable is unsecured and bears interest at 4% per annum. The balances as at year end are to be settled by twelve installments.

The exposure of the Group's fixed-rate loan receivables to interest rate risks is set out below:

	2008	2007
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Current	**4,723**	3,900
Non-current	**–**	3,823
	4,723	7,723

21. CONVERTIBLE BOND DESIGNATED AT FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008	2007
	HK$'000	HK$'000
Convertible bond designated at financial assets at fair value through profit or loss	**7,047**	–

During the year ended 31 December 2008, the Group acquired a two-year 2% coupon rate convertible bond with a principal amount of HK$5,000,000 issued by China Sciences Conservational Power Limited ("CSCP") from a subsidiary of Heng Xin China Holdings Limited ("Heng Xin"), in which Yeung Sau Han, Agnes, a director of the Company, is also one of the directors of Heng Xin. The Group has classified the convertible bond as held for trading purpose. Both CSCP and Heng Xin are companies listed on the Main Board of the Stock Exchange. The convertible bond can be converted, in an amount of not less than HK$1,000,000, into new ordinary shares of CSCP at any time within a period of two years following the date of issue at a conversion price of HK$0.05 per share. The Group has designated the convertible bond as financial assets at fair value through profit or loss.

A fair value gain of approximately HK$715,000 was recognised for the year ended 31 December 2008 (2007: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

22. INVENTORIES

	2008 **HK$'000**	2007 HK$'000
Inventories consisted of:		
Telecommunication and computer telephony hardware products	**421**	478
Less: Allowance for obsolete and slow-moving inventories	**(160)**	(130)
	261	348

23. TRADE RECEIVABLES

	2008 **HK$'000**	2007 HK$'000
Account receivables	**9,929**	1,978
Retention receivables	**272**	624
	10,201	2,602
Less: Impairment loss recognised	**(980)**	(1,626)
	9,221	976

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

23. TRADE RECEIVABLES *(Continued)*

The Group normally grants to its customers credit period ranging from 30 days to 180 days. Aging analysis of gross trade receivables is as follows:

	2008	2007
	HK$'000	HK$'000
0 – 90 days	**8,207**	1,054
91 – 180 days	**356**	7
181 – 365 days	**1,377**	89
Over 365 days	**261**	1,452
	10,201	2,602

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

	2008	2007
	HK$'000	HK$'000
At 1 January	**1,626**	1,726
Written back of impairment loss made in previous years	**(646)**	(100)
At 31 December	**980**	1,626

At each balance sheet date, the Group's trade debtors were individually determined to be impaired. 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 loss was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

23. TRADE RECEIVABLES *(Continued)*

At 31 December 2007 and 2008, the analysis of trade receivables that were past due but not impaired is as follows:

			Past due but not impaired		
	Total	**Neither past due nor impaired**	**Less than 90 days**	**91 to 180 days**	**181 to 360 days**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2008	**9,221**	**8,563**	**658**	**–**	**–**
31 December 2007	976	879	11	7	79

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognised and creditworthy customers. These customers who trade on credit terms are subject to credit verification procedures. No impairment provision is required for the past due balances based on the historical payment records. The Group does not hold any collateral over these balances.

The fair value of the Group's trade receivables at the balance sheet date approximates to the corresponding carrying amount due to their short-term maturities.

The Group's trade receivables are denominated in currencies other than the functional currency as follows:

	2008	2007
	'000	'000
Renminbi ("RMB")	**1,421**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000
Receivables in respect of a terminated acquisition[#]	20,000	–
Deposit paid for acquisition of potential investment[@]	25,000	–
Prepayments	818	648
Rental and utility deposits	1,573	2,625
Other receivables	1,171	4,847
Receivable from the placing agent	–	5,978
	48,562	14,098

[#] Mr. Lin Chun Kuei, an independent third party, has pledged 100,000,000 shares of Peaktop International Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited, for the receivables in respect of a terminated acquisition in the amount of HK$20,000,000.

