2007 ANNUAL REPORT
二零零七年度 年報

南海控股有限公司

Nan Hai Corporation Limited

Stock Code: 680 股份代號：680

Contents

Corporate Information

DIRECTORS

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

Non-executive
Mr. YU Lin Hoi
Mr. LAM Bing Kwan

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

COMPANY SECRETARY

Mr. WATT Ka Po James

QUALIFIED ACCOUNTANT

Mr. MAG Chiu Fai

AUDITORS

Grant Thornton
Certified Public Accountants
Hong Kong

LEGAL ADVISERS

Kirkpatrick & Lockhart Preston Gates Ellis

BERMUDA LEGAL ADVISERS

Appleby Hunter Bailhache

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

39th Floor
New World Tower I
16-18 Queen's Road Central
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

680

PRINCIPAL BANKERS

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

WEBSITE ADDRESS

http://www.nanhaicorp.com

In 2007, under the progressive and effective development strategies, the Company achieved stable advancement, and its multi-tier core business network emerged its effectiveness; business structure was more professional, flexible and sound; and asset scale expanded positively, therefore, shareholders' interests were further enhanced. For further focusing on the respective core businesses of the Company and Sino-i Technology Limited ("Sino-i"), the listed subsidiary, making them to spend their efforts in full development in their respective business sectors, the Company acquired Sino-i's entire interest in Guangzhou project at the end of 2007.

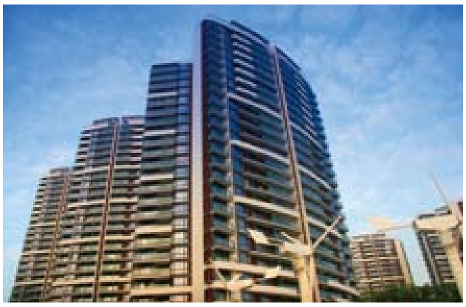
With respect to the property sector, the Company progressively enhanced the brand name operations, and planning and design; and strengthened up the quality. The Company broke through its steady growth rate by achieving prominent growth by means of its long-term macro planning, creative brand name promotion and strong market experience. The overall business has gradually been moving to the peak period of return, and the Company's status in the property sector has further been ascertained.

Meanwhile, Sino-i carried out timely strategic adjustments, enabling Sino-i to achieve steady development in corporate IT application service, financial information service, distance learning education service and culture and media service sectors; to implement the overall change in customer strategies; to increase investment in research and development ("R&D"); and to enhance the control ability in managing future profit ratio. Sino-i completed its overall re-engineering in various businesses by focusing on servicing, which led to an overall increment in average individual achievement. Basing on its competitive advantage in network and digital technologies, Sino-i developed an integrated new media platform for providing customers TV programme, music, games, e-commerce, education and financial management, and it attempted to enter to the film industry in full force.

The Company progressively complied with the enactment and enforcement of new labour laws, and rationally admitted the fact of prominent increase in the labour costs. Such new laws would establish a standardized labour market, which would be beneficial to the Company.

I. PROPERTY INVESTMENT AND DEVELOPMENT

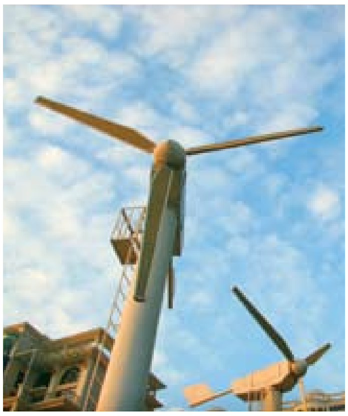
1. Industry Overview



In view of 2007, such factors as the unchanged rapid macro-economic growth; speeding up in city modernization; inflation of Renminbi, and strong demand for improvement in living environment were still in subsistence. Notwithstanding the property sector is facing to the short-term pressure from the modifications of national policies, and upgraded consumption structure derived from the accumulated wealth making the demand for properties remained very strong. Resulting from the modifications of the macro-economic policies, rapid development status in property sector remained unchanged but it was back to a rational stage. The property sector entered to a market structural modification period, making those medium to small size real estate developers to face certain risks, and providing those well-known developers better opportunities.

In the past year, the most important achievement from the government modification and control policies was to establish a segregation control measures i.e. by segregating the needy families' demands for securing urban dwellings from the general residence market, as a result, those higher income groups with higher consumption power can fulfill their residences, expenditures and investments in residential properties by means of general property market mechanisms. The implementation of a series of new property policies was not only making the property market to become rational again but also beneficial to prolong the market prosperity and to continue a long-term prospective trend.

Following the effectiveness of macro-economic policies, it is expected that economic condition in China will still in high level in 2008. Given a continuous long period of macro-economic prosperity, and upgraded consumption structure will continue to strongly encourage consumption. The growth rate in consumption goods market will remain at a high level in China in 2008. In addition, Beijing Olympic Games are expected to generate an impetus of "Olympic Prosperity" to the domestic sales market. The impetus of Guangzhou 2010 Asian Games and 2011 International University Sports in Shenzhen to the economy and sales market are also expected.



In the years to come, the high return products in the property market in China will focus on providing those high worthiness and better quality ecology residential units for the medium to high income level in those medium and large cities. Such market phenomena closely match with the locations, customer positioning and marketing strategies of Company's property projects. Despite the effectiveness of the government's segregation control measures controlling the prices of properties, and making the prices of properties to become rational. Resulting from the two main factors of shortage supply of premium urban land sites where the Company's property projects are being located, and continuous demand for middle and high level property, it is expected that the Company's property projects will still be in its competitive advantage.

2. Project Overview

In the past year, the Company used professional marketing strategies, comprehensively developed a property flagship project – "The Peninsula" which is located at Shekou, Shenzhen. Comprehensive construction works of the second phase started in February 2007, and the works are currently in progress as scheduled. The second phase will provide residential units having about the saleable area of about 199,050 sq.m., which will be launched in the second half of 2008. In the year under review, the Shenzhen-Hong Kong Western Corridor linking up Shekou and the New Territories has been in service, making the basic facilities in the area where the project is located further improved. In 2007, prices of residential units in Shenzhen increased substantially by comparing with those in 2006. The Company expects that the market will have higher expectation on both the qualities and services of those newly launched properties subsequent to the sharp increment in prices. In order to achieve market recognition, the selling price and value of those newly launched properties should correspond with each other. Aiming at providing worthy properties, the Company comprehensively upgraded the overall qualities of its property project in the past year by conducting substantial improvements in brand name operations, planning and design, materials used, suggestion of living style and property management services, which made "The Peninsula" to become the focus of attention in the middle to high level property market in Shenzhen. Given the project has the advantage of shortage supply of premium land site; substantial increment in value of the first phase; and confirmation of tall building of apartment design for the second phase, making the design of layout of the project matching with the market requirements, together with the Company's Shenzhen International Marina Club; the Greater China headquarters of British Sub Aqua Club; and Shenzhen training centre for windsurfing which are in the close vicinity of "The Peninsula", the overall value of the second phase should be increased substantially, and the Company has full confidence in both the sale of and return from the second phase.

"The Peninsula" consists of five phases in total, having total gross floor area of over 1 million sq.m. The whole project will provide over 7,000 residential units in total, and will become the new landmark of Shenzhen property market. Being one of the three largest commercial residential development projects, "The Peninsula" has not only achieved new breakthrough in Shenzhen property sales but also set a new benchmark for future property development. The Company's intensive experience in strategic management, operation management, professional skills and market promotion had all been proven in the year of review. The popularity of brand name and accreditation had further increased, the Company's overall development abilities had been well recognized by the market.

The Company has another residential project having total gross floor area of 1.1 million sq.m. which is located in the vicinity of Guangzhou New Baiyun Airport, and will be developed to a mega-size international modern, ecology and residential community. Due to planning delay, the construction works of the first phase having a total area of about 200,000 sq.m. will start in 2008. All pre-construction works are in progress. The project is located in the economic zone of Guangdong Province's key construction project "Huanan Logistic Base" which is the centre of Guangdong's new economic growth. The project has been incorporated into the Guangzhou municipal development planning, which will become a landmark, new creation and ecological complex in new downtown of Guangzhou. In 2007, the overall property prices in Guangzhou experienced a sharp growth due to the shortage supply of traditional urban areas for residential developments. Huadu district is the place where the project is located has become the latest focus of attention property development area in Guangzhou, and the property prices there have increased substantially. As a result, the Company has full confidence that the project will become the focus of attention in southern China property market, and will continue to generate substantial return on investment.

3. Outlook

Given the long-term prospective development trend of the property market in China, the Company's development prosperity is expected. The Company aims at speeding up the development of both Shenzhen project – "The Peninsula" and Guangzhou project this year, as a result, the Company's sales revenue will be in a peak period. Meanwhile, the Company's management focuses on expanding the number of development projects for speeding up the completion of strategic arrangement for the property market in China, and for maintaining stable and strong revenue that the Company has in the property development in China.

II. SHAREHOLDING BUSINESS OVERVIEW

1. IT Sector

Corporate IT Application Services

Having nine years of development, the Company has, through Sino-i's subsidiaries of CE Dongli Technology Group Company Limited ("CE Dongli") and 北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited) ("Xinnet"), established a practical commercial network and a distribution system with over 10,000 agents covering major cities nationwide; affirmed its leading marketing position in corporate information application service sector; and well kept a steady growth in IT application service business. CE Dongli has firmly kept on its application service development direction; continuing development of practical business network; and strengthening the accumulated strategies in technologies and products, and has become one of the five largest corporations in IT sub-contracting service market in China. CE Dongli's standing was just behind IBM, and in the same standing as such multinational companies as HP, CSC and EDS. As per IDC report, CE Dongli has been ranked the sixth largest corporation in IT services industry in China.

Basing on modifications and developments in 2007, development directions were more precise and affirmed. 2008 will be the year for CE Dongli's continuing its re-organization; by going deep into the requirements of the SME IT market; timely modifying product and service strategies; completing internal organizational development; continuing to expand business abilities and to modify customer strategies; increasing customer value; and driving CE Dongli to the vertical diversion of IT operation, CE Dongli will be a specialist in IT operations practically suitable for corporation development in China.

Xinnet will base on its current products and services, deep digging up the related value-added services, and planning to launch such new services as network database management. By using experience gained in the past several years, Xinnet has identified the future development trends and opportunities in network market, and started to have its achievements in such related sectors.

Office Software Products

北京紅旗中文貳仟軟件技術有限公司 (Beijing Redflag Chinese 2000 Software Technology Company Limited) ("Redflag 2000") was one of the first lot of corporations in China starting to use international software standards, and its product namely RedOffice entirely complied with international standards of open document format (ODF). By having such advantages as superb practicability and compatibility; distinguished product worthiness; reliable information security; and enriched second time of development in functionality and cross-platform applications, Redflag 2000 has created a new situation in office applications sector in China. Office software products of Redflag 2000 are the relay batons succeeding Sino-i to continuously drive SME IT applications by means of e-commerce, and drive the progression of usage of corporate information, which is a core part of Sino-i's development blueprint of corporate information in China.

RedOffice office application was the only office application awarded "Recommended Excellent Software Product of the Year" by China Software Industry Association for three consecutive years; was the only office application listed by four government departments in China as "National Focus New Product"; was the only office application listed by the Ministry of Science and Technology as a project under "National Torch Scheme" in 2005; and was supported by various funds at national level as it successfully completed such national level R&D plans as 863 project etc. and other projects at provincial and municipal levels for several times. Meanwhile, Redflag 2000 was one of the corporations qualified in the innovative software billboard in China; was the first office application manufacturer having the highest recognition from China Software Testing Centre, and having national verification of GB18030A+; and was the first corporation successfully launched cross-platform office application basing on Windows and Linux operation systems. Recently, Redflag 2000 represented China to obtain the host title for 2008 annual conference of OpenOffice.org ("OOo"). OOo is the largest community of open source, its office application is the leading product following Microsoft, and is the first time having its annual conference to be taken place outside Europe. The success in obtaining the host title has affirmed Redflag 2000's important status in international open source.

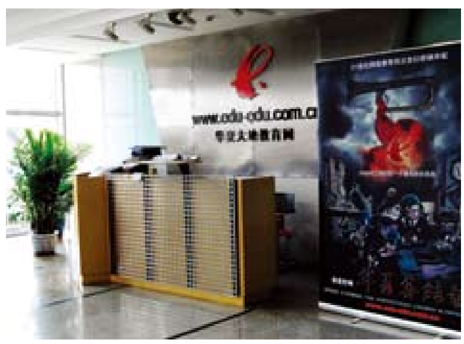
2. Culture sector

Financial Information Services

Facing to the market where information relating to investment is insufficient, every financial institute has started to weigh heavily on real time professional information analysis; and the advantages of self-made contents and the content differentiations. Emergence of fund corporations has made intelligent financial management becoming a direction, enhancing the recognition of the financial information products by the market. Sino-i's subsidiary, 北京世華國際金融信息有限公司 (Beijing Shihua International Financial Information Company Limited) ("Shihua") has got its professional advantage from its financial information market development over the past years. By continuous reinforcement in I-cube dual screen product series and in "Integrated Financing", a comprehensive information service platform, Shihua continuously guides domestic Chinese financial information to professional and international standards. By using its website namely "caixun.com", Shihua has extended its advantage from professional market to mass market, and initially widened its recognition in the mass market.

Shihua being an information service provider having a foothold in development of professional information and analysis, will continue its foresight strategy and advantage of long-term investment; grasp the prevailing industry development trend; continuously nourish the market; firmly use the information requirements of the users as the core for designing standards; use innovative technologies; and research and develop professional information service platform with such functions as multi-markets, cross-platforms and consolidated analysis.

Distance Learning Education Services



For providing a superior, profound and professional learning gateway, Sino-i's subsidiary, 北京華夏大地遠程教育網絡服務有限公司 (Beijing Chinese Dadi Distance Education Company Limited) ("Chinese Dadi") comprehensively adjusted its strategies in 2007 by means of strengthening up the continuity of learning products; sound product structure for Internet courses; integrity learning supporting service system; development of advanced product service format etc.; and overall emphasize on student enrollment on Internet and Internet learning, whose website became the students' most favourite website in that sector. Meanwhile, Chinese Dadi cooperated with national examination associations to develop 3-dimensional teaching materials for Internet courses; established in-depth cooperation relationships with education administration departments in over twenty provinces and major cities, and with a number of colleges in China; researched and developed product service format for high-end users; and raised the education qualities substantially, all of which were deeply appraised by the students.

In 2008, Chinese Dadi will continue its development basing on the aforesaid fundamentals, further strengthen up its characters in the Internet market, fully utilize its resources and advantages to develop new businesses, and make it as the "first stop" of continuing education in China satisfying such demands from Internet users as lingual learning; management upgrading; and certification course of studies.

Culture and Media Services

Having the support from the strong technical team, Sino-i has achieved many advancements in the sector of digital multi-media technology, including the HD digital projection server with dual-loop security certification which was jointly developed with the Peking University, and would very likely be the first advanced projection equipment in China verified by DCI (Digital Cinema Initiatives). Meanwhile, having grasped the chance of CEPA (Closer Economic Partnership Arrangement), companies for film production, distribution and investment have been established, and cinema construction and operations, and film distribution businesses have started on, which all provide resource support for Sino-i entering to digital film operation services in full scale. Sino-i also used thin streaming media server cluster, DRM (Digital Rights Management) server and large capacity distributed technology based on modified P2P (peer-to-peer) model to make family oriented HD video-on-demand solutions.

