中國興業控股有限公司

# China Investments Holdings Limited | Annual Report 2008

*(Incorporated in Bermuda with limited liability)*
(Stock Code: 132)

# Contents

# Corporate Information

| | |
|---|---|
| Executive Directors | You Guang Wu *(Chairman)*<br>Su Wenzhao *(Managing Director)*<br>Wang Jin Yuan |
| Independent Non-executive Directors | Chan Kwok Wai<br>Chen Da Cheng<br>Deng Hong Ping |
| Registered Office | Clarendon House<br>2 Church Street<br>Hamilton HM 11<br>Bermuda |
| Principal Place of Business | Unit 601, Tsim Sha Tsui Centre<br>66 Mody Road<br>Tsimshatsui<br>Kowloon<br>Hong Kong |
| Registrars | Butterfield Fulcrum Group (Bermuda) Limited<br>Rosebank Centre<br>11 Bermudiana Road<br>Pembroke HM 08<br>Bermuda |
| Branch Registrars | Tricor Progressive Limited<br>26/F Tesbury Centre<br>28 Queen's Road East<br>Hong Kong |
| Principal Bankers | Bank of China<br>Bank of Communications<br>Wing Hang Bank Ltd. |
| Solicitors | Woo, Kwan, Lee & Lo<br>Guangdong Weonline Law Firm |
| Auditors | HLM & Co.<br>*Certified Public Accountants* |
| Secretary | Lo Tai On |
| Stock Code | 132 |

## BUSINESS REVIEW

The Group's business was affected inevitably by the global financial tsunami. For the year ended 31 December 2008, the Group's turnover was HK$472,503,000, a decrease of 5% over last year. Operating profit of the Group for the year was HK$17,115,000, a decrease of 80% over last year.

## FIBREBOARD BUSINESS

In 2008, the Group's fibreboard business encountered a variety of challenges in operation. The snowstorm in South China and the Sichuan earthquake in the first half of the year caused tight supply and surges in the price of raw materials; and the sharp deterioration of the global economy in the second half of the year resulted in dwindling demand and severe oversupply. All these had material adverse impact on the Group's fibreboard business. For the year ended 31 December 2008, the total production and total sales of medium density fibreboards were 334,840 cubic metres and 330,074 cubic metres, both down 8% from last year. The total sales for the year decreased by 4% to HK$447,283,000. The operating profit for the year was HK$13,333,303, representing a decrease of 86.19% over last year.

## HOTEL BUSINESS

Significant decrease in the number of local customers and visitors from abroad due to the natural disasters happened early this year in the PRC, the Tibet Incident and the Beijing Olympics, together with the global economic turmoil, imposed adverse impacts on the tourism market. The average occupancy rate of the Guilin Plaza in 2008 was 58.92%, a decrease of 17.88% over last year. In view of the significant decrease in the number of customers and the intensifying price competition, Guilin Plaza adopted flexible promotion strategies and made efforts to reduce costs and expenses to minimize loss. Guilin Plaza's turnover for the year amounted to HK$24,159,000, a decrease of 16.90% over last year. The operating loss for the year was HK$1,459,561.

## PROPERTY INVESTMENT

The Group's rental income for 2008 amounted to HK$1,061,000, a decrease of 16.52% over last year.

## MAJOR EVENTS

On 17 July 2008, Foshan City Nanhai Kang Sheng Timber Company Limited ("Kang Sheng"), a wholly-owned subsidiary of the Company, acquired land and properties of a total site area of 124.11 acres (equivalent to approximate 82,742.62 square metres) in Huan Qiu Industrial Estate, Shatou, Nanhai District, Foshan City together with the structures thereon of a total gross floor area of 43,172.16 square metres at a consideration of approximate HK$59,650,455. As part of the land together with the buildings and structures thereon among the properties mentioned above were originally leased by Kang Sheng for the production of fibreboards, the Group would save approximate HK$4,090,000 in rental income upon completion of the acquisition and would increase its land reserve for future development.

On 24 September 2008, Kang Sheng acquired debts amounted to approximate HK$246,590,909 in total from Shenzhen Development Bank Company Limited Foshan Branch ("Shenzhen Development Bank") at a consideration of approximate HK$90,909,091, including the four claims made by Shenzhen Development Bank against the Group. As at the date of this annual report, Kang Sheng has recovered debts amounting to approximate HK$44,603,409 and expects to recover at least approximate HK$19,406,818 and application had been made to the relevant court to withdraw the four claims made by Shenzhen Development Bank against the Group and the court has approved the withdrawal of claims in October 2008.