[@] As at 31 December 2008, the Group paid an earnest deposit of HK$25,000,000 for acquisition of potential investment in which the formal agreement was signed after 31 December 2008 (see note 39(e)). The deposit was carried forward to other potential investments after year end pursuant to another memorandum of understanding.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss consisted of:

	2008 HK$'000	2007 HK$'000
Listed securities held for trading, at fair value		
– Equity securities listed in Hong Kong	–	1,451
Unlisted investment in funds, at fair value	3,281	24,307
	3,281	25,758

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(Continued)

The fair values of the above listed securities and unlisted funds are determined based on the quoted market bid prices available on the relevant exchanges and quoted prices provided by the financial institutions, respectively.

The Group's unlisted investment in funds that are denominated in currencies other than the functional currency of the relevant group entities is as follows:

	2008	2007
	'000	'000
United State dollar ("USD")	**420**	3,117

26. BANK BALANCES AND CASH

Bank balances comprise short-term bank deposits of approximately HK$654,831,000 (2007: HK$923,356,000) at prevailing market rate.

The fair value of the Group's bank balances at the balance sheet date approximates to the corresponding carrying amount due to their short-term maturities.

The bank balances are deposited with creditworthy banks with no recent history of default.

Included in bank balances and cash are the following amounts which are subject to foreign exchange control regulations or not freely transferable:

	2008	2007
	'000	'000
Amounts denominated in:		
RMB	**151**	47

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

26. BANK BALANCES AND CASH *(Continued)*

The Group's bank balances that are denominated in currencies other than the functional currency of the relevant group entities is as follows:

	2008 **'000**	2007 '000
Pound Sterling	**1**	–
Euro	**1**	–
USD	**29,028**	32,467

27. TRADE PAYABLES

The ageing analysis of trade payables at the balances sheet date is as follows:

	2008 **HK$'000**	2007 HK$'000
0 to 60 days	**635**	921
61 to 120 days	**358**	–
121 to 365 days	**656**	–
Over 365 days	**895**	52
	2,544	973

The Group's trade payables are denominated in currencies other than the functional currency as follows:

	2008 **'000**	2007 '000
RMB	**1,604**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

28. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease of its motor vehicle under finance leases.

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	–	221	–	159
In more than one year but not more than two years	–	441	–	360
In more than two years but not more than five years	–	312	–	294
		974	–	813
Less: future finance charges	–	(161)	**N/A**	N/A
Present value of lease obligations	–	813	–	813
Less: Amount due for settlement within 12 months (shown under current liabilities)			–	(159)
Amount due for settlement after 12 months			–	654

The Group's obligations under finance leases were fully settled in the year ended 31 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

29. SHARE CAPITAL

	2008 Number of shares '000	2008 Nominal value HK$'000
Authorised:		
Ordinary shares of HK$0.001 each at 1 January 2008 and 31 December 2008	**100,000,000**	**100,000**
Issued and fully paid ordinary shares of HK$0.001 each		
At 1 January 2008	**489,314**	**489**
Shares repurchased on 28 January 2008 *(Note a)*	**(2,000)**	**(2)**
Issue of shares on 28 August 2008 *(Note b)*	**50,000**	**50**
Ordinary shares of HK$0.001 each at 31 December 2008	**537,314**	**537**

	2007 Number of shares '000	2007 Nominal value HK$'000
Authorised:		
Ordinary shares of HK$0.001 each at 1 January 2007 and 31 December 2007	100,000,000	100,000
Issued and fully paid ordinary shares of HK$0.001 each		
At 1 January 2007	278,400	278
Issue of shares on 26 March 2007 *(Note c)*	55,000	55
Issue of shares on 13 June 2007 *(Note d)*	49,766	50
Issue of shares on 25 June 2007 *(Note e)*	11,148	11
Issue of shares on 28 June 2007 *(Note f)*	95,000	95
Ordinary shares of HK$0.001 each at 31 December 2007	489,314	489

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

29. SHARE CAPITAL *(Continued)*

Notes:

Movements of share capital

For the year ended 31 December 2008

(a) On 28 January 2008, the Company purchased its 2,000,000 ordinary shares at a total consideration approximately HK$3,421,000.