Having the support of accumulated experience and operation strength, Sino-i fully started website strategies in different sectors. Resulting from the continuous market development and content servicing, the recent total PV (page view) times have reached ten million a day. The Company believes that it will achieve a rapid advance breakthrough in 2008, and will be a main force in network media sector.

III. MANAGEMENT EXPANSION STRATEGY

In order to effectively achieve structural development, widely develop core businesses in various business sectors, comprehensively integrate industry resources, mergers and acquisitions are the key strategies for expansion which achieved immense success.

In the past year, the Company, basing on the core business network and management style, progressively and efficiently conducted adjustments, and business re-arrangements and integrations. The Company also used its endeavours to strengthen modernization of management in such areas as resources, manpower, technological innovation no matter in property sector or IT and culture and media sectors; to emphasize the importance of management by objectives; to further improve budgetary control mechanism; and to enhance corporate governance continuously, for providing a good foundation for the Company's comprehensive developments.

In the future, in order to capture the growing trend of property business, the Company will, basing on foundation of moving forward steadily, strengthen its brand name strategy; continue to place emphasis on land bank; increase resource reserves, for gradually achieving the Company's strategic development objectives. In the IT and culture and media sectors, the Company will fully integrate corporate resources, for achieving effective resources integration, and will rely on the advantages of advanced technologies and operations, and use the sound business networks and upgraded customer strategies, for rapidly achieving market share and gradually becoming a leading force in the market.

IV. CONCLUSION

It is undoubted that the economy in China has been growing steadily. Strong development potentials will definitely drive the Company's various core businesses in different sectors to continuously move forward. The property market bears the character of continuing development, which provides a large space for the Company. Demands for residential units, from owners of residential units and for overall residential environmental coordination in the property market also provide the Company new opportunities and challenges.

Given the rapid market development and open policies adopted by the Chinese government, the Company has full confidence in the development prospects in IT and culture and media industries, and will continue to use such capital operation means as business developments, enhanced services, and mergers and acquisitions to expand and develop its core businesses in various business sectors; to continue to enhance its technology R&D and expand technology abilities; and to focus on development of technology and media businesses.

Deeply thanks to all shareholders for their support to the Company. I believe that by having the sensitive market observations; continuous R&D in technologies; and dedicated pursuits of knowledge, the Company's various businesses will achieve greater and better development.

Yu Pun Hoi
Chairman

Hong Kong, 18 April 2008

I. BUSINESS REVIEW

During the year, the Company was principally engaged in property development, and through its listed subsidiary, Sino-i, engaged in corporate IT application services, financial information services, distance learning education services, and culture and media services. During the year, the turnover was HK$673.0 million (2006: HK$2,099.2 million), and the net profit was HK$21.5 million which was mainly attributable to the gain arising on acquisition of additional interests in subsidiaries amounted about HK$30.3 million consolidated from Sino-i; and a release of a provision for deferred taxation made for Guangzhou property project in the sum of about HK$68.0 million resulting from the deduction of enterprise income tax rate from 33% to 25% in China effective 1 January 2008 (2006: a net loss of HK$34.7 million). The net asset value of the Group including minority interest was HK$5,043.9 million (2006: HK$4,884.8 million), representing a value of HK$0.073 per share.

Property Development

During the year, no turnover was recorded in this division (2006: HK$1,477.8 million), and the net loss was HK$34.7 million (2006 restated: a net profit of HK$286.0 million). The sole reason for no turnover was recorded during the year is that no property was sold. Subsequent to the sales of the first phase of "The Peninsula" in 2006, the Company's flagship project in Shekou, the construction works in the second phase have started in February 2007, and are still in progress as scheduled. The second phase will be launched to the market in the second half of 2008. The construction works of another large-scale property project in Guangzhou are expected to take place by the end of 2008.

Corporate IT Application Services

Resulting from Sino-i's long-term business cooperation with SMEs; continuing introduction of innovative products and provision of comprehensive services; and continuing modifications and enhancements in the very competitive market, during the year, the turnover of this division was HK$628.1 million (2006: HK$585.2 million), and the net profit was HK$111.9 million (2006: HK$126.8 million).

Sino-i has gained recognition in the corporate IT application service sector, and has won different awards, including:

- Excellent IT Outsourcing Service Provider in China 2006
- IT Impact on China 2006 Annual Contribution Award
- China Best Growing Enterprises in IT 2007
- Top Ten Growing Enterprises awarded by Fortune China 2007
- "Vital Contribution" awarded by IDC China 2007

- Users Most Satisfied IT Application Service Provider for three consecutive years in 2005, 2006 and 2007
- China IT Innovation Enterprise in China for two consecutive years in 2005 and 2006
- Advanced Technological Product with Highest Market Value 2007
- E-mail Business Development Innovation Award 2007
- Open Source Business Outstanding Contribution Award 2007
- The Top Rated Domestic Office Software Purchased by the Government Award 2007

Financial Information Services

During the year, Shihua continued to focus on the provision of financial information services, investing and developing a new professional financial information website namely "caixun.com", and enhancing its I-cube dual screen product series. Leverage on its experience in forex and futures market, Shihua launched well-versed professional information products for providing integrated financial services. During the year, the turnover of this division was HK$37.1 million (2006: HK$39.6 million), and the net loss was HK$17.3 million (2006: a net loss of HK$283.1 million which was due to the one-off write off of an accumulated goodwill amounted to about HK$289.8 million i.e. this division had a segment profit of about HK$6.7 million without taking into account the net effect of the write-off of the accumulated goodwill).

The loss for the year was mainly attributable to increasing marketing cost allocated to roll out of new products and increasing labour cost of IT professionals and financial analysts incurred in developing the new financial website.

Distance Learning Education Services

With respect to distance learning education services, the page view rate of education website of Chinese Dadi has been increasing since October 2007, and it was ranked number one in the field of education website at the end of 2007 according to iResearch.

During the year, the turnover of this division was HK$17.0 million (2006: HK$17.6 million), and the net loss was HK$1.7 million (2006: a net profit of HK$5.1 million). The small loss was attributable to increasing marketing expenditure on promoting its online programmes.

This division will continue its close collaborations with the provincial and municipal examination authoritative organizations so as to increase its exposure to online students which may lead to better revenue and profit.

Culture and Media Services

Under the Group's overall strategic development in the culture and media business, Sino-i has initiated investment in film distribution business in China. In view of the high potential of digital cinema business in China, the Company intends to further invest in this business segment in China in 2008.

During the year, the turnover of this division was HK$9.2 million (2006: Nil), and the net loss was HK$8.7 million (2006: Nil). The loss reflected the initial investment costs in setting up distribution channels and payment of royalties to the owners of the films. The Company believes investment in this rapidly growing market will generate handsome return in the near future.

II. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continues to adopt prudent funding and treasury policies. As at 31 December 2007, the net asset value of the Group attributable to the equity holders amounted to approximately HK$4,088.5 million (2006: HK$3,977.5 million), including cash and bank balances of approximately HK$445.7 million (2006: HK$108.6 million) (which were denominated mainly in Renminbi and Hong Kong dollars). As at 31 December 2007, the Group's aggregate borrowings including shareholders' loan were HK$2,305.5 million (2006: HK$850.8 million), including approximately HK$408.2 million (2006: HK$586.8 million) were bearing interest at fixed rates while approximately HK$1,897.3 million (2006: HK$264.0 million) were bearing interest at floating rates. The gearing ratio of the Group, which is net debt divided by the adjusted capital plus net debt, increased from 13.19% as at 31 December 2006 to 26.94% as at 31 December 2007. The increase in gearing ratio was mainly due to increase in bank loans obtained by 深圳南海益田置業有限公司 (Shenzhen Nanhai Yitian Realty Company Limited) ("Nanhai Yitian") for financing construction costs and expenditures of the second phase of "The Peninsula".

The Group's contingent liabilities at 31 December 2007 were HK$77.4 million due to the guarantees given in connection with credit facilities.

III. EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

As the majority of the Group's borrowings and transactions were denominated in Renminbi and Hong Kong dollars, the Group's exposure to exchange rate fluctuations was relatively insignificant. In general, the Group mainly utilised its Renminbi income receipt for operating expenditures in China, and did not use any financial instruments for hedging Renminbi bank borrowings during the year, and such borrowings were mainly used for Renminbi capital requirements in China.

IV. EMPLOYEE

The Company employs and remunerates its employees based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include housing, contributions to mandatory provident fund, group medical insurance, group personal accident insurance and examination leave. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the board of directors. In general, salary review is conducted annually. As at 31 December 2007, the Group had approximately 8,489 employees (2006: 7,457 employees). The salaries of and allowances for employees for the year ended 31 December 2007 were about HK$375.7 million (2006: HK$272.0 million).

V. PROSPECT

The optimistic sales in the first phase of "The Peninsula" has become a major back-up to the sales of the residential units in the second phase, having a total area of 199,050 sq.m., in 2008, and the development of a large-scale international modern, ecology and residential community in the vicinity of new Guangzhou Baiyun Airport, have indicated that the property business of the Company has been well established, and that it will bring the Company in much stronger revenue and profit. Meanwhile, the Company will progressively expand its land reserve and efficiently use additional resources, for ensuring the continuity of property business, and the long-term, stable and high return.

The success of the first phase of "The Peninsula" is valuable to the Company as it has made the Company to expand rapidly. This business operation will be improved continuously, which will lead the Company to having much more revenue in the years to come. The Company expects that it will continue to focus on IT application services and culture and media services through its listed subsidiary, Sino-i, and that it will further integrate the businesses of its subsidiaries, improve overall operation efficiency, and enhance the leading positions and advantages in the markets in various business sectors, for having competitive advantages in these markets. The Company will continue to integrate its internal resources by mergers and acquisitions, expand its market share, enhance R&D forces continuously, speed up the development progress of products, speedily extend and continuously improve the product lines, and use advanced digital network technology to develop a multi-media broadcasting system in which editing, production, dissemination, operation and management are integrated, for making crucial contribution to drive the Chinese culture to be developed in scientific and modern way.

The Company will continue to focus on its core businesses, and continue to reinforce and expand its competitive advantage by means of continuing modifications and enhancements, for achieving greater returns for its shareholders.

The directors herein present their report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

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

SEGMENT INFORMATION

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 40.

The directors do not recommend the declaration of the payment of a final dividend for the year ended 31 December 2007 (2006: Nil).

FIVE-YEAR FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES AND ASSOCIATE(S)

Particulars of the Company's principal subsidiaries and associate(s) as at 31 December 2007 are set out in notes 15 and 16 to the financial statements respectively.

BANK AND OTHER BORROWINGS

The Group's bank and other borrowings as at 31 December 2007 are set out in note 26 to the financial statements.

SHARE CAPITAL AND SHARE PREMIUM

During the year, no movements in share premium of the Company. Details of the share capital of the Company during the year are set out in note 29 to the financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the amount of the Company's reserves available for distribution was approximately HK$1,811,477. In addition, the Company's share premium account with a balance of HK$965,881,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's sales to the five largest customers and purchases from the five largest suppliers for the year ended 31 December 2007 accounted for less than 30% of the Group's total turnover and purchases respectively.

DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in note 34(a) to the financial statements.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Mr. Yu Pun Hoi, an executive director of the Company, is also a director of Best e-Solutions Limited which is engaged in software development.

Save as disclosed above, as at 31 December 2007, none of the directors of the Company has an interest in a business which competes or may compete with the business of the Group.

PENSION COSTS

Details of retirement benefit plans in respect of the year are set out in note 33 to the financial statements.

DIRECTORS

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

Mr. YU Pun Hoi *(Chairman)*
Mr. QIN Tian Xiang
Ms. CHEN Dan
Mr. YU Lin Hoi#
Mr. LAM Bing Kwan#
Mr. HUANG Yaowen*
Prof. JIANG Ping*
Mr. LAU Yip Leung*

Non-executive directors
* Independent non-executive directors

DIRECTORS (Continued)

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

In accordance with Bye-law 99 of the Company's Bye-Laws, Mr. Qin Tian Xiang, Mr. Yu Lin Hoi and Mr. Lam Bing Kwan shall retire at the forthcoming annual general meeting and, being eligible, Mr. Qin Tian Xiang and Mr. Lam Bing Kwan will offer themselves for re-election at the forthcoming annual general meeting, but Mr. Yu Lin Hoi will not offer himself for re-election at the forthcoming annual general meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical Details of Directors

Executive Directors

Mr. YU Pun Hoi, aged 49, is the chairman of the board of directors (the "Board") and the chairman of executive committee of, and a controlling shareholder of the Company. Mr. Yu joined the Board of the Company in September 2000. In addition to Mr. Yu's chairmanship of the Company, he is the chairman of the board of and of the executive committee of Sino-i. Mr. Yu is also a director of a number of major subsidiaries of the Company and Sino-i.

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

Mr. Yu is the younger brother of Mr. Yu Lin Hoi, a non-executive director of the Company.

Mr. QIN Tian Xiang, aged 42, was graduated from the National University of Defense Technology, Electronics Technique Department. Mr. Qin has been in presidential and directorship positions in a number of corporations in China and Hong Kong since 1994. Mr. Qin joined the Board of the Company as an independent non-executive director on 30 September 2004, and was then re-designated as an executive director and appointed as an executive committee member and general manager of the Company on 14 February 2006. In addition, Mr. Qin is also an executive director and executive committee member of Sino-i, and a director of a number of major subsidiaries of the Company and Sino-i in China.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Biographical Details of Directors (Continued)

Executive Directors (Continued)

Ms. CHEN Dan, aged 39, graduated from Beijing Finance & Trade College in 1991, and conferred a Bachelor degree in Trade & Economics, and is a qualified lawyer in China. Ms. Chen was working in Europe and obtained experience in various industries prior to joining the Group in October 2000. Since February 2006, Ms. Chen has been appointed as an executive director and executive committee member of the Company. Ms. Chen was also awarded several honours of "2005 Financial Times Top 10 Financial People in China IT Industry", "2005 Annual New Talent" in Information Industry, "2007 Annual Excellent People in China's Information Construction", "2007 Top 10 Managerial People" and "2007 Annual New Managerial Talents" etc. Ms. Chen is also an executive director, executive committee member and general manager of Sino-i, responsible for all the operations management within the Sino-i Group. Ms. Chen is also a director of a number of major subsidiaries of the Company and Sino-i.

Non-executive Directors

Mr. YU Lin Hoi, aged 64, the elder brother of Mr. Yu Pun Hoi, holds a Degree of Master of Mariner from Liberia and Canada in 1972 and 1981 respectively, and an MBA in Hong Kong in 2003. Mr. Yu has extensive experience in marketing, management on manufacture and administration on transportation. Mr. Yu joined the Board of the Company on 14 January 2002.