## FINANCIAL POSITION AND ANALYSIS

As at 31 December 2008, the Group had total assets of HK$767,877,000 (31 December 2007: HK$796,768,000) and a bank loan of HK$22,727,000 (31 December 2007: 0) and had no other long-term debts (31 December 2007: 0). Net assets of the Group amounted to HK$580,313,000 (31 December 2007: HK$556,983,000). The gearing ratio was 2.96% (31 December 2007: 0). Net assets per Share amounted to HK48.83 cents (31 December 2007: HK46.87 cents).

The Group's net current assets amounted to HK$140,280,000 (31 December 2007: HK$190,053,000), current ratio (being current assets divided by current liabilities) was approximately 1.75 times (31 December 2007: 1.79 times), while bank deposits and cash amounted to HK$110,993,000 (31 December 2007: HK$223,932,000), which is sufficient to meet the capital requirements of the Group's operations and development in the near future.

## PLEDGE OF ASSETS

The land use rights of the Group are as security for a bank loan which amounted to approximately HK$22,727,000 (2007: nil).

## FOREIGN EXCHANGE EXPOSURE

The Group mainly earned revenue and incurred cost in Renminbi and Hong Kong Dollar. The effect of exchange rate fluctuation on earned revenue and incurred cost would be offset each other in the business operation of the Group. In past several years, the exchange rate of Renminbi to Hong Kong Dollars kept on increasing till the second half of 2008 when it became stable. The directors expect that the exchange rate of Renminbi will remain stable and will not cause material adverse foreign exchange risk on the Group. Therefore, the Group currently does not have any specific foreign exchange risk hedging need for this matter.

## OUTLOOK

In light of the uncertainties of the global economy, the Group will adopt prudent operating strategies, strengthen cost control and internal management, improve processes and technologies, increase added-value of products, expand sales network and upgrade hotel facilities so as to further enhance its capability and competitiveness and prepare for growth when the economic situation returns to normal.

**YOU GUANG WU**
*Chairman*

Hong Kong, 19 March 2009

China Investments Holdings Limited (the "Company") puts great emphasis on corporate governance and is committed to maintaining the high standard of corporate governance which is reviewed and strengthened on a continued basis. The board of directors (the "Board") maintains and enhances the policies and practices of the Company in a timely, transparent, effective and responsible manner, so as to maintain good, solid and reasonable corporate governance. The Board believes that the Company and shareholders as a whole can derive maximum benefits from good corporate governance.

The Company has adopted all the provisions under the "Code on Corporate Governance Practice" (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") as its own code on corporate governance practice. For the year ended 31 December 2008, the Company has complied with all code provisions under the Code.

## GOVERNANCE STRUCTURE

The Company's corporate governance structure includes the Board and two committees under the Board, namely audit committee and remuneration committee. The Board stipulates the terms of reference of all committees in writing and specifies clearly the power and responsibilities of the committees.

## BOARD MEMBERS

The Board comprises six directors, including three executive directors who have extensive experience in the Company's business, and three independent non-executive directors who possess appropriate professional qualifications.

Executive Directors
Mr. You Guang Wu *(Chairman)*
Mr. Su Wenzhao *(Managing Director)*
Mr. Wang Jin Yuan

Independent Non-executive Directors
Mr. Chan Kwok Wai
Mr. Chen Da Cheng
Mr. Deng Hong Ping

All independent non-executive directors of the Company have complied with the requirements of the Listing Rules and have presented annual confirmations of independence issued pursuant to Rule 3.13 of the Listing Rules to the Company. The board has assessed their independence and confirms that all independent non-executive directors are independent parties as defined in the Listing Rules. The term of office of Mr. Chan Kwok Wai and Mr. Chen Da Cheng was expired on 21 September 2008 and has been renewed for two years until 21 September 2010. The current term of office of Mr. Deng Hong Ping is two years and will expire on 5 April 2010. They are subject to the retirement and re-election requirements of the bye-laws of the Company.

Individual information and responsibilities of all directors are contained in this annual report on pages 15 to 16.

There are no business, financial, family and other relevant interests among directors.

## THE OPERATION OF THE BOARD

The Board is principally responsible for establishing the development direction of the Group, formulating targets and business development plans, approving major agreements and matters, monitoring the performance of senior management and is responsible for corporate governance with a view to increasing shareholders' value. Led by the managing director, the management is responsible for implementing the strategies and plans developed by the Board.