During the year, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of ordinary shares of HK$0.001 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	HK$	HK$'000
January 2008	2,000,000	3.79	1.32	3,421

The above shares were cancelled upon repurchase and accordingly, the issued capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company as set out in the consolidated statement of changes in equity.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

(b) On 28 August 2008, 50,000,000 new shares of HK$0.001 each were issued, for consideration of HK1.4 per share. The proceeds after net of share issue expenses was approximately HK$68,225,000.

For the year ended 31 December 2007

(c) On 26 March 2007, 55,000,000 new shares were issued at HK$7.11 per share, for cash by way of placing.

(d) On 13 June 2007, 49,766,000 new shares were issued at HK$13 per share, for cash by way of placing.

(e) On 25 June 2007, 11,148,000 new shares were issued at HK$14 per share, for cash by way of placing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

29. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(f) On 28 June 2007, 95,000,000 new shares of the Company were issued as nil paid as part of the consideration pending completion of the Acquisition of the entire equity interest in Eternity. The Consideration Shares were credited as fully paid upon completion of the Acquisition on 12 July 2007 at the closing published price of the shares of the Company of HK$17 per share on 12 July 2007. The share premium relating to the Consideration Shares was initially recorded in the consolidated financial statements of the Company on date of completion of the Acquisition based on agreed issue price of HK$7.11 per Consideration Shares as provided in the Agreement, and reflected in note 7 "Statement of change in equity" in the third quarterly report of the Company as at 30 September 2007. In accordance with HKFRS 3 "Business Combination", the share premium amount arising from the issue of the Consideration Shares was subsequently adjusted based on the published price of HK$17 per share and the adjusted share premium amount is included in the consolidated financial statements of the Company as at 31 December 2007.

All the above shares rank pari passu in all respect with the existing ordinary shares in issue.

30. SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme on 3 May 2000 ("Share Option Scheme"), pursuant to which it may grant options to employees (including executive directors) and consultants of the Group to subscribe for shares in the Company. Pursuant to the Share Option Scheme, options were granted on 30 June 2000 to executive directors and other employees of the Group to subscribe for an aggregate of 19,420,000 shares in the Company at a price of HK$1.30 per share, during the exercise period from 1 July 2003 to 30 June 2010. No options were granted during the two years ended 31 December 2008 and 31 December 2007 under the Share Option Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

30. SHARE OPTION SCHEME *(Continued)*

Pursuant to resolutions passed at a special general meeting of the shareholders held on 13 November 2002, the Company terminated the Share Option Scheme and adopted a new share option scheme ("New Share Option Scheme") in order to comply with the new requirements of Chapter 23 of GEM Listing Rules effective on 1 October 2001. Under the terms of the New Share Option Scheme, the board of directors of the Company may, at their discretion, grant options to the participants fall within the definition prescribed in the New Share Option Scheme including the employees, non-executive directors of the Company or its subsidiaries etc., to subscribe for shares in the Company at a price determined by the Company's Board of Directors, and will not be less than the highest of (i) the nominal value of the shares; (ii) the average closing price of the shares quoted on the GEM on the five trading days immediately preceding the date of grant; and (iii) the closing price of the shares quoted on the GEM on the date of grant, subject to a maximum of 10% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue and with an aggregate value (based on the closing price of the shares on the date of grant) in excess of HK$5 million must be approved by the Company's shareholders.

The New Share Option Scheme will remain in force for a period of 10 years from 13 November 2002. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

Exercise of share options

No share options had been granted or exercised and 11,190,000 had been cancelled and lapsed during the year ended 31 December 2008 under the New Share Option Scheme.