Mr. LAM Bing Kwan, aged 58, graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. Mr. Lam had been in senior management positions in the banking and financial industry for more than 10 years before joining the Group. Mr. Lam joined the Board of the Company on 20 September 2000, and was re-designated as non-executive director on 2 April 2002. Mr. Lam is also a non-executive director of Sino-i, and an independent non-executive director of Lai Sun Development Company Limited, Lai Fung Holdings Limited, and eForce Holdings Limited.

Independent Non-executive Directors

Mr. HUANG Yaowen, aged 37, graduated from South West University of Politics and Laws in China and was conferred a Bachelor degree in Laws in 1992. Mr. Huang obtained a degree of EMBA in China Europe International Business School, and also holds a Master of Laws from Central Parties School in the PRC. Mr. Huang is a registered attorney at law in China and is the executive partner of Kai Wen Law Firm which is Chinese commercial law firms in the PRC. On 14 February 2006, Mr. Huang joined the Board of the Company and was appointed as chairman of audit committee and remuneration committee of the Company. Mr. Huang is also an independent non-executive director and chairman of audit committee and remuneration committee of Sino-i.

Prof. JIANG Ping, aged 77, graduated from Moscow University with a Bachelor degree in Laws in 1956. Prof. Jiang is the lifetime professor of China University of Political Science and Law, and conducts lectures for doctoral degree class in civil and commercial laws. Prof. Jiang is the honorary president of China Comparative Law Research Centre; chairman of Beijing Arbitration Commission; vice-president of China Consumers' Association; and counsellor and member of committee of experts in China International Economic and Trade Arbitration Commission. On 14 February 2006, Prof. Jiang joined the Board of the Company and was appointed as member of audit committee and remuneration committee of the Company. Prof. Jiang is also an independent non-executive director and member of audit committee and remuneration committee of Sino-i.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Biographical Details of Directors (Continued)

Independent Non-executive Directors (Continued)

Mr. LAU Yip Leung, aged 47, graduated from the City University of Hong Kong and awarded an honours degree of Bachelor of Arts in Accountancy in 1991. Mr. Lau also holds an MBA conferred by the University of Hull, UK in 1995. In addition, Mr. Lau is a fellow member of The Association of Chartered Certified Accountants; member of The Institute of Chartered Accountants in England and Wales, and practising member of the Hong Kong Institute of Certified Public Accountants. Mr. Lau started his public practice business in 1998, and has been a partner of Messrs. Fung Lau & Company, Certified Public Accountants, since October 2000. Mr. Lau joined the Board of the Company on 29 May 2006 and is also an audit committee member and remuneration committee member of the Company.

Biographical Details of Senior Management

Mr. YU Fan (aged 40)
Deputy General Manager – Business and Strategic Development
Sino-i Technology Limited

Mr. Yu got a degree of Master of Business Administration from Guanghua School of Management of Peking University.

Mr. Yu joined the Sino-i Group in May 2004, and he was appointed as general manager of CE Dongli in 2006. In 2007, Mr. Yu was appointed as deputy general manager – business and strategic development of Sino-i, responsible for the planning and development of strategies and operations. Prior to joining the Sino-i Group, Mr. Yu was working in senior positions in such large domestic and joint venture corporations as Founder Group and Hewlett Packard. Mr. Yu has 17 years' experience in IT and the related business.

Ms. LIU Rong (aged 36)
Deputy General Manager – Media and Culture
Sino-i Technology Limited

Ms. Liu was graduated from the Law School of Anhui University in 1993, and obtained a degree of Bachelor of Laws. Ms. Liu got her Master of Laws in 2002 conferred by the Law Institute of Chinese Academy of Social Science. Ms. Liu is a qualified lawyer in China.

Ms. Liu joined the Sino-i Group in April 2002, responsible for corporate affairs, investments and mergers and acquisitions in China. In 2006, Ms. Liu was appointed as general manager – Internet data centre of Sino-i, responsible for Internet business management of the Sino-i Group. In 2007, Ms. Liu was appointed as general manager of Dadi Media Limited, a wholly-owned subsidiary of Sino-i, responsible for the related businesses in culture and media. Prior to joining the Sino-i Group, Ms. Liu worked in Chinese government departments and law firms.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Biographical Details of Senior Management (Continued)

Dr. ZHANG Bin (aged 42)
Deputy General Manager – Technology Development
Sino-i Technology Limited

Dr. Zhang was graduated from the Computer Faculty of The University of Defence Technology in 1994, and awarded a doctorate. The research of "YH-C Parallel Compiling System" in-charged by Dr. Zhang was awarded the second prize of Technology Progress conferred by General Armament Department (formerly known as State Commission of Science and Technology for National Defense Industry). Dr. Zhang was also accredited as "Senior Engineer".

Dr. Zhang joined the Sino-i Group in 1999, responsible for technological R&D. In March 2005, Dr. Zhang was appointed as chief technology officer of Sino-i, responsible for overall technical affairs, R&D, products maintenance and other related work of the Sino-i Group. In the same year, Dr. Zhang finalized the R&D on the digital business platform products for e-commerce services for SMEs in China.

In April 2006, Dr. Zhang was appointed as deputy general manager – technology development of Sino-i, responsible for product design, R&D, testing, and quality control etc. in all the business segments of the Sino-i Group, and for advancement of technology in multi-media data transmission, copyright protection, SOA technology research, and IT business services etc..

Ms. WANG Daihong (aged 41)
Deputy General Manager – Human Resources
Sino-i Technology Limited

Ms. Wang was graduated from Capital University of Economics and Business, majored in Economic Law. At present, Ms. Wang is pursuing EMBA in China Europe International Business School. Ms. Wang joined the Sino-i Group as deputy general manager – human resources in 2007, chiefly responsible for planning and development of human resources. Prior to joining the Sino-i Group, Ms. Wang was in senior positions in a number of large multinational companies, joint ventures and state-owned enterprises, such as Omron China Limited, GE (China) Medical Systems, Beijing EC-Founder, Huapu Information Technology Co. Ltd. (HPITC), and Xian Janssen Pharmaceutical Ltd (member of J&J) etc.. Ms. Wang has over 15 years' experience in HR management, and is familiar with the labour laws and the labour contract laws.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Biographical Details of Senior Management (Continued)

Mr. XUE Bo Ying (aged 39)
Architectural Design Director
Nan Hai Corporation Limited

Mr. Xue joined the Group in January 2006, responsible for overall architectural design and related works for various property projects of the Group in China. Prior to joining the Group, Mr. Xue worked in such senior positions as deputy general manager, senior engineer and architectural design director in both foreign and local Chinese corporations in China. Mr. Xue also worked in Guangzhou City Construction Commission.

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

Mr. WANG Gang (aged 52)
Director and Deputy General Manager
Shenzhen Nanhai Yitian Realty Company Limited

Mr. Wang joined the Group in January 2007, responsible for general management of Nanhai Yitian, a subsidiary of the Company. In addition, Mr. Wang is appointed as the managing director of 半島城邦物業管理有限公司 (Peninsula Property Management Company Limited), a subsidiary of Nanhai Yitian, providing overall property management services for the "The Peninsula", the large-scale property project of the Company in Shekou, Shenzhen. Prior to joining the Group, Mr. Wang worked in the headquarters of China Agricultural Bank, and was appointed as a general manager working in the bank's branch office in Singapore for 5 years.

Mr. Wang was graduated from Capital University of Economics and Business in China in 1983. Mr. Wang also got an MBA degree from National University of Singapore.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Biographical Details of Senior Management (Continued)

Mr. LU Kwong Seng (aged 42)
Financial Controller
Shenzhen Nanhai Yitian Realty Company Limited

Mr. Lu joined the Group in 1995, responsible for overall financial management of the Group's subsidiaries in China. In 2005, Mr. Lu was promoted to Financial Controller of Nanhai Yitian. Mr. Lu has over 10 years' experience in financial management in China.

Mr. MAG Chiu Fai (aged 33)
Qualified Accountant
Nan Hai Corporation Limited

Mr. Mag is the Senior Accounting Manager of the Group. Mr. Mag joined the Group in 2005, responsible for the Group's accounting and financial control functions.

Mr. Mag holds a Bachelor degree in Accountancy from The Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the interests and short positions of the directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

The Company

(i) *Long position in shares in issue*

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

Notes:

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

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

(ii) *Long position in underlying shares*

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

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

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

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

Associated Corporations

As disclosed above, Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company or its controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO, including interests held by the Company in the shares of Sino-i, a subsidiary of the Company. Sino-i is a company the shares of which are listed on the Stock Exchange and is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at 31 December 2007, the interests of the directors of the Company in shares and underlying shares of Sino-i were as follows:

Sino-i

(i) *Long position in shares in issue*

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

Notes:

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

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

(ii) *Long position in underlying shares*

Name of Director	Number of underlying shares of HK$0.01 each*	Nature of interest	Approximate percentage holding
Lam Bing Kwan	18,000,000	Personal	0.09%
Chen Dan	7,500,000	Personal	0.04%

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

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

Associated Corporations (Continued)

Sino-i (Continued)

(ii) *Long position in underlying shares (Continued)*

Grantee	Date of grant	Exercise price per share HK$	Number of share options granted	Exercisable period
Lam Bing Kwan	12-11-2004	0.16	9,000,000	01-07-2005 to 30-06-2008
		0.16	9,000,000	01-07-2006 to 30-06-2008
Chen Dan	12-11-2004	0.16	3,750,000	01-07-2005 to 30-06-2008
		0.16	3,750,000	01-07-2006 to 30-06-2008

Save as disclosed above, as at 31 December 2007, none of the directors and chief executive of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

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

On 15 December 2005, share options to subscribe for a total of 468,625,000 shares, representing approximately 1.57% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors and employees of the Company and subsidiaries at an exercise price of HK$0.04 per share. The closing price of share of the Company immediately preceding the date of grant was HK$0.039.

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

SHARE OPTION SCHEME (Continued)

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

				Number of share options				
Grantee	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2007
Directors								
Lam Bing Kwan	15-12-2005	01-01-2006 to 31-12-2007	0.04	12,500,000	–	(12,500,000) *(Note 1)*	–	–
		01-01-2007 to 31-12-2007	0.04	12,500,000	–	(12,500,000) *(Note 1)*	–	–
Chen Dan	15-12-2005	01-01-2006 to 31-12-2007	0.04	12,500,000	–	(12,500,000) *(Note 2)*	–	–
		01-01-2007 to 31-12-2007	0.04	12,500,000	–	(12,500,000) *(Note 2)*	–	–
	18-01-2007	19-01-2007 to 18-01-2009	0.0714	–	7,000,000	(7,000,000) *(Note 2)*	–	–
		19-01-2008 to 18-01-2009	0.0714	–	7,000,000	–	–	7,000,000
Qin Tian Xiang	18-01-2007	19-01-2007 to 18-01-2009	0.0714	–	7,000,000	(7,000,000) *(Note 3)*	–	–
		19-01-2008 to 18-01-2009	0.0714	–	7,000,000	–	–	7,000,000
Employees								
In aggregate	15-12-2005	01-01-2006 to 31-12-2007	0.04	153,425,000	–	(145,925,000) *(Note 4)*	(7,500,000)	–
		01-01-2007 to 31-12-2007	0.04	189,725,000	–	(178,975,000) *(Note 4)*	(10,750,000)	–
	18-01-2007	19-01-2007 to 18-01-2009	0.0714	–	64,350,000	(47,100,000) *(Note 4)*	–	17,250,000
		19-01-2008 to 18-01-2009	0.0714	–	64,650,000	–	(1,550,000)	63,100,000
Total				393,150,000	157,000,000	(436,000,000)	(19,800,000)	94,350,000

SHARE OPTION SCHEME (Continued)

Notes:

1. The weighted average closing price of the shares immediately preceding the date on which the options were exercised was HK$0.365.

2. The weighted average closing price of the shares immediately preceding the date on which the options were exercised was HK$0.139.

3. The weighted average closing price of the shares immediately preceding the date on which the options were exercised was HK$0.137.

4. The weighted average closing price of the shares immediately preceding the date on which the options were exercised was HK$0.146.

A summary of the Scheme is as follows:

(1) Purpose

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

(2) Participants

The participants include:

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

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

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

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

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

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

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

SHARE OPTION SCHEME (Continued)

(3) Maximum number of shares

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

(4) Maximum entitlement of each participant

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

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

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

(6) Minimum period for exercising an option

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

(7) Acceptance and payment on acceptance

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

(8) Basis of determining the subscription price

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

(9) Remaining life of the Scheme

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2007, those persons (other than directors and chief executive of the Company) who had interests and short positions in shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of person holding an interest in shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO	**Nature of interest**	**Number of shares in issue subject to long position**	**Approximate percentage of issued share capital of the Company**	Notes
Kung Ai Ming	Family and Corporate interest	32,665,052,603	47.59%	1
Rosewood Assets Limited	Beneficial interest	6,518,000,210	9.50%	3
Pippen Limited	Beneficial interest	14,830,245,497	21.60%	3
Righteous International Limited	Corporate interest	3,742,493,498	5.45%	3
Macro Resources Limited	Beneficial interest	3,742,493,498	5.45%	2 & 3
First Best Assets Limited	Beneficial interest	7,504,986,998	10.93%	3
CITIC Group	Corporate interest Security interest	8,635,691,472 31,512,000	12.58% 0.05%	2
Lim Siew Choon	Corporate interest	6,719,673,777	9.79%	4
Empire Gate Industrial Limited	Beneficial interest	6,714,986,997	9.78%	4
Lee Tat Man	Beneficial interest Security interest	36,000,000 7,700,000,000	0.05% 11.22%	

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS (Continued)

Notes:

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

2. CITIC Group was indirectly interested in 8,667,203,472 shares, of which interests in 31,512,000 shares were held through its interest in CITIC Capital Holdings Limited and interests in the remaining 8,635,691,472 shares were held by its wholly-owned subsidiaries, Staverley Assets Ltd., and its 40% owned company, Macro Resources Limited.

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

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

Save as disclosed above, as at 31 December 2007, no person (other than directors and chief executive of the Company) had notified to the Company any interests or short positions in shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Company and the Group are set out in note 39 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 33 to 38.

AUDIT COMMITTEE

The Audit Committee comprises all the independent non-executive directors of the Company, namely Mr. Huang Yaowen, Prof. Jiang Ping and Mr. Lau Yip Leung. The Audit Committee has reviewed with the auditors of the Company and the management the accounting principles and practices adopted by the Group and discussed auditing, financial control, internal control and risk management systems including the review of the audited accounts for the year ended 31 December 2007.

AUDITORS

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

On behalf of the Board

Yu Pun Hoi
Chairman

Hong Kong, 18 April 2008

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

CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board of the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2007, except for the deviation from Code A.2.1, A.4.1 and A.4.2 which, in the Company's opinion, are unsuitable or inappropriate for adoption. Explanations for such non-compliance are provided below.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made to all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2007.