During the year ended 31 December 2007, options were granted to executive directors, other employees and consultants of the Group to subscribe for an aggregate of 20,050,000 shares in the Company under the New Share Option Scheme. 13,390,000 shares will be subscribed at a price of HK$7.35 per share, during the exercise period from 3 April 2007 to 2 April 2017, and 6,660,000 shares will be subscribed at a price of HK$9.25 per share, during the exercise period from 10 October 2007 to 9 October 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

30. SHARE OPTION SCHEME *(Continued)*

Movements of the share options during the year ended 31 December 2008 were:

For the year ended 31 December 2008

	Date of grant	Exercisable period	Subscription price per share HK$	Number of share options: Outstanding at 1 January 2008	Granted during the year	Cancelled/ lapsed during the year	Outstanding at 31 December 2008
Directors	3/4/2007	3/4/2007-2/4/2017	7.35	10,590,000	–	(10,590,000)	–
Employees	3/4/2007	3/4/2007-2/4/2017	7.35	1,300,000	–	(300,000)	1,000,000
Consultants	3/4/2007	3/4/2007-2/4/2017	7.35	1,500,000	–	(300,000)	1,200,000
				13,390,000	–	(11,190,000)	2,200,000

Movements of the share options during the year ended 31 December 2007 were:

For the year ended 31 December 2007

	Date of grant	Exercisable period	Subscription price per share HK$	Number of share options: Outstanding at 1 January 2007	Granted during the year	Cancelled/ lapsed during the year	Outstanding at 31 December 2007
Directors	3/4/2007	3/4/2007-2/4/2017	7.35	–	10,590,000	–	10,590,000
Directors	10/10/2007	10/10/2007-9/10/2017	9.25	–	6,660,000	(6,660,000)	–
Employees	3/4/2007	3/4/2007-2/4/2017	7.35	–	1,300,000	–	1,300,000
Consultants	3/4/2007	3/4/2007-2/4/2017	7.35	–	1,500,000	–	1,500,000
				–	20,050,000	(6,660,000)	13,390,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

30. SHARE OPTION SCHEME *(Continued)*

During the year ended 31 December 2007, options were granted on 3 April 2007 and 10 October 2007. These fair values were calculated using the Black-Scholes-Merton Option Pricing Model and the estimated fair values of the options granted on those dates are approximately HK$21,851,000 and HK$12,506,000 respectively. The inputs into the model were as follows:

	Date of grant	
	3 April	10 October
Date of grant	2007	2007
Closing share price on date of grant	HK$7.35	HK$9.25
Exercise price	HK$7.35	HK$9.25
Risk free rate	3.685%	3.668%
Expected volatility	64.33%	50.84%

Expected volatility was determined by using the historical volatilities of the Company's share prices of the comparable companies over the period that is equal to the expected life before the grant date.

31. OPERATING LEASE COMMITMENTS

The Group as lessee

The Group had commitments for future minimum lease payments in respect of premises under various non-cancellable operating leases which fall due as follows:

	2008	2007
	HK$'000	HK$'000
Within one year	**3,162**	8,750
In the second to fifth year inclusive	**2,669**	25,186
	5,831	33,936

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Both leases are negotiated and rentals are fixed for an average of 3 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

32. RETIREMENT BENEFITS SCHEMES

The Group maintains various retirement schemes for its employees. The retirement scheme for employees of PRC representative office is a mandatory central pension scheme organised by the PRC government, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries are charged as expenses when the employees have rendered services entitling to them to the contribution. The employer contributions vest fully once they are made. The Group's Hong Kong employees are covered by the mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each make monthly contributions to the scheme at 5% of the employees' cash income with the maximum contribution by each of the Group and the employees limited to HK$1,000 per month.

During the year, the aggregate contributions made by the Group to the retirement schemes were approximately HK$487,000 (2007: HK$361,000). There were no material forfeitures available to offset the Group's future contributions for the two years ended 31 December 2008 and 2007.

33. RELATED PARTY TRANSACTIONS

(a) Unsecured loans represented loans as follows:

(i) Loan from Mr. Dai Fan, a former shareholder of Linefan of HK$2,000,000 as at 31 December 2008 (2007: Nil); and

(ii) Loan from Ms. Lu Wen Bin, a director of a subsidiary of Linefan of HK$1,000,000 as at 31 December 2008 (2007: Nil).

The above balances are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

33. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2008	2007
	HK$'000	HK$'000
Short-term benefits	**9,121**	13,471
Other long-term benefits	**47**	68
Share-based payment	**–**	29,787
	9,168	43,326

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

(c) Save as disclosed in the consolidated balance sheets and note 21, the Group also entered into the following related party transaction:

During the year ended 31 December 2007, consultancy fee was paid to Octilla Capital Limited ("Octilla") of approximately HK$5,810,000. Kwong Wai Ho, Richard, a director of Onway Logistics and Yau Hoi Kin, a director of Adore International Limited, a wholly-owned subsidiary of the Group, are also the directors of Octilla.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

34. MAJOR NON-CASH TRANSACTIONS

(a) During the year ended 31 December 2008, no major non-cash transaction occurred.

(b) During the year ended 31 December 2007, the Group entered into finance lease arrangements in respect of motor vehicle with a total value at the inception of the lease of approximately HK$1,247,000.

(c) On 28 June 2007, 95,000,000 new shares of the Company were issued as nil paid as part of the consideration pending completion of the acquisition of the entire equity interest in Eternity. The consideration shares were credited as fully paid upon completion of the acquisition on 12 July 2007 at the closing published price of the shares of the Company of HK$17 per share on 12 July 2007.

35. CAPITAL COMMITMENT

	2008 **HK$'000**	2007 HK$'000
Capital expenditure in respect of the acquisition of **中鐵安時** contracted for but not provided in the consolidated financial statements	–	53,453

The Group disposed of Eternity during the year and the capital commitment as at 31 December 2007 was also released upon disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

36. ACQUISITION OF SUBSIDIARIES

Acquisition of 69.54% equity interests in Linefan

During the year, the Group acquired 69.54% of Linefan for a consideration of HK$121,604,000, including direct costs of approximately HK$7,904,000. This acquisition has been accounted for using purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$103,001,000.

The acquisition contributed revenue of approximately HK$8,687,000 and loss of approximately HK$2,993,000 attributable to the equity holders of the Company for the period from the date of completion to 31 December 2008. If the acquisition was completed on 1 January 2008, the acquisition would have contributed revenue of approximately HK$10,832,000 and a loss of approximately HK$20,021,000 attributable to the equity holders of the Company for the year ended 31 December 2008. The proforma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

For the details, please refer to the circular of the Company dated on 30 September 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

36. ACQUISITION OF SUBSIDIARIES *(Continued)*

The net assets acquired in the transaction and the goodwill arising are as follows:

	Acquiree's carrying amount before combination (Note) HK$'000
Net assets acquired:	
Property, plant and equipment	1,704
Trade receivables	1,172
Prepayments, deposits and other receivables	498
Bank balances and cash	21,333
Trade payables	(1,822)
Accruals and other payables	(1,282)
Unsecured loan	(3,000)
	18,603
Goodwill	103,001
	121,604
Satisfied by:	
Cash consideration	113,700
Direct costs	7,904
	121,604
Net cash outflow arising on acquisition:	
Cash consideration	121,604
Less: bank balances and cash acquired	(21,333)
	100,271

Note: The carrying amount before combination approximates the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

36. ACQUISITION OF SUBSIDIARIES *(Continued)*

On 12 July 2007, the Group acquired the entire issued share capital of Eternity for a total consideration of approximately HK$1,621,000,000 which was satisfied by the cash deposit of HK$6,000,000 already paid by the Group in 2006 and allotting and issuing 95,000,000 new shares at the published price available at the date of acquisition. Eternity held 61.25% equity interests in Onway Logistics. This acquisition has been accounted for using purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$1,621,794,000.