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

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

DELEGATION BY THE BOARD

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

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

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

BOARD OF DIRECTORS

The current Board is made up of eight directors including three executive directors, two non-executive directors and three independent non-executive directors (the "INEDs"). The directors are, collectively and individually, aware of their responsibilities to the shareholders. The directors' biographical information is set out on pages 17 to 22 under the heading "Biographical Details of Directors and Senior Management". The Board consists of the following:

Executive Directors
Mr. YU Pun Hoi *(Chairman)*
Mr. QIN Tian Xiang
Ms. CHEN Dan

Non-executive Directors
Mr. YU Lin Hoi*
Mr. LAM Bing Kwan

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

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

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

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

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

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

BOARD OF DIRECTORS (Continued)

Chairman and Chief Executive Officer

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

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

Non-executive Directors

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

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

Independent Non-executive Directors

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

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

BOARD COMMITTEES

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

Executive Committee

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

Mr. YU Pun Hoi *(Chairman)*
Mr. QIN Tian Xiang
Ms. CHEN Dan

BOARD COMMITTEES (Continued)

Executive Committee (Continued)

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

Audit Committee

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

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

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

During the year, the Audit Committee held two meetings, in particular, to review with management the accounting principles and practices adopted by the Group and to discuss auditing, financial control, internal control and risk management systems. The Audit Committee has also reviewed the audited accounts for the year ended 31 December 2006 and the unaudited interim results for the six months ended 30 June 2007.

Remuneration Committee

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

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

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

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

The following table shows the individual attendance of each director at the meetings of the full Board, the Executive Committee, the Audit Committee and the Remuneration Committee for the year ended 31 December 2007:

	Attendance/Number of Meetings			
Name of Director	**Board**	**Executive Committee**	**Audit Committee**	**Remuneration Committee**
Executive Directors				
Mr. YU Pun Hoi	5/5	22/22	N/A	N/A
Mr. QIN Tian Xiang	5/5	1/22	N/A	N/A
Ms. CHEN Dan	5/5	22/22	N/A	N/A
Non-executive Directors				
Mr. YU Lin Hoi	5/5	N/A	N/A	N/A
Mr. LAM Bing Kwan	5/5	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. HUANG Yaowen	5/5	N/A	2/2	3/3
Prof. JIANG Ping	5/5	N/A	2/2	3/3
Mr. LAU Yip Leung	5/5	N/A	2/2	3/3
Number of meetings held during the year	5	22	2	3

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

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

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on page 39.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2007 amounted to HK$4,269,000 and HK$200,000 respectively. An analysis of the remuneration paid to the external auditors of the Company is set out in note 8 to the financial statements.

INTERNAL CONTROLS

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

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

On behalf of the Board

Watt Ka Po James
Company Secretary

Hong Kong, 18 April 2008

Grant Thornton
均富

Member of Grant Thornton International Ltd

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

We have audited the consolidated financial statements of Nan Hai Corporation Limited (the "Company") set out on pages 40 to 114, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

18 April 2008

Consolidated Income Statement

for the year ended 31 December 2007

	Note	2007 HK$'000	(Restated) 2006 HK$'000
Revenue/Turnover	5(a)	**673,031**	2,099,237
Cost of sales and services provided		**(131,996)**	(1,253,363)
Gross profit		**541,035**	845,874
Other operating income	5(b)	**13,972**	7,187
Gain arising on acquisition of additional interests in subsidiaries		**30,292**	–
Selling and marketing expenses		**(221,962)**	(204,338)
Administrative expenses		**(250,045)**	(203,801)
Other operating expenses		**(106,478)**	(71,605)
Impairment loss on goodwill		**–**	(289,800)
Loss on disposal and dissolution of subsidiaries	32(b)	**(7,685)**	–
Finance costs	7	**(46,194)**	(41,822)
Share of results of associates	16	**–**	2,055
(Loss)/Profit before income tax	8	**(47,065)**	43,750
Income tax credit/(expense)	9	**68,602**	(78,452)
Profit/(Loss) for the year		**21,537**	(34,702)
Attributable to :			
Equity holders of the Company	10	**(14,570)**	21,881
Minority interests		**36,107**	(56,583)
Profit/(Loss) for the year		**21,537**	(34,702)
		HK cents	HK cents
(Loss)/Earnings per share for (loss)/profit attributable to the equity holders of the Company during the year	11		
– Basic		**(0.0213)**	0.0321
– Diluted		**N/A**	0.0320

Consolidated Balance Sheet

as at 31 December 2007

	Note	2007 HK$'000	(Restated) 2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**137,426**	56,358
Prepaid land lease payments under operating leases	14	**55,915**	13,675
Interest in associates	16	**–**	18,967
Deposits	17	**58,989**	274,617
Available-for-sale financial assets		**324**	324
Intangible assets	18	**298,655**	243,437
Deferred tax assets	28	**6,400**	–
		557,709	607,378
Current assets			
Inventories	19	**6,769,600**	5,353,841
Financial assets at fair value through profit or loss	20	**5,048**	7,256
Trade receivables	21	**86,268**	155,212
Deposits, prepayments and other receivables	17	**585,318**	809,765
Pledged bank deposits	22	**–**	22,282
Time deposits	22	**213,561**	–
Cash and cash equivalents	22	**232,146**	86,332
		7,891,941	6,434,688
Current liabilities			
Trade payables	23	**136,737**	129,324
Other payables and accruals	24	**481,956**	581,349
Deferred revenue		**50,261**	61,573
Amount due to a director	25(a)	**132,461**	3,141
Amount due to a minority shareholder	25(b)	**12,000**	12,000
Amounts due to shareholders	25(c)	**5,006**	5,006
Amounts due to associate(s)	25(d)	**5,507**	6,528
Land premium payables		**–**	173,284
Provision for tax		**63,401**	81,460
Bank and other borrowings	26	**310,148**	459,091
Finance lease liabilities	27	**335**	99
		1,197,812	1,512,855
Net current assets		**6,694,129**	4,921,833
Total assets less current liabilities		**7,251,838**	5,529,211

Consolidated Balance Sheet

as at 31 December 2007

	Note	2007 HK$'000	(Restated) 2006 HK$'000
Non-current liabilities			
Bank and other borrowings	26	**1,587,400**	14,788
Finance lease liabilities	27	**509**	181
Amounts due to shareholders	25(e)	**407,070**	376,659
Deferred tax liabilities	28	**212,977**	252,790
		2,207,956	644,418
Net assets		**5,043,882**	4,884,793
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	29	**686,450**	682,090
Reserves	31	**3,402,074**	3,295,378
		4,088,524	3,977,468
Minority interests		**955,358**	907,325
Total equity		**5,043,882**	4,884,793

Yu Pun Hoi
Director

Qin Tian Xiang
Director

Balance Sheet

as at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**177**	188
Interests in subsidiaries	15	**–**	–
		177	188
Current assets			
Amounts due from subsidiaries	25(f)	**4,960,185**	4,310,930
Other receivables and deposits		**1,554**	220
Cash and cash equivalents	22	**1,705**	3,076
		4,963,444	4,314,226
Current liabilities			
Other payables and accruals		**6,480**	121,750
Amount due to a director	25(a)	**74,310**	19,170
Amounts due to subsidiaries	25(g)	**1,002,421**	288,594
		1,083,211	429,514
Net current assets		**3,880,233**	3,884,712
Total assets less current liabilities		**3,880,410**	3,884,900
Non-current liabilities			
Amounts due to shareholders	25(e)	**407,070**	376,659
Net assets		**3,473,340**	3,508,241
EQUITY			
Share capital	29	**686,450**	682,090
Reserves	31	**2,786,890**	2,826,151
Total equity		**3,473,340**	3,508,241

Yu Pun Hoi
Director

Qin Tian Xiang
Director

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	Note	2007 HK$'000	(Restated) 2006 HK$'000
Cash flows from operating activities			
(Loss)/Profit before income tax		**(47,065)**	43,750
Adjustments for :			
Interest income		**(2,845)**	(2,545)
Interest expenses		**46,194**	41,822
Dividend income		**(134)**	(119)
Depreciation on property, plant and equipment		**21,755**	19,369
Amortisation on intangible assets other than goodwill		**23,199**	13,532
Write off of property, plant and equipment		**452**	872
Loss on disposal and dissolution of subsidiaries		**7,685**	–
Impairment loss on goodwill		**–**	289,800
Annual charges of operating lease prepayments		**738**	270
Bad debt written-off and provision for impairment of receivables		**23,765**	16,663
(Gain)/Loss on disposal of property, plant and equipment		**(54)**	3,214
Fair value gain on financial assets at fair value through profit or loss		**(3,262)**	(411)
Share of results of associates		**–**	(2,055)
Equity-settled share-based compensation expenses		**3,338**	3,968
Gain arising on acquisition of additional interests in subsidiaries		**(30,292)**	–
Loss on partial disposal of a subsidiary		**–**	1,017
Gain on partial disposal of an associate		**–**	(1,358)
Write-off of intangible assets		**1,070**	–
Operating profit before working capital changes		**44,544**	427,789
(Increase)/Decrease in inventories		**(1,302,734)**	396,675
Decrease/(Increase) in trade receivables, other receivables and deposits		**287,420**	(396,831)
Increase in trade payables, other payables and accruals		**410**	22,129
(Decrease)/Increase in deferred income		**(15,022)**	5,853
Decrease in amount due from an associate		**–**	2,358
Decrease in amounts due to associates		**(1,021)**	(1,982)
Increase/(Decrease) in amount due to a director		**134,164**	(36,853)
Cash (used in)/generated from operations		**(852,239)**	419,138
Interest received		**2,845**	2,545
Interest paid		**(12,292)**	(51,520)
Income taxes paid		**(25,523)**	(10,050)
Net cash (used in)/generated from operating activities		**(887,209)**	360,113

	Note	2007 HK$'000	(Restated) 2006 HK$'000
Cash flows from investing activities			
Payment to acquire intangible assets		**(63,659)**	(28,435)
Payment to acquire property, plant and equipment		**(87,923)**	(33,224)
Increase in deposits		**(22,074)**	(38,879)
Increase in time deposits		**(206,462)**	–
Decrease/(Increase) in pledged bank deposits		**23,020**	(22,282)
Proceeds from disposal of property, plant and equipment		**1,383**	281
Receipts in consideration for disposal of other investments in the previous year		**–**	150,000
Net cash inflow arising from disposal and dissolution of subsidiaries	32(b)	**37,736**	–
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	32(a)	**–**	(4,074)
Dividend income		**134**	119
Net cash (used in)/generating from investing activities		**(317,845)**	23,506
Cash flows from financing activities			
Repayments of bank and other borrowings		**(602,560)**	(515,988)
Repayment of deposit received		**–**	(35,389)
Repayments of finance lease liabilities		**(286)**	(115)
Proceeds from bank and other borrowings		**1,925,261**	34,170
Proceeds from issuance of share capital		**19,359**	1,829
(Repayments to)/Receipts from security brokers and margin financiers		**(1,140)**	117,492
Net cash generated from/(used in) financing activities		**1,340,634**	(398,001)
Net increase/(decrease) in cash and cash equivalents		**135,580**	(14,382)
Cash and cash equivalents at 1 January		**86,062**	97,796
Effect of foreign exchange rate changes, on cash held		**10,234**	2,648
Cash and cash equivalents at 31 December		**231,876**	86,062
Analysis of the balances of cash and cash equivalents			
Cash at banks and in hand		**232,146**	86,332
Bank overdrafts		**(270)**	(270)
		231,876	86,062

Consolidated Statement of Changes in Equity for the year ended 31 December 2007

	Equity attributable to the Company's equity holders									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006	681,633	949,510	1,921,878	–	3,509	19,184	345,421	3,921,135	949,082	4,870,217
Exchange differences (Net income recognised directly in equity)	–	–	–	–	–	28,655	–	28,655	12,810	41,465
Profit/(Loss) for the year	–	–	–	–	–	–	21,881	21,881	(56,583)	(34,702)
Total recognised income and expense for the year	–	–	–	–	–	28,655	21,881	50,536	(43,773)	6,763
Issue of ordinary shares upon exercise of share options	457	1,372	596	–	(596)	–	–	1,829	–	1,829
Equity-settled share-based compensation expenses	–	–	–	–	3,968	–	–	3,968	–	3,968
Transfer to general reserve	–	–	–	9,178	–	–	(9,178)	–	–	–
Released on forfeiture of share options	–	–	–	–	(385)	–	385	–	–	–
Minority interest arising from partial disposal of a subsidiary	–	–	–	–	–	–	–	–	1,017	1,017
Capital contribution by a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	999	999
At 31 December 2006 and 1 January 2007	682,090	950,882	1,922,474	9,178	6,496	47,839	358,509	3,977,468	907,325	4,884,793
Exchange differences (Net income recognised directly in equity)	–	–	–	–	–	101,631	–	101,631	12,608	114,239
(Loss)/Profit for the year	–	–	–	–	–	–	(14,570)	(14,570)	36,107	21,537
Total recognised income and expense for the year	–	–	–	–	–	101,631	(14,570)	87,061	48,715	135,776
Issue of ordinary shares upon exercise of share options	4,360	14,999	6,871	–	(6,871)	–	–	19,359	–	19,359
Equity-settled share-based compensation expenses	–	–	–	–	3,338	–	–	3,338	–	3,338
Transfer to general reserve	–	–	–	7,231	–	–	(7,231)	–	–	–
Released on forfeiture of share options	–	–	–	–	(680)	–	680	–	–	–
Released on disposal and dissolution of subsidiaries	–	–	4,374	–	–	(3,076)	–	1,298	–	1,298
Released on acquisition of additional interest in subsidiaries	–	–	–	–	–	–	–	–	(265,032)	(265,032)
Capital contribution by the Group to acquire additional interest in subsidiaries	–	–	–	–	–	–	–	–	264,350	264,350
At 31 December 2007	686,450	965,881*	1,933,719*	16,409*	2,283*	146,394*	337,388*	4,088,524	955,358	5,043,882

* These reserve accounts comprise the consolidated reserves of HK$3,402,074,000 (HK$3,295,378,000) in the consolidated balance sheet.

1. GENERAL INFORMATION

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

The Company and its subsidiaries (the "Group") are principally engaged in property development, corporate IT application services, financial information services and distance learning education services. Details of the principal activities of the Company's subsidiaries are set out in note 15.

The financial statements on pages 40 to 114 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31 December 2007 were approved for issue by the board of directors on 18 April 2008.

2. CHANGE IN ACCOUNTING POLICIES

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

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements beginning on 1 January 2007.

HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of these HKFRSs had no material effect on how the results and financial position for the current or prior periods have been prepared and presented but HKAS 1 (Amendment) and HKFRS 7 resulted in expanded disclosures on the Group's capital management policies and, significance of financial instruments and the nature and extent of risk arising from financial instruments used. Accordingly, no prior period adjustment is required.

2. CHANGE IN ACCOUNTING POLICIES (Continued)

2.1 Impact of new and revised HKFRSs which are effective during the year (Continued)

HKAS 1 (Amendment) – Capital Disclosures

In accordance with the HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change in HKAS 1 are detailed in note 41.

HKFRS 7 – Financial Instruments : Disclosures

HKFRS 7 – Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its consolidated financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including the comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature:

– a sensitivity analysis explaining the Group's market risk exposure in regard to its financial instruments, and

– a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments on cash flows, net income or balance sheet line items.

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

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [5]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [5]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions [2]
HK(IFRIC) – Int 12	Service Concession Arrangements [3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [3]

Notes

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 July 2009

2. CHANGE IN ACCOUNTING POLICIES (Continued)

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

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Group's financial statements.

Amendment to HKAS 1 Presentation of Financial Statements

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Group's financial statements.

The directors of the Company are currently assessing the impact of the other new or revised HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

2.3 Presentation of PRC land appreciation tax

In light of the conclusion of the Financial Reporting Standards Committee of HKICPA on the scope of HKAS 12 "Income Taxes" and the nature of PRC land appreciation tax, the directors decided that it is more appropriate to account for and present PRC land appreciation tax as income tax. As a result of this change, PRC land appreciation tax in prior year amounting to HK$16,176,000 has been reclassified from cost of sales to income tax in the consolidated income statement for the year ended 31 December 2006. The above changes have no net impact on result for the year ended 31 December 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Basis of consolidation

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

3.3 Subsidiaries and minority interests

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Subsidiaries and minority interests (Continued)

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 3.14.

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

3.4 Associates

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.9) of the associate and its carrying amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Associates (Continued)

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

3.5 Goodwill

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

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.9).

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

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

3.6 Property, plant and equipment

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property, plant and equipment (Continued)

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

Buildings	5%
Leasehold improvements, furniture, fixtures and equipment	10%-33-1/3% or over lease terms whichever involves shorter period
Motor vehicles	10%-33-1/3%

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

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

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

3.7 Leases

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

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

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

(ii) *Assets acquired under finance leases*

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Leases (Continued)

(ii) Assets acquired under finance leases (Continued)

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

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

(iii) Operating lease charges as the lessee

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

3.8 Other intangible assets

Computer software

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

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

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

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised when the Group can demonstrate the technical feasibility of completing the asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Capitalised development costs are stated at cost less accumulated amortisation and accumulated impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred. Amortisation of capitalised development costs is charged to the income statement on a straight-line basis over the assets' estimated useful lives of not more than five years. Both the period and method of amortisation are reviewed annually. Development costs previously recognised as an expense are not recognised as an asset in the subsequent period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Impairment of non-financial assets

Goodwill arising on an acquisition of subsidiary, computer software, development cost, property, plant and equipment and, interests in subsidiaries and associates are subject to impairment testing.

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

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

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

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

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

3.10 Financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets (Continued)

Classification of financial assets

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

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

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

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

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

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out in note 3.19 below.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets (Continued)

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

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

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

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

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

(ii) Loans and receivables

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

(iii) Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment loss on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets (Continued)

Impairment of financial assets

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

(i) *Loans and receivables*

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

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

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

(ii) *Available-for-sale financial assets*

If an available-for-sale financial asset is impaired, an amount comprising the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Inventories

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

(i) *Properties under development*

The cost of properties under development comprises specifically identified cost, included borrowings costs capitalised (see note 3.12), aggregate cost of development, materials and supplies, wages and other direct expenses. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

(ii) *Completed properties held for sale*

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

3.12 Borrowing costs

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

3.13 Cash and cash equivalents

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

3.14 Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, trade and other payables and other borrowings. They are included in balance sheet line items as "Trade payables" ,"Other payables and accruals", "Amount due to a director", "Amount due to a minority shareholder", "Amounts due to shareholders", "Amounts due to associate(s)", "Land premium payable", "Bank and other borrowings", and " Finance lease liabilities".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Financial liabilities (Continued)

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

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

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

(i) *Borrowings*

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

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

(ii) *Trade and other payables*

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

(iii) *Finance lease liabilities*

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 3.7).

3.15 Deferred revenue

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

3.16 Provisions and contingent liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Provisions and contingent liabilities (Continued)

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

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

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

3.17 Financial guarantees issued

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

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

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

3.18 Share capital

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Revenue recognition

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

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

Revenue arising from sale of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured.

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

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

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

3.20 Foreign currency translation

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Foreign currency translation (Continued)

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

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

3.21 Employee benefits

(i) *Short-term employee benefits*

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

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

(ii) *Retirement benefits scheme*

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Employee benefits (Continued)

(ii) Retirement benefits scheme (Continued)

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

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

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

(iii) Share-based employee compensation

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Employee benefits (Continued)

(iii) Share-based employee compensation (Continued)

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

3.22 Accounting for income taxes

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Related parties

A party is considered to be related to the Group if :

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate of the Group;

(c) the party is a member of the key management personnel of the Group;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

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

3.24 Segment reporting

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

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of properties held for and under development, property, plant and equipment, prepaid land lease payments under operating leases, intangible assets, inventories, receivables and operating cash and financial assets at fair value through profit or loss. Segment liabilities comprise operating liabilities and land premium payables and exclude items such as provision for tax and certain corporate borrowings.

Capital expenditure comprises additions to intangible assets and property, plant and equipment.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

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

Depreciation and amortisation

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

Provision for impairment of receivables

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

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

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

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates of the future cash flows expected to arise from the cash-generating units and the suitable discount rates in order to calculate the present value.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.2 Critical judgements in applying the Group's accounting policies

Current tax and deferred tax

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

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

5. REVENUE /TURNOVER AND OTHER OPERATING INCOME

		2007 **HK$'000**	2006 HK$'000
(a)	**The Group's turnover represents revenue from:**		
	Distance learning education services	**7,095**	8,267
	Corporate IT application services	**628,064**	585,214
	Property management	**6,922**	2,140
	Financial information services	**21,647**	24,917
	Sale of properties	**–**	1,477,824
	Culture and media services	**9,166**	–
	Others	**137**	875
		673,031	2,099,237
(b)	**Other operating income:**		
	Interest income	**2,845**	2,545
	Dividend income	**134**	119
	Net fair value gain on financial assets at fair value through profit or loss	**3,262**	411
	Write back of sundry creditors	**3,829**	–
	Sundry income	**3,902**	4,112
		13,972	7,187

6. SEGMENT INFORMATION

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

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

Summary of details of the business segments are as follows:

(a) Financial information services

(b) Corporate IT application services

(c) Property development

(d) Distance learning education services

(e) Other segment include trading of securities, property management and culture and media services

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

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

6. SEGMENT INFORMATION (Continued)

(a) Business segments

2007

	Financial information services HK$'000	Corporate IT application services HK$'000	Property development HK$'000	Distance learning education services HK$'000	Other segments HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue							
Sales to external customers	21,647	628,064	–	7,095	16,225	–	673,031
Inter-segment sales	15,485	–	–	9,859	–	(25,344)	–
	37,132	628,064	–	16,954	16,225	(25,344)	673,031
Segment results	(17,290)	111,930	(34,685)	(1,659)	(8,606)	(15,485)	34,205
Interest income							2,845
Gain arising on acquisition of additional interests in subsidiaries							30,292
Loss on disposal and dissolution of subsidiaries							(7,685)
Unallocated corporate expenses							(60,528)
Finance costs							(46,194)
Loss before income tax							(47,065)
Income tax credit							68,602
Profit for the year							21,537
Segment assets	8,311	602,466	7,758,331	11,974	29,156	–	8,410,238
Unallocated assets							39,412
Total assets							8,449,650
Segment liabilities	(17,336)	(90,306)	(436,149)	(2,323)	(45,122)	–	(591,236)
Loan liabilities							(1,898,392)
Unallocated liabilities							(916,140)
Total liabilities							(3,405,768)
Other information							
Capital expenditure	1,525	194,145	2,548	281	2,596	–	201,095
Depreciation	747	19,622	272	401	858	–	21,900
Amortisation	–	23,199	–	–	–	–	23,199
Other non-cash expenses	1,259	15,550	–	852	7,572	–	25,233

6. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

2006

	Financial information services HK$'000	Corporate IT application services HK$'000	(Restated) Property development HK$'000	Distance learning education services HK$'000	Other segments HK$'000	Elimination HK$'000	(Restated) Total HK$'000
Segment revenue							
Sales to external customers	24,917	585,214	1,477,824	8,267	3,015	–	2,099,237
Inter-segment sales	14,644	–	–	9,372	–	(24,016)	–
	39,561	585,214	1,477,824	17,639	3,015	(24,016)	2,099,237
Segment results	(283,125)	126,777	285,954	5,149	(6,245)	–	128,510
Interest income							2,545
Unallocated corporate expenses							(47,538)
Finance costs							(41,822)
Share of results of associates							2,055
Profit before income tax							43,750
Income tax expense							(78,452)
Loss for the year							(34,702)
Segment assets	27,226	687,739	6,174,374	33,171	41,089	–	6,963,599
Unallocated assets							59,500
Interest in associates							18,967
Total assets							7,042,066
Segment liabilities	(18,666)	(113,483)	(592,817)	(2,401)	(50,729)	–	(778,096)
Loan liabilities							(474,159)
Unallocated liabilities							(905,018)
Total liabilities							(2,157,273)
Other information							
Capital expenditure	2,245	56,882	482	608	1,837	–	62,054
Depreciation	569	17,780	151	428	711	–	19,639
Amortisation	–	13,532	–	–	–	–	13,532
Impairment loss on goodwill	289,800	–	–	–	–	–	289,800
Other non-cash expenses/(income)	626	20,072	–	129	(70)	–	20,757

6. SEGMENT INFORMATION (Continued)

(b) Geographical segments

2007

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

2006

	Europe, other than United Kingdom HK$'000	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	–	57,000	2,042,237	2,099,237
Other segment information				
Segment assets	816	76,583	6,964,667	7,042,066
Capital expenditure	–	620	61,434	62,054

7. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**99,845**	44,968
Interest on other loans wholly repayable within five years	**241**	5,069
Interest on other payables	**20,641**	8,238
Interest on finance leases	**39**	17
Interest on amounts due to shareholders	**30,411**	30,411
Total interest expenses	**151,177**	88,703
Less: Amount directly attributable to properties held for and under development capitalised *	**(104,983)**	(46,881)
	46,194	41,822

* The borrowing costs have been capitalised at a rate of 5.580% to 8.217% (2006: 3.82% to 18.25%) per annum.

8. (LOSS)/PROFIT BEFORE INCOME TAX

	2007 HK$'000	(Restated) 2006 HK$'000
(Loss)/Profit before income tax is arrived at after charging/(crediting):		
Amortisation of intangible assets other than goodwill (included in other operating expenses)	**23,199**	13,532
Auditors' remuneration	**4,269**	3,957
Bad debt written off	**11,226**	28
Cost of provision of corporate IT application services	**105,078**	77,743
Cost of provision of financial information services	**7,431**	6,741
Cost of provision of proprietary software	**1,732**	1,923
Cost of sale of properties#	**–**	1,162,277
Cost of provision of culture and media services	**8,846**	–
Cost of inventories sold – distance learning materials	**3,220**	3,515
Cost of provision of property management services	**5,689**	1,164
Cost of sales and services provided	**131,996**	1,253,363
Gross depreciation of property, plant and equipment-owned assets	**21,635**	19,270
Less: Amounts included in cost of provision of corporate IT application services	**(105)**	–
Amounts capitalised in intangible assets	**(145)**	–
Net depreciation of owned assets	**21,385**	19,270
Depreciation of leased assets	**265**	99
Gain on partial disposal of an associate	**–**	(1,358)
Loss on disposal and dissolution of subsidiaries	**7,685**	–
Write-off of property, plant and equipment	**452**	872
(Gain)/Loss on disposal of property, plant and equipment	**(54)**	3,214
Loss on partial disposal of a subsidiary	**–**	1,017
Net fair value gain on financial assets at fair value through profit or loss	**(3,262)**	(411)
Net foreign exchange loss/(gain)	**725**	(3,692)
Gross operating lease charges on land and buildings	**44,562**	36,575
Less: Amounts included in cost of provision of corporate IT application services	**(1,251)**	–
Amounts capitalised in intangible assets	**(1,403)**	–
Net operating lease charges on land and buildings	**41,908**	36,575
Operating lease charges on prepaid land lease	**738**	270
Provision for impairment of receivables	**12,539**	16,663
Write-off of intangible assets (included in other operating expenses)	**1,070**	–

In a previous year, a subsidiary, 深圳南海益田置業有限公司, and a third party entered into a co-operative agreement to develop the residential project on land site Lot No. K708-0050. For the year ended 31 December 2006, this third party in accordance with the agreement was entitled to 40% profit on the sale of the completed properties on the land site Lot No. K708-0050 which were sold during the year. The amount shared by this third party was HK$123,700,000 included in cost of sales for the year ended 31 December 2006.

9. INCOME TAX (CREDIT)/EXPENSE

	2007 HK$'000	(Restated) 2006 HK$'000
The tax (credit)/charge comprises:		
Current tax		
– Hong Kong profits tax		
Underprovision in respect of prior years	–	18
– Overseas tax		
Under/(Over) provision of PRC enterprise income tax in respect of prior years	439	(1,490)
PRC enterprise income tax charge for the year	5,309	63,748
PRC land appreciation tax	–	16,176
	5,748	78,452
Deferred tax		
– Credited for the year (note 28)	(6,400)	–
– Attributable to decrease in tax rates (note 28)	(67,950)	–
	(74,350)	–
	(68,602)	78,452

For the years ended 31 December 2006 and 2007, no Hong Kong profits tax has been provided in the financial statements as the companies within the Group either did not derive any assessable profit in Hong Kong or had unused tax losses brought forward to offset against the current year's assessable profits in Hong Kong.

PRC Enterprise Income Tax ("EIT") has been provided on the estimated assessable profits of subsidiaries operating in Mainland China at 33% (2006:33%), unless preferential rates are applicable in the cities where the subsidiaries are located.

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

In addition, certain subsidiaries that are located in the Beijing Economic-Technological Development Area are entitled to preferential PRC EIT rate of 15% (2006:15%).

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

Pursuant to the tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises in Mainland China are unified at 25% with effective from 1 January 2008. As a result, the provision for deferred tax reduced accordingly.

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

	2007 **HK$'000**	(Restated) 2006 HK$'000
(Loss)/Profit before income tax	**(47,065)**	43,750
Tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(26,665)**	(14,635)
Tax effect of non-deductible expenses	**34,150**	86,396
Tax effect of non-taxable revenue	**(11,009)**	(3,142)
Tax effect of unused tax losses not recognised	**11,960**	5,376
Utilisation of tax loss in current year	**(9,447)**	(10,366)
Tax effect on temporary differences not previously recognised	**(80)**	119
Effect on opening deferred tax balances resulting from a decrease in tax rate during the year	**(67,950)**	–
Under/(Over) provision in prior years	**439**	(1,472)
PRC land appreciation tax	**–**	16,176
Income tax (credit)/expense	**(68,602)**	78,452

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

Of the consolidated loss attributable to the equity holders of the Company of HK$14,570,000 (2006: a profit of HK$21,881,000), a loss of HK$57,598,000 (2006: HK$54,317,000) has been dealt with in the financial statements of the Company.

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to the equity holders of the Company of HK$14,570,000 (2006: a profit of HK$21,881,000) and on the weighted average of 68,365,627,780 (2006: 68,185,615,383) ordinary shares in issue during the year.