The fair values of identifiable assets and liabilities of Eternity and its subsidiary as at its date of acquisition, which has no significant difference from its carrying amount, is as follows:

	HK$'000
Net liabilities acquired:	
Bank balances and cash	100,488
Deposits paid for acquisition of investments	100,000
Accruals and other payables	(201,060)
Amount due to minority interest	(222)
	(794)
Goodwill	1,621,794
	1,621,000
Total consideration satisfied by:	
Deposit paid for acquisition of investment in prior year	6,000
Shares issued	1,615,000
	1,621,000
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	100,488

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

36. ACQUISITION OF SUBSIDIARIES *(Continued)*

Eternity and Onway Logistics did not contribute any revenue nor result to the Group for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on 1 January 2007, the Group's revenue and result for the year ended 31 December 2007 would not be changed.

37. DISPOSAL OF SUBSIDIARIES

Disposal of 100% equity interest in Eternity

During the year ended 31 December 2008, the Group disposed of the entire equity interest in Eternity to Portstar. For the period from 1 January 2008 to the date of completion, Eternity did not contribute any turnover and contributed a loss of approximately HK$769,000 to the Group from its operations.

The details of disposal are set out in a circular issued by the Company dated 2 December 2008.

	HK$'000
Net liabilities disposed of:	
Investment deposit	151,980
Prepayment, deposits and other receivables	1,255
Bank balances and cash	95
Accruals and other payables	(1,449)
Loan from former holding company	(151,980)
	(99)
Gain on disposal	6,194
Cash consideration	6,095
Net cash inflow arising on disposal:	
Cash consideration	6,095
Bank balances and cash disposed of	(95)
	6,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

38. SUBSIDIARIES

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

Name	Place of incorporation/ operations	Class of shares held	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Proactive Technology Limited	Hong Kong	Ordinary	HK$1,000,000	100%	Provision of telecommunications and computer telephony solutions
Proactive International Limited	Hong Kong	Ordinary	HK$100,000	100%	Trading of telecommunication products and provision of management consultancy
Asiaciti Management Limited	Hong Kong	Ordinary	HK$100	100%	Project investment
First Champion Worldwide Limited	British Virgin Islands ("BVI")	Ordinary	USD1,000	100%	Securities investment
Forever Success International Limited	Hong Kong	Ordinary	HK$1	100%	Operating expenses
Luck Bloom International Limited	Hong Kong	Ordinary	HK$1	100%	Cash management
Ultra Million Limited	BVI	Ordinary	USD1,000	100%	Project investment
Linefan	Cayman Islands	Ordinary	HK$7,726,000	69.54%	Engaged in the business of sales, development and implementation of non-structural knowledge integration systems, knowledge management related network application systems and technology, provision of voice search engine portal and one-stop value chain services
Money Holder Limited	Hong Kong	Ordinary	HK$10,000	100%	Group administration
Dragon Billion Limited	Hong Kong	Ordinary	HK$1	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

38. SUBSIDIARIES *(Continued)*

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities at the end of the year or at any time during the year.

39. POST BALANCE SHEET EVENTS

(a) On 12 December 2008, Linefan entered into a placing agreement with a placing agent to place 15,450,000 ordinary shares at the issued price of HK$0.53 each. The transaction was not yet completed as at 31 December 2008. The original long stop date of the placing transaction was 27 February 2009.

Subsequent to 31 December 2008, Linefan signed a supplemental agreement to extend the long stop date of the placing transaction further from 27 February 2009 to 15 May 2009 (or such later date as may be agreed).

(b) On 29 December 2008, the Company announced that it had entered into a placing agreement on 15 December 2008 and a supplemental placing agreement on 22 December 2008, pursuant to which the placing agent has agreed to act as placing agent for the purpose of a private sale of 150,000,000 convertible preference shares of Linefan held by the Company. The original long stop date of the placing transaction was 15 March 2009. The transaction was not yet completed as at 31 December 2008.