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

The calculation of diluted earnings per share for the year ended 31 December 2006 was based on the profit attributable to equity holders of the Company for the year of HK$21,881,000 and the weighted average of 68,299,752,751 ordinary shares outstanding during 2006, adjusted for the effects of all dilutive potential shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share was calculated based on weighted average of 68,185,615,383 ordinary shares in issue during 2006 plus the weighted average of 114,137,368 ordinary shares deemed to be issued at no consideration as if all the Company's share options have been exercised.

12. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2007 HK$'000	2006 HK$'000
Directors' fee (Note 34(a))	**677**	579
Wages and salaries	**317,710**	267,864
Gross pension cost – defined contributions retirement schemes	**25,947**	13,916
Less: Forfeited contributions	**–**	(38)
Net pension cost – defined contributions retirement schemes	**25,947**	13,878
Equity-settled share-based compensation expenses	**3,338**	3,968
Staff welfare	**28,690**	23,405
	376,362	309,694
Less: Amounts capitalised in intangible assets	**(9,460)**	–
	366,902	309,694

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Moulds and tools HK$'000	Construction in progress HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2006						
Cost	–	67,541	4,090	2,523	1,236	75,390
Accumulated depreciation	–	(26,929)	(4,090)	–	(444)	(31,463)
Net book amount	–	40,612	–	2,523	792	43,927
Year ended 31 December 2006						
Opening net book amount	–	40,612	–	2,523	792	43,927
Exchange differences	–	1,233	–	101	36	1,370
Additions	–	29,573	–	3,299	747	33,619
Acquisition of subsidiaries (note 32(a))	–	1,178	–	–	–	1,178
Disposals	–	(3,373)	–	–	(122)	(3,495)
Write–off	–	(872)	–	–	–	(872)
Depreciation	–	(19,186)	–	–	(183)	(19,369)
Closing net book amount	–	49,165	–	5,923	1,270	56,358
At 31 December 2006						
Cost	–	178,183	4,090	5,923	1,466	189,662
Accumulated depreciation	–	(129,018)	(4,090)	–	(196)	(133,304)
Net book amount	–	49,165	–	5,923	1,270	56,358
Year ended 31 December 2007						
Opening net book amount	**–**	**49,165**	**–**	**5,923**	**1,270**	**56,358**
Additions	**33,767**	**45,105**	**–**	**14,602**	**3,104**	**96,578**
Disposals	**–**	**(1,171)**	**–**	**–**	**(158)**	**(1,329)**
Write–off	**–**	**(452)**	**–**	**–**	**–**	**(452)**
Depreciation	**(844)**	**(20,585)**	**–**	**–**	**(471)**	**(21,900)**
Exchange differences	**1,132**	**6,008**	**–**	**909**	**122**	**8,171**
Closing net book amount	**34,055**	**78,070**	**–**	**21,434**	**3,867**	**137,426**
At 31 December 2007						
Cost	**34,928**	**230,258**	**–**	**21,434**	**4,649**	**291,269**
Accumulated depreciation	**(873)**	**(152,188)**	**–**	**–**	**(782)**	**(153,843)**
Net book amount	**34,055**	**78,070**	**–**	**21,434**	**3,867**	**137,426**

The carrying amount of the Group's property, plant and equipment includes an amount of HK$881,000 (2006: HK$296,000) in respect of assets held under finance lease.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements, furniture, fixtures and equipment HK$'000
At 1 January 2006	
Cost	21
Accumulated depreciation	(1)
Net book amount	20
Year ended 31 December 2006	
Opening net book amount	20
Additions	213
Depreciation	(45)
Closing net book amount	188
At 31 December 2006	
Cost	234
Accumulated depreciation	(46)
Net book amount	188
Year ended 31 December 2007	
Opening net book amount	**188**
Additions	**82**
Depreciation	**(93)**
Closing net book amount	**177**
At 31 December 2007	
Cost	**316**
Accumulated depreciation	**(139)**
Net book amount	**177**

14. PREPAID LAND LEASE PAYMENTS UNDER OPERATING LEASES

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

	Group	
	2007	2006
	HK$'000	HK$'000
Outside Hong Kong, held on land with:		
Unexpired terms of leases of between 10 to 50 years	**55,915**	13,675

	Group	
	2007	2006
	HK$'000	HK$'000
Opening net carrying amount	**13,675**	13,440
Additions	**40,713**	–
Annual charges of prepaid operating lease payment	**(738)**	(270)
Exchange differences	**2,265**	505
Closing net carrying amount	**55,915**	13,675

At 31 December 2007 and 31 December 2006, the leasehold land was pledged to secure banking facilities granted to the Group.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**31,177**	31,177
Less: Provision for impairment	**(31,177)**	(31,177)
	–	–

15. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at 31 December 2007 are as follows:

Name	Country/ Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ registered capital	Percentage held by the Company		Principal activities
			Directly	Indirectly	
CE Dongli Technology Group Company Limited ("CE Dongli") (note a)	PRC	RMB529,171,334	–	56.57 (2006: 50.28)	Information technology business
China Enterprise ASP Limited ("CE ASP")	Hong Kong	9,000,000 ordinary shares of HK$1 each	–	62.85	Investment holding
Dadi Entertainment Limited	Hong Kong	2 ordinary shares of HK$1 each	–	62.85	Investment holding
Dadi Media Limited ("Dadi Media")	Hong Kong	2 ordinary shares of HK$1 each	–	62.85	Investment holding
Evallon Investment Limited ("Evallon")	Hong Kong	10,000 ordinary shares of HK$100 each	–	62.85	Dormant
Goalrise Investments Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1 each	100	–	Trading of securities
Listar Properties Limited	BVI	20,000,000 ordinary shares of US$1 each	–	100	Investment holding
Liu Wan Development (BVI) Company Limited ("Liu Wan (BVI)")	BVI	215,000,000 ordinary shares of US$1 each	–	100	Investment holding
Liu Wan Investment Company Limited	Hong Kong	2 ordinary shares of US$1 each	–	100	Investment holding
Rich King Inc.	BVI	50,000 ordinary shares of US$1 each	–	62.85	Investment holding
Rise Manor Development Limited	Hong Kong	2 ordinary shares of HK$1 each	100	–	Provision of management services
Robina Profits Limited	BVI	1 ordinary share of US$1 each	–	62.85	Trading of securities

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/ Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ registered capital	Percentage held by the Company Directly	Percentage held by the Company Indirectly	Principal activities
Shihua (Hong Kong) Financial Information Company Limited	Hong Kong	5,000,000 ordinary shares of HK$1 each	–	62.85	Provision of financial information
Sino-i Technology Limited ("Sino-i")	Hong Kong	19,914,504,877 ordinary shares of HK$0.01 each	–	62.85	Investment holding
South Sea Development (HK) Limited	Hong Kong	2 ordinary shares of HK$1 each	100	–	Investment holding
Victorious Limited	BVI	1 ordinary share of US$1 each	–	62.85	Trading of securities
View Power Investments Limited	BVI	1 ordinary share of US$1 each	100	–	Investment holding
Wise Advance Investments Limited	BVI	1 ordinary share of US$1 each	100	–	Investment holding
北京中企開源信息技術有限公司 (note b)	PRC	RMB10,000,000	–	56.57 (2006: 50.28)	Information technology business
北京世華國際金融信息有限公司 (note b)	PRC	RMB130,000,000	–	50.28	Provision of financial information on the internet
北京金世紀大酒店有限公司 (note b)	PRC	RMB99,600,000	–	62.85	Property development
北京紅旗中文貳仟軟件技術有限公司 ("Redflag 2000") (note c)	PRC	RMB10,000,000	–	40.85	Information technology business
北京華夏大地遠程教育網絡服務有限公司 (note b)	PRC	RMB50,000,000	–	59.71	Operation of an educational portal and provision of online distance learning education services

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/ Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ registered capital	Percentage held by the Company Directly	Percentage held by the Company Indirectly	Principal activities
北京新網科技發展有限公司 (note b)	PRC	RMB14,485,000	–	56.57 (2006: 50.28)	Information technology business
北京新網數碼信息技術有限公司 (note b)	PRC	RMB10,000,000	–	56.57 (2006: 50.28)	Information technology business
南京天悦置業投資顧問有限公司 (note b)	PRC	US$500,000	–	100	Property management
深圳市半島城邦物業管理有限公司 (note b)	PRC	RMB3,000,000	–	100	Property management
深圳市金益田實業發展有限公司 (note b)	PRC	RMB18,000,000	–	100	Property development
深圳南海益田置業有限公司 (note b)	PRC	RMB110,000,000	–	100	Investment holding and property development
廣州東鏡新城房地產有限公司 (note c)	PRC	US$14,000,000	–	100 (2006: 81.05)	Property development
廣東大地電影院綫有限公司 (note b)	PRC	RMB10,000,000	–	56.57	Film distribution
廣東大地影院建設有限公司 (note b)	PRC	RMB83,330,000	–	62.85	Investment holding

The above table lists out the subsidiaries of the Company as at 31 December 2007 which, in the opinion of the directors, principally affected the Group's results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

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

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

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

16. INTEREST IN ASSOCIATES

	Group 2007 HK$'000	Group 2006 HK$'000
Balance at 1 January	**18,967**	55,531
Partial disposal of an associate	**–**	(38,610)
Disposal of an associate (note 32(b))	**(18,967)**	–
Share of associates results		
– Profit before income tax	**–**	2,055
	–	2,055
Exchange differences	**–**	(9)
Balance at 31 December	**–**	18,967

Particulars of the associates at 31 December 2007 are as follows:

Name	Country of incorporation/ establishment and operations	Particulars of issued capital	Percentage of interest held by the Group 2007	Percentage of interest held by the Group 2006	Nature of business
Easy-Trade Technology Services Limited*	PRC	RMB50,000,000	**–**	30	Leasing of POS machines and provision of information technology services
Genius Reward Company Limited*	Hong Kong	2 ordinary shares of HK$100 each	**31**	31	Inactive

* unlisted limited liability company

16. INTEREST IN ASSOCIATES (Continued)

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

	2007 HK$'000	2006 HK$'000
Assets	**25,702**	93,712
Liabilities	**(32,601)**	(41,447)
Revenue	**–**	21,561
Loss for the year	**(788)**	(1,142)

The Group has discontinued recognition of its share of loss of an associate. The amount of unrecognised share of loss of the associate for the year and accumulated unrecognised share of loss of the associate amounted to HK$788,000 and HK$3,737,000 respectively.

17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group	
	2007 HK$'000	2006 HK$'000
Deposits and prepayments	**345,613**	741,759
Outstanding consideration receivable arising from the disposal of an associate/ other investments	**–**	39,986
Advances to former subsidiaries	**–**	17,310
Others	**316,871**	297,791
	662,484	1,096,846
Less: Provision for impairment of receivables	**(18,177)**	(12,464)
	644,307	1,084,382
Less non-current portion:		
Deposits for construction in progress	**–**	232,294
Deposits for purchase of intangible assets	**58,989**	33,831
Deposits for purchase of property, plant and equipment	**–**	8,492
	58,989	274,617
	585,318	809,765

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

	2007 HK$'000	2006 HK$'000
At the beginning of the year	**12,464**	7,831
Provision for impairment	**5,105**	4,651
Amount written off as uncollectible	**–**	(127)
Exchange differences	**608**	109
At the end of the year	**18,177**	12,464

18. INTANGIBLE ASSETS

Group

	Computer software HK$'000	Development cost HK$'000	Goodwill HK$'000	Total HK$'000
At 1 January 2006				
Gross carrying amount/Cost	37,719	–	458,266	495,985
Accumulated amortisation	(1,121)	–	–	(1,121)
Net carrying amount	36,598	–	458,266	494,864
Year ended 31 December 2006				
Opening net carrying amount	36,598	–	458,266	494,864
Acquisition of subsidiaries (note 32(a))	129	–	20,705	20,834
Additions	28,435	–	–	28,435
Amortisation charge for the year	(13,532)	–	–	(13,532)
Impairment loss	–	–	(289,800)	(289,800)
Exchange differences	1,825	–	811	2,636
Closing net carrying amount at 31 December 2006	53,455	–	189,982	243,437
At 31 December 2006				
Gross carrying amount/Cost	68,736	–	479,782	548,518
Accumulated amortisation	(15,281)	–	–	(15,281)
Accumulated impairment	–	–	(289,800)	(289,800)
Net carrying amount	53,455	–	189,982	243,437
Year ended 31 December 2007				
Opening net carrying amount	**53,455**	**–**	**189,982**	**243,437**
Additions	**51,777**	**12,027**	**29,609***	**93,413**
Write–off	**(1,070)**	**–**	**–**	**(1,070)**
Amortisation charge for the year	**(23,199)**	**–**	**–**	**(23,199)**
Disposal of subsidiaries (note 32(b))	**–**	**–**	**(20,433)**	**(20,433)**
Exchange differences	**4,617**	**413**	**1,477**	**6,507**
Closing net carrying amount at 31 December 2007	**85,580**	**12,440**	**200,635**	**298,655**
At 31 December 2007				
Gross carrying amount/Cost	**132,954**	**12,440**	**490,435**	**635,829**
Accumulated amortisation	**(47,374)**	**–**	**–**	**(47,374)**
Accumulated impairment	**–**	**–**	**(289,800)**	**(289,800)**
Net carrying amount	**85,580**	**12,440**	**200,635**	**298,655**

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

18. INTANGIBLE ASSETS (Continued)

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

	2007 HK$'000	2006 HK$'000
Property development	**143,111**	113,502
Corporate IT application services	**57,524**	76,480
Net carrying amount at 31 December	**200,635**	189,982

The recoverable amounts for the CGU given above were determined based on value-in-use calculations, covering a detailed five-year budget plan using the rates stated below.

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

	Property development	**Corporate IT application services**
Growth rates	10%	10%
Discount rates	8%	8%

Another key assumption used in the cash flow projection is a stable profit margin which has been determined based on past experience in the corresponding industry to which the CGU belongs.

For the year ended 31 December 2006, due to the changes in the Group's future development strategic plan, the estimated future cash flow generated by the CGU under the segment of provision of financial information might be of amount below the value of existing goodwill. After assessing all the facts and the development strategy, the management decided to write off the corresponding goodwill.

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

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

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

19. INVENTORIES

	Group 2007 HK$'000	2006 HK$'000
Property development		
Properties under development	**6,345,786**	4,950,545
Completed properties held for sale	**423,814**	403,296
	6,769,600	5,353,841

All the above inventories are stated at cost.

The amount of properties under development expected to be recovered after more than one year is HK$6,345,786,000 (2006: HK$4,950,545,000). All of the other inventories are expected to be recovered within one year.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 2007 HK$'000	2006 HK$'000
Listed equity securities in Hong Kong, at fair value	**5,048**	7,256
Market value of listed securities	**5,048**	7,256

The above financial assets at fair value through profit or loss are classified as held for trading.

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

21. TRADE RECEIVABLES

	Group 2007 HK$'000	2006 HK$'000
Trade receivables analysed according to aging:		
0-90 days	**14,320**	52,060
91-180 days	**79,987**	3,631
181-270 days	**1,669**	58,646
271-360 days	**1,226**	1,468
Over 360 days	**27,626**	69,061
Trade receivables, gross	**124,828**	184,866
Less: Provision for impairment of receivables	**(38,560)**	(29,654)
Trade receivables, net	**86,268**	155,212

Trade receivables are due on presentation of invoices.

21. TRADE RECEIVABLES (Continued)

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

	2007 **HK$'000**	2006 HK$'000
At the beginning of the year	**29,654**	18,007
Provision for impairment	**7,434**	12,012
Amounts recovered during the year	**–**	(916)
Exchange differences	**1,472**	551
At the end of the year	**38,560**	29,654

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

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

	2007 **HK$'000**	2006 HK$'000
0–90 days past due	**14,319**	47,823
91–180 days past due	**69,459**	173
181–270 days past due	**249**	57,199
271–360 days past due	**25**	416
Overdue for more than 360 days	**2,216**	49,601
	86,268	155,212

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

22. PLEDGED BANK DEPOSITS/TIME DEPOSITS/CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**231,682**	85,879	**1,705**	3,076
Time deposits	**214,025**	22,735	**–**	–
	445,707	108,614	**1,705**	3,076
Less: Pledged time deposits for short-term bank loans	**–**	(22,282)	**–**	–
Time deposits with original maturity more than 3 months	**(213,561)**	–	**–**	–
	232,146	86,332	**1,705**	3,076

Included in bank and cash balance of the Group is an aggregate amount of approximately HK$440,036,000 (2006: HK$81,270,000), which represented Renminbi (RMB) deposits placed with banks in Mainland China.

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for one to six months and earn interest ranging from 1.75% to 2.88%.

23. TRADE PAYABLES

	Group	
	2007	2006
	HK$'000	HK$'000
Trade payables analysed according to aging:		
0-90 days	**35,516**	121,915
91-180 days	**9,129**	1,862
181-270 days	**32,350**	383
271-360 days	**242**	333
Over 360 days	**59,500**	4,831
	136,737	129,324

24. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals as at 31 December 2007 are amounts of HK$32,398,000 (2006: HK$35,457,000) due to certain securities brokers and margin financiers which are secured by 2,126,993,316 (2006: 2,454,992,316) shares in Sino-i and by the Company's shares held by certain shareholders who agreed to pledge their interests in the Company to support the Group's credit facilities. The amounts due bear interest at the rate of 9% to 11% per annum (2006: 8% to 12% per annum) or a floating rate of Hong Kong dollar prime rate plus 3% to 3.25% per annum (2006:Hong Kong dollar prime rate plus 3% to 3.5% per annum).

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

(a) Amount due to a director

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

(b) Amount due to a minority shareholder

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

(c) Amounts due to shareholders – current liabilities

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

(d) Amounts due to associate(s)

The amounts due to associate(s) is/are unsecured, interest-free and repayable on demand.

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

The amounts due to shareholders are unsecured, interest-free and fall due on 60 months from 30 August 2005. The amounts due to shareholders are initially recognised at fair value of HK$336,110,000 (2006: HK$336,110,000). As at 31 December 2007, the amounts are stated at amortised cost calculating using an effective interest rate of 9.05% (2006: 9.05%).

(f) Amounts due from subsidiaries

	Company	
	2007	2006
	HK$'000	HK$'000
Amounts due from subsidiaries	**5,386,927**	4,737,672
Less: Allowances for amount due from subsidiaries	**(426,742)**	(426,742)
	4,960,185	4,310,930

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

(g) Amounts due to subsidiaries

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

26. BANK AND OTHER BORROWINGS

	Notes	Group 2007 HK$'000	Group 2006 HK$'000
Bank overdrafts		**270**	270
Bank loans	(a)	**1,897,278**	448,141
Other borrowings	(b)	**–**	25,468
		1,897,548	473,879
Secured		**1,897,278**	473,609
Unsecured		**270**	270
		1,897,548	473,879

At 31 December 2007, the bank and other borrowings of the Group were repayable as follows:

	Group 2007 HK$'000	Group 2006 HK$'000
Within one year	**310,148**	459,091
In the second year	**1,131,447**	199
In the third to fifth years	**455,953**	14,589
Wholly repayable within 5 years	**1,897,548**	473,879
Less: Portion due within one year under current liabilities	**(310,148)**	(459,091)
Portion due over one year under non-current liabilities	**1,587,400**	14,788

(a) Bank loans amounted to HK$1,897,278,000 (2006:Nil) carry interest at floating rates ranging from Renminbi prime rate to Renminbi prime rate times 115%. For the year ended 31 December 2006, bank loans amounted to HK$448,141,000 bear interest at fixed rates ranging from 5.85% to 6.93% per annum. The carrying amounts of bank loans approximate their fair values.

(b) As at 31 December 2006, the loan of HK$25,468,000 was secured by certain shares in the Company held by certain shareholders who agreed to pledge their interests in the Company in favour of Sino-i. The loan bore interest at prime rate plus 8% per annum. According to the loan agreement dated 9 May 2003, the loan was originally due on 9 November 2003. Penalty interest of approximately HK$2,268,000 was accrued and included in other payables and accruals under current liabilities as at 31 December 2006. The carrying amount of this loan approximated its fair value. The loan was repaid during the year ended 31 December 2007.

26. BANK AND OTHER BORROWINGS (Continued)

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

	Group	
	2007	2006
	HK$'000	HK$'000
Hong Kong dollar	**–**	25,468
RMB	**1,897,278**	448,141
Euro	**270**	270
	1,897,548	473,879

27. FINANCE LEASE LIABILITIES

		Group	
		2007	2006
		HK$'000	HK$'000
(a)	Total minimum lease payments is as follows:		
	Due within one year	**378**	114
	Due in the second to fifth years	**581**	208
		959	322
	Future finance charges on finance leases	**(115)**	(42)
	Present value of finance lease liabilities	**844**	280
(b)	The present value of finance lease liabilities is as follows:		
	Due within one year under current liabilities	**335**	99
	Due in the second to fifth years under non-current liabilities	**509**	181
		844	280

The Group has entered into finance leases for certain motor vehicles with lease terms ranging from two to four years. Interest rate under the leases is fixed ranging from 2.50% to 4.25% (2006:3.75%) per annum. The lease does not have options to renew or any contingent rental provisions. Under the lease terms, the Group has the option to purchase the lease asset at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the leases.

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

28. DEFERRED TAX

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

Deferred tax liabilities

Group

	Temporary differences attributable to accelerated depreciation allowances HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2006, 31 December 2006 and 1 January 2007	790	252,000	252,790
Exchange differences	–	28,137	28,137
Decrease in tax rate (note 9)	–	(67,950)	(67,950)
Gross deferred tax liabilities at 31 December 2007	790	212,187	212,977

Deferred tax assets

Group

	Loss available for offset against future taxable profits HK$'000
At 1 January 2006, 31 December 2006 and 1 January 2007	–
Deferred tax credited to the income statement during the year (note 9)	6,400
Gross deferred tax assets at 31 December 2007	6,400

28. DEFERRED TAX (Continued)

At 31 December 2007, the amount of unused tax losses for which no deferred tax assets is recognised in the balance sheet is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Temporary differences attributable to:		
– unused tax losses	**560,366**	585,176

Deferred tax asset in respect of tax losses has not been recognised in the financial statements due to the unpredictability of future profit streams against which the tax losses can be utilised. The tax losses of the subsidiaries operating in Mainland China amounted to HK$45,481,000 (2006:HK$17,777,000) can be carried forward for 5 years and tax losses of the subsidiaries operating in Hong Kong amounted to HK$514,885,000 (2006:HK$567,399,000) will not expire under the current tax legislation.

29. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each	HK$'000
Authorised:		
At 1 January 2006, 31 December 2006 **and 31 December 2007**	**500,000,000,000**	**5,000,000**
Issued and fully paid:		
At 1 January 2006	68,163,310,794	681,633
Issue of ordinary shares upon exercise of share options	45,725,000	457
At 31 December 2006 and 1 January 2007	68,209,035,794	682,090
Issue of ordinary shares upon exercise of share options	436,000,000	4,360
At 31 December 2007	**68,645,035,794**	**686,450**

30. SHARE OPTION SCHEME

Company

The Company operates a share option scheme.

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

On 15 December 2005, share options to subscribe for a total of 468,625,000 of the Company's shares, representing approximately 1.57% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors and employees of the Company and its subsidiaries at an exercise price of HK$0.04 per share.

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

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

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

	2007		2006	
	Number	**Weighted average exercise price per share HK$**	Number	Weighted average exercise price per share HK$
Outstanding at 1 January	**393,150,000**	**0.0400**	468,625,000	0.04
Granted during the year	**157,000,000**	**0.0714**	–	–
Exercised during the year	**(436,000,000)**	**0.0444**	(45,725,000)	0.04
Lapsed during the year	**(19,800,000)**	**0.0425**	(29,750,000)	0.04
Outstanding at 31 December	**94,350,000**	**0.0714**	393,150,000	0.04
Exercisable at 31 December	**17,250,000**	**0.0714**	178,425,000	0.04

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.1676 (2006: HK$0.0608).

30. SHARE OPTION SCHEME (Continued)

Company (Continued)

All share options as at 31 December 2006 and 2007 have been accounted for under HKFRS 2 "Share-based payment". The exercisable periods of the share options of the Company are as follows :

	2007		2006	
	Number	**Weighted average exercise price HK$**	Number	Weighted average exercise price HK$
Exercisable period :				
1-1-2006 to 31-12-2007	**–**	**–**	178,425,000	0.04
1-1-2007 to 31-12-2007	**–**	**–**	214,725,000	0.04
19-1-2007 to 18-1-2009	**17,250,000**	**0.0714**	–	–
19-1-2008 to 18-1-2009	**77,100,000**	**0.0714**	–	–
	94,350,000	**0.0714**	393,150,000	0.04

The Company's share options outstanding at 31 December 2007 had a weighted average remaining contractual life of 1 year (2006: 1 year).

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

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

At 31 December 2007, the Company had 94,350,000 (2006: 393,150,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 94,350,000 additional ordinary shares of the Company and additional share capital of approximately HK$943,500 and share premium of HK$5,793,000 (before issue expenses).

30. SHARE OPTION SCHEME (Continued)

The Subsidiary

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

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

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

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

	2007		2006	
	Number	**Weighted average exercise price HK$**	Number	Weighted average exercise price HK$
Outstanding at 1 January	**70,860,000**	**0.16**	90,460,000	0.16
Lapsed	**(3,310,000)**	**0.16**	(19,600,000)	0.16
Outstanding at 31 December	**67,550,000**	**0.16**	70,860,000	0.16
Exercisable at 31 December	**67,550,000**	**0.16**	69,360,000	0.16

30. SHARE OPTION SCHEME (Continued)

The Subsidiary (Continued)

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

	2007		2006	
	Number	**Weighted average exercise price HK$**	Number	Weighted average exercise price HK$
Exercisable period :				
1-7-2005 to 30-6-2008	**32,275,000**	**0.16**	33,930,000	0.16
1-7-2006 to 30-6-2008	**32,275,000**	**0.16**	33,930,000	0.16
1-1-2006 to 31-12-2008	**1,500,000**	**0.16**	1,500,000	0.16
1-1-2007 to 31-12-2008	**1,500,000**	**0.16**	1,500,000	0.16
	67,550,000	**0.16**	70,860,000	0.16

The Subsidiary's share options outstanding at 31 December 2007 had a weighted average remaining contractual life of 0.52 year (2006: 1.55 years).

In total, HK$3,338,000 of employee compensation expense has been included in the consolidated income statement for 2007 (2006: HK$3,968,000), comprising HK$3,338,000 (2006: HK$3,425,000) and nil (2006: HK$543,000) in relation to share options granted by the Company and the Subsidiary respectively, which gave rise to additional equity. No liabilities were recognised due to share-based payment transactions.

31. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 46 of the financial statements.

Notes:

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

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

31. RESERVES (Continued)

Company

	Share premium	Contributed surplus (note a)	Capital reserve (note b)	Share option reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006	949,510	1,971,857	–	3,130	(48,826)	2,875,671
Premium on issue of ordinary shares	1,372	–	–	–	–	1,372
Exercise of share options	–	–	596	(596)	–	–
Equity-settled share-based compensation expenses	–	–	–	3,425	–	3,425
Released on forfeiture of share options	–	–	–	(135)	135	–
Loss for the year	–	–	–	–	(54,317)	(54,317)
At 31 December 2006 and 1 January 2007	**950,882**	**1,971,857**	**596**	**5,824**	**(103,008)**	**2,826,151**
Premium on issue of ordinary shares	**14,999**	**–**	**–**	**–**	**–**	**14,999**
Exercise of share options	**–**	**–**	**6,871**	**(6,871)**	**–**	**–**
Equity-settled share-based compensation expenses	**–**	**–**	**–**	**3,338**	**–**	**3,338**
Released on forfeiture of share options	**–**	**–**	**–**	**(226)**	**226**	**–**
Loss for the year	**–**	**–**	**–**	**–**	**(57,598)**	**(57,598)**
At 31 December 2007	**965,881**	**1,971,857**	**7,467**	**2,065**	**(160,380)**	**2,786,890**

Notes:

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

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

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Business combination – acquisition of subsidiaries

On 8 September 2006, the Group, through a subsidiary, entered into sales and purchase agreement with the equity holders of Redflag Chinese 2000 to acquire 65% of its equity interest for a consideration of HK$9,442,000.

Redflag Chinese 2000 operates mainly in information technology business. The acquired business contributed revenues of HK$6,229,000 and net profit of HK$2,572,000 to the Group for the period from the date of acquisition up to 31 December 2006. Due to a lack of HKFRS-specific data prior to the acquisition of these subsidiaries, pro-forma profit or loss of the combined entity for 2006 could not be determined reliably.

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

	2006 HK$'000
Cash consideration	9,442
Fair value of net liabilities acquired	11,263
Goodwill (note 18)	20,705

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

	2006 HK$'000
Property, plant and equipment	1,178
Intangible assets	129
Trade receivables	3,672
Deposits, prepayment and other receivables	844
Cash and cash equivalents	426
Trade payables	(169)
Accruals and other payables	(17,343)
Net liabilities acquired	(11,263)

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

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

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

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

	2006 HK$'000
Purchase consideration	
– Cash consideration	9,442
– Consideration payables	(4,942)
Settled in cash	4,500
Cash and cash equivalents in subsidiary acquired	(426)
Cash outflow on acquisition	4,074

(b) Disposal and dissolution of subsidiaries

	2007 **HK$'000**
Net assets disposed of :	
Deposits, prepayments and other receivables	**4,996**
Goodwill (note 18)	**20,433**
Interest in an associate (note 16)	**18,967**
Other payables and accruals	**(273)**
	44,123
Exchange reserve released on disposal	**(3,076)**
Capital reserve released on disposal	**4,374**
Loss on disposal and dissolution of subsidiaries	**(7,685)**
	37,736
Satisfied by :	
Cash received	**37,736**

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

(c) Major non-cash transactions

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

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

(ii) The repayment from trade and other receivables of HK$30,312,000 was received by a director on behalf of the Group;

(iii) The other borrowing of HK$25,468,000 was repaid by a director on behalf of the Group; and

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

During the year ended 31 December 2006, the Group had acquired a motor vehicle of HK$395,000 by entering into finance lease arrangements.