Subsequent to 31 December 2008, the long stop date of the transaction was further extended from 15 March 2009 to 15 June 2009. Should the transaction be completed in the year ending 31 December 2009, there may be a change of ultimate holding company of Linefan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

39. POST BALANCE SHEET EVENTS *(Continued)*

(c) On 6 January 2009, the Group entered into a second memorandum of understanding with Gold Wide Holdings Limited, an independent third party, to pay a supplemental deposit of approximately HK$15,841,000 for the acquisition of 44% of equity interests in Changsha Xinxing Development Limited. On 10 March 2009, the Group entered into a formal agreement to acquire the 44% of equity interests of Changsha Xinxing Development Limited and HK$11,325,000 was paid to Gold Wide Holdings Limited.

The total consideration is approximately HK$82,220,000. As the Group already paid HK$28,275,000 (note 18(d)) as at 31 December 2008 and paid the aforesaid amounts of aggregate HK$27,166,000 on 9 January 2009 and 10 March 2009, the remaining payment is approximately HK$26,779,000 at the date on which these financial statements are approved.

(d) On 22 January 2009, Sino Smart Asia Limited, a wholly owned subsidiary of the Company, entered into a memorandum of understanding with independent third parties to acquire a property in Shanghai. The total consideration of the acquisition is HK$18,000,000. Details of the transaction are set out in the announcement of the Company on 29 January 2009.

(e) On 23 January 2009, Ultra Million Limited ("Ultra Million"), a wholly owned subsidiary of the Company, entered into the agreement with Wisdom First Limited, an independent third party, in which Ultra Million agreed to acquire 25% issued share capital of Great Hill Trading Limited ("Great Hill"), a subsidiary of Wisdom First Limited, and the loan with a face value of HK$15,196,239 which represents the amount due from Great Hill to Wisdom First Limited. The total consideration is HK$13,600,000, which shall be satisfied by HK$3,000,000 in cash and an aggregate 26,500,000 shares to be issued by the Company at share price of HK$0.4 each. The details of which are set out in the announcements of the Company dated 29 January 2009 and 30 January 2009 respectively.

40. COMPARATIVE FIGURES

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

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**21,856**	11,338	11,880	20,982	17,515
Cost of sales	**(14,984)**	(5,742)	(5,049)	(11,524)	(9,386)
Gross profit	**6,872**	5,596	6,831	9,458	8,129
	31%	49%	58%	45%	46%
Other income	**28,625**	26,529	1,101	489	–
Distribution and selling expenses	**(28)**	(25)	(23)	(34)	(20)
Administrative expenses	**(61,961)**	(100,835)	(11,422)	(11,442)	(15,479)
Impairment loss recognised in respect of goodwill	**(103,001)**	(1,621,794)	–	–	–
Impairment loss recognised in respect of a loan receivable	**(151,980)**	–	–	–	–
Finance costs	**(22)**	(108)	136	57	(25)
Allowance for amount due from an associate	**–**	–	(234)	–	–
Loss on investments	**–**	–	–	(94)	–
Share of result of an associate	**–**	–	–	(198)	198
Loss before tax	**(281,495)**	(1,690,637)	(3,611)	(1,764)	(7,197)
Income tax expense	**(83)**	–	–	–	(51)
Loss for the year	**(281,578)**	(1,690,637)	(3,611)	(1,764)	(7,248)
Attributable to:					
Equity holders of the Company	**(281,578)**	(1,690,637)	(3,611)	(1,764)	(7,248)
Minority interests	**–**	–	–	–	–
	(281,578)	(1,690,637)	(3,611)	(1,764)	(7,248)

FIVE-YEAR FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	For the year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	**46,077**	158,813	1,522	1,155	2,475
Total current assets	**875,724**	968,460	18,004	12,196	15,274
Total current liabilities	**(17,081)**	(4,752)	(3,542)	(4,616)	(7,347)
Total non-current liabilities	**–**	(654)	–	–	–
Equity attributable to equity holders of the Company	**904,720**	1,121,867	15,984	8,735	10,402
Minority interests	**–**	–	–	–	–