33. RETIREMENT BENEFIT PLANS

Defined contribution retirement plans

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

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

The total cost charged to the consolidated income statement of HK$25,947,000 (2006: HK$13,878,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. No forfeited contributions in respect of the ORSO scheme was utilised during the year (2006: HK$38,000) and there was no balance available as at 31 December 2007 (2006: HK$Nil) to reduce future contributions.

Contributions payable of HK$32,000 as at 31 December 2007 (2006: HK$30,000) to the MPF Scheme are included in other payables.

34. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

Group

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

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

(a) Directors' emoluments (Continued)

	Fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Share-based payments HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2006					
Executive directors					
CHEN Dan **	–	512	253	–	765
QIN Tian Xiang *	–	1,143	–	11	1,154
YU Pun Hoi	–	480	–	12	492
ZHANG Hong Ren #	–	120	–	3	123
Non-executive directors					
LAM Bing Kwan	–	300	390	12	702
YU Lin Hoi	–	–	–	–	–
Independent non-executive directors					
HUANG Yaowen^	209	–	–	–	209
Prof. JIANG Ping^	175	–	–	–	175
LAU Yip Leung^^	71	–	–	–	71
QIN Tian Xiang*	28	–	–	–	28
WEI Jingyun***	48	–	–	–	48
WU Chen***	48	–	–	–	48
	579	2,555	643	38	3,815

* Resigned as independent non-executive director and re-designated as executive director with effect from 14 February 2006.
** Appointed as executive director with effect from 14 February 2006.
*** Resigned as independent non-executive director with effect from 30 May 2006.
^ Appointed as independent non-executive director with effect from 14 February 2006.
^^ Appointed as independent non-executive director with effect from 29 May 2006.
# Resigned as executive director with effect from 1 April 2006.

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

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included three (2006: one) directors, details of whose emoluments are set out above. The emoluments of the remaining two (2006: four) employees are as follows:

	2007 HK$'000	2006 HK$'000
Basic salaries, other allowances and benefits in kind	**2,460**	3,319
Equity-settled share-based compensation expenses	**–**	1,421
Pension contributions	**12**	36
	2,472	4,776

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

Emolument band	**Number of highest paid individuals**	
	2007	2006
HK$Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**2**	4
	2	4

During the years ended 31 December 2007 and 31 December 2006, no emoluments were paid to any of the Company's directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

35. COMMITMENTS AND OPERATING LEASES

(a) Capital commitments

At 31 December 2007, the Group had outstanding commitments as follows :

	2007 **HK$'000**	2006 HK$'000
Contracted but not provided for in respect of:		
– construction in progress	**4,388**	82,291
– property, plant and equipment	**134**	34,293
– intangible assets	**–**	4,037
	4,522	120,621

At 31 December 2007 and 31 December 2006, the Company did not have any significant capital commitments.

(b) Operating lease arrangement

At 31 December 2007, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows :

	Land and buildings	
	2007 **HK$'000**	2006 HK$'000
Within one year	**29,608**	30,574
In the second to fifth years	**12,704**	25,156
	42,312	55,730

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

35. COMMITMENTS AND OPERATING LEASES (Continued)

(b) Operating lease arrangement (Continued)

At 31 December 2007, the Group's total future minimum lease receivables under non-cancellable operating leases are as follows :

	Land and buildings	
	2007	2006
	HK$'000	HK$'000
Within one year	**–**	400
In the second to fifth years	**–**	1,599
Over five years	**–**	3,730
	–	5,729

At 31 December 2007 and 31 December 2006, the Company had no operating lease commitments as lessor or lessee.

36. CONTINGENT LIABILITIES

Guarantees given in connection with credit facilities granted to :

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Subsidiaries	**–**	–	**1,211,959**	213,329
Associates (Note)	**11,624**	12,090	**–**	–
Third parties (Note)	**65,754**	92,732	**–**	–
	77,378	104,822	**1,211,959**	213,329

Note:

In February 1993, a Group's associate borrowed a loan of US$5 million from a Filipino bank namely Banco de Oro-EPCI Inc. (formerly known as Equitable PCI Bank Inc.) ("EPCIB"). The loan was secured by a guarantee executed by Sino-i ("EPCIB Guarantee"), a listed subsidiary of the Company, and by a share mortgage of 74,889,892 shares ("Philippines Shares") of Acesite (Philippines) Hotel Corporation Inc. ("Acesite Phils."). Due to the pending litigation as mentioned in note 38 (a), the Group cannot ascertain the fair value of the guarantee in respect of the loan borrowed by the associate.

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

37. CREDIT FACILITIES

As at 31 December 2007, the Group's credit facilities were secured by the following :

(a) charge over prepaid lease payment for leasehold land (note 14) with a net carrying value of HK$55,915,000 (2006: HK$13,675,000);

(b) charge over buildings with a net carrying value of approximately HK$34,055,000 (2006: Nil);

(c) charge over certain properties held for and under development for sale with carrying value of HK$895,135,000 (2006: HK$3,701,235,000);

(d) personal guarantee given by Mr. Yu Pun Hoi;

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

(f) pledge of 2,126,993,316 (2006: 2,454,992,316) shares in Sino-i held by the Company indirectly in favour of certain securities brokers, the total of which represents approximately 16.99% (2006: 19.60%) of total interest of the Company in Sino-i. The market value of such listed shares as at 31 December 2007 was approximately HK$244,604,231 (2006:HK$233,224,000).

38. PENDING LITIGATIONS

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

(b) Dadi Media, a wholly-owned subsidiary of Sino-i as plaintiff, issued a claim against two minority shareholders of CE Dongli, a subsidiary of Sino-i, for the sum of HK$27,750,498.41 together with interest thereon and costs in May 2004 under the High Court Number of HCA1130 of 2004. The two defendants filed a defence and counterclaim in June 2004 and then an amended defence and counterclaim in September 2004. The counterclaim was further amended and re-amended. In December 2004, the two defendants issued a claim against CE ASP, a wholly-owned subsidiary of Dadi Media, (1) for the sum of HK$806,250; (2) an award of compensation pursuant to section 32P of the Employment Ordinance; (3) the sum of HK$13,000; and (4) interest and costs under High Court Number HCA2892 of 2004. CE ASP filed a defence in March 2005. These two cases are still in progress and no trial date has been fixed.

38. PENDING LITIGATIONS (Continued)

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

39. RELATED PARTY TRANSACTIONS

Remuneration for key management personnel represents amounts paid to the Company's directors as disclosed in note 34.

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

40.1 Foreign currency risk

The Group's exposure to currency exchange rates is minimal as majority of the subsidiaries of the Group operates in Mainland China with most of the transactions denominated and settled in Renminbi. The Group has no hedging policy in respect of its foreign exchange rate risk. However the management monitors foreign exchange exposure and will consider hedging significant currency exposure should the need arise.

40.2 Interest rate risk

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing bank and other borrowings carrying interests at variable rates and cash and cash equivalents. The interest rates and repayment terms of bank and other borrowings and cash and cash equivalents of the Group are disclosed in note 26 and 22 respectively. The Group currently does not have an interest rate hedging policy. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate exchange exposure should the need arise.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

40.2 Interest rate risk (Continued)

Interest rate sensitivity

At 31 December 2007, the Group was exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates. The following table illustrates the sensitivity of the profit after tax for the year and retained earnings to a change in interest rates of +1% and -1% (2006: +1% and -1%), with effect from the beginning of the year. The calculations are based on the Group's and the Company's bank borrowings and bank balance held at each balance sheet date. All other variables are held constant.

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
If interest rates was 1% (2006: 1%) higher				
Net profit/(loss) for the year	**1,581**	367	**17**	31
If interest rates was 1% (2006: 1%) lower				
Net profit/(loss) for the year	**(1,581)**	(367)	**(17)**	(31)

40.3 Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations and financial guarantees provided by the Group is arising from:

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

– the amount of contingent liabilities in relation to the financial guarantees provided by the Group as disclosed in note 36.

In order to minimise the credit risk, the management of the Group has formulated a defined fixed credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable regularly at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 21.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

40.4 Price risk

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

At 31 December 2007, if equity prices had increased/decreased by 5% and all other variables were held constant, profit after tax for the year would increase/decrease by approximately HK$252,000 (2006: loss for the year would decrease/increase by approximately HK$362,000). This is mainly due to the changes in financial assets at fair value through profit or loss. This sensitivity analysis has been determined assuming that the price change had occurred at the balance sheet date and had been applied to the Group's investment on that date.

40.5 Liquidity risk

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

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

Group

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

40.5 Liquidity risk (Continued)

Group

	Carrying Amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
As at 31 December 2006					
Trade payables	129,324	129,324	129,324	–	–
Other payables and accruals	581,349	581,349	581,349	–	–
Amount due to a director	3,141	3,141	3,141	–	–
Amount due to a minority shareholder	12,000	12,000	12,000	–	–
Amounts due to shareholders	381,665	493,173	5,006	–	488,167
Amounts due to associates	6,528	6,528	6,528	–	–
Land premium payables	173,284	173,284	173,284	–	–
Bank and other borrowings	473,879	480,582	463,842	1,225	15,515
Finance lease liabilities	280	322	114	114	94
	1,761,450	1,879,703	1,374,588	1,339	503,776

Company

	Carrying Amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
As at 31 December 2007					
Other payables and accruals	**6,480**	**6,480**	**6,480**	**–**	**–**
Amounts due to subsidiaries	**1,002,421**	**1,002,421**	**1,002,421**	**–**	**–**
Amount due to a director	**74,310**	**74,310**	**74,310**	**–**	**–**
Amounts due to shareholders	**407,070**	**488,167**	**–**	**–**	**488,167**
	1,490,281	**1,571,378**	**1,083,211**	**–**	**488,167**
As at 31 December 2006					
Other payables and accruals	121,750	121,750	121,750	–	–
Amounts due to subsidiaries	288,594	288,594	288,594	–	–
Amount due to a director	19,170	19,170	19,170	–	–
Amounts due to shareholders	376,659	488,167	–	–	488,167
	806,173	917,681	429,514	–	488,167

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

40.6 Fair value

The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are short-term by nature: cash and cash equivalents, trade receivables and payables, other receivables and payables, bank and other borrowings, amount due to a director / shareholders / minority shareholder / ultimate holding company / associate. Analysis of the interest rate and carrying amounts of borrowings are presented in note 26 to the financial statements.

40.7 Summary of financial assets and financial liabilities by category

The carrying amounts of the Group's and the Company's financial assets and liabilities as recognised at balance sheet dates may be categorised as follows. See notes 3.10 and 3.14 for explanations about how the category of financial instruments affects their subsequent measurement.

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Available-for-sale financial assets	**324**	324	**–**	–
Financial assets at fair value through profit or loss	**5,048**	7,256	**–**	–
Loans and receivables:				
– Trade receivables	**86,268**	155,212	**–**	–
– Other receivables	**298,694**	342,623	**975**	123
– Pledged bank deposits	**–**	22,282	**–**	–
– Amounts due from subsidiaries	**–**	–	**4,960,185**	4,310,930
– Time deposits	**213,561**	–	**–**	–
Cash and cash equivalents	**232,146**	86,332	**1,705**	3,076
	836,041	614,029	**4,962,865**	4,314,129
Financial liabilities				
Financial liabilities measured at amortised cost:				
– Trade payables	**136,737**	129,324	**–**	–
– Other payables and accruals	**481,956**	581,349	**6,480**	121,750
– Amount due to a director	**132,461**	3,141	**74,310**	19,170
– Amounts due to subsidiaries	**–**	–	**1,002,421**	288,594
– Amounts due to shareholders	**412,076**	381,665	**407,070**	376,659
– Amount due to a minority shareholder	**12,000**	12,000	**–**	–
– Amounts due to associate(s)	**5,507**	6,528	**–**	–
– Land premium payables	**–**	173,284	**–**	–
– Bank and other borrowings	**1,897,548**	473,879	**–**	–
– Finance lease liabilities	**844**	280	**–**	–
	3,079,129	1,761,450	**1,490,281**	806,173

41. CAPITAL MANAGEMENT

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

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

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

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Current Liabilities				
Bank and other borrowings	**310,148**	459,091	**–**	–
Finance lease liabilities	**335**	99	**–**	–
Non-current Liabilities				
Amounts due to shareholders	**407,070**	376,659	**407,070**	376,659
Bank and other borrowings	**1,587,400**	14,788	**–**	–
Finance lease liabilities	**509**	181	**–**	–
Total debt	**2,305,462**	850,818	**407,070**	376,659
Less: Pledged bank deposits	**–**	(22,282)	**–**	–
Time deposits	**(213,561)**	–	**–**	–
Cash and cash equivalents	**(232,146)**	(86,332)	**(1,705)**	(3,076)
Net debt	**1,859,755**	742,204	**405,365**	373,583
Total equity	**5,043,882**	4,884,793	**3,473,340**	3,508,241
Total equity and net debt	**6,903,637**	5,626,997	**3,878,705**	3,881,824
	26.94%	13.19%	**10.45%**	9.62%

42. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, a subsidiary of the Company entered into agreement with an independent third party to dispose of its 100% equity interest in a subsidiary, 北京金世紀大酒店有限公司 (Beijing Golden Century Hotel Limited) ("Beijing Golden Century"), and inter-company loans that Beijing Golden Century owed to the Group for a total consideration of HK$320,340,000.

43. COMPARATIVE FIGURES

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

(a) Completed properties held for sale

Location	Interest attributable to the Group in percentage	Total gross floor area on completion in sq.m. (approx.)	Type of development
Phase II of Golden Era Hotel, located at No. 1 Dong San Huan Road South, Chao Yang District, Beijing, the PRC	62.85	25,193	Commercial

(b) Properties under development

Location	Interest attributable to the Group in percentage	Total gross floor area on completion in sq.m. (approx.)	Type of development	Expected year of completion	Stage of development
A residential development located at Guanghu Gonglu, Huadu District, Guangdong Province, the PRC	81.05	1,080,000	Commercial/ residential	2011	Preparatory
Reclaimed site located at Liu Wan, Shekou, Shenzhen, Guangdong Province, the PRC	100	820,000	Shopping arcade/ residential/ hotel/ recreational facilities	2011	Construction in progress

Five-year Financial Summary

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

	Year ended 31 December 2007 HK$'000	Year ended 31 December 2006 HK$'000	Year ended 31 December 2005 HK$'000	(Restated) Year ended 31 December 2004 HK$'000	Nine months ended 31 December 2003 HK$'000
Revenue/Turnover	**673,031**	2,099,237	154,843	1,215	11,708
Profit/(Loss) for the year	**21,537**	(34,702)	56,006	3,047	63,545
Minority interests	**(36,107)**	56,583	(35,376)	–	–
(Loss)/Profit attributable to equity holders of the Company	**(14,570)**	21,881	20,630	3,047	63,545
Total assets	**8,449,650**	7,042,066	7,239,658	3,842,209	3,815,885
Total liabilities	**(3,405,768)**	(2,157,273)	(2,369,441)	(1,419,796)	(1,401,700)
	5,043,882	4,884,793	4,870,217	2,422,413	2,414,185

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