The Company has developed a schedule of matters reserved to the Board for its decision and has separately identified those functions reserved to the Board. The Board will review those arrangements on a regular basis to ensure that the arrangements meet the needs of the Company.

The Board convenes at least four regular meetings each year (approximately one each quarter) and will convene meetings when necessary. When a regular board meeting is convened, the Board documents will be sent to directors for review before the meeting pursuant to the Listing Rules and the provisions so that directors can keep abreast of the information to perform their duties and responsibilities.

All members of the Board have actively participated in the Company's Board meetings to discuss the overall strategy and business of the Group. The Board convened 6 meetings in 2008. The attendance of directors is as follows:

| **Director Name** | **Attendance** | **Attendance Rate** |
|---|---|---|
| *Executive directors* | | |
| Leung Siu Fai | 6 | 100% |
| You Guang Wu | 6 | 100% |
| Kam Hung Chung | 6 | 100% |
| Wang Jin Yuan | 6 | 100% |
| *Independent non-executive directors* | | |
| Chan Kwok Wai | 6 | 100% |
| Chen Da Cheng | 6 | 100% |
| Deng Hong Ping | 6 | 100% |

*Note:* On 20 January 2009, Mr. Su Wenzhao has been appointed as an executive director of the Company. On 26 February 2009, Mr. Leung Siu Fai and Mr. Kam Hung Chung resigned as executive directors of the Company. Mr. You Guang Wu was appointed as Chairman of the Board of the Company and Mr. Su Wenzhao was appointed as Managing Director of the Company.

The remuneration of directors is determined with reference to their functions and responsibilities in the Company, the performance of the Company and current market conditions. Any director is not allowed to participate in determining his own remuneration. The remuneration received by directors from the Group during the year is set out in note 11 of the financial statements.

The Board has set up an independent professional consulting procedure and upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

## ROLES AND DUTIES OF CHAIRMAN AND MANAGING DIRECTOR

The chairman and the managing director have different roles. The chairman is responsible for the operation of the Board and the managing director is responsible for managing the operations of the Group. Their functions have been clearly divided to ensure a balanced distribution of power and authority not concentrating on a single individual.

In 2008, the chairman and the managing director of the Company were Mr. Leung Siu Fai and Mr. Kam Hung Chung respectively.

The chairman of the Board is principally responsible for leading the Board and ensures the Board acts in the best interests of the Company. The chairman shall ensure the Board operates effectively and performs its proper duties and discusses all important and proper matters in a timely manner. The chairman is responsible for convening board meetings, consulting, determining and approving the agenda of each board meeting, and ensuring that directors are provided sufficient information on current matters in a timely manner. The chairman is also responsible for the reviewing structure, number of members and composition of the Board on a regular basis and makes recommendations to the Board on any intended changes. The chairman is also responsible for ensuring that the Company formulates good corporate governance practice and procedure.

The managing director is principally responsible for the daily operation and management of the Group's overall operations and implementing the Board's operating strategy and policy and delegating tasks to all departments for implementation so as to realize the Board's objectives and decisions. In addition, he is also responsible for coordinating close cooperation among all departments, uniting efforts of staff and encouraging the initiative of staff so as to ensure smooth and effective operation of the Company's operations and systems.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct for securities transactions by directors and has adopted written guidelines no less exacting than the Model Code for application to senior management and designated people who might have access to price sensitive information of the Group.

Following enquiries by the Company, all directors confirmed that they have complied with the Model Code during the year ended 31 December 2008.

## AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors with extensive experience in accounting or legal matters. The audit committee is mainly responsible for reviewing the financial statements and annual reports and accounts of the Company, submitting relevant reports and recommendations to the Board, and making recommendations on the appointment and remuneration of the auditors of the Company and any matters related to the termination of appointment. Mr. Chan Kwok Wai is the chairman of the audit committee and is responsible for reporting the meeting results and recommendations of the audit committee to the Board after each meeting.

In 2008, the audit committee convened two meetings. Members and their attendance are as follows:

| Member Name | Attendance | Attendance Rate |
|---|---|---|
| Chan Kwok Wai *(Chairman of audit committee)* | 2 | 100% |
| Chen Da Cheng | 2 | 100% |
| Deng Hong Ping | 2 | 100% |

Tasks undertaken by the audit committee during the year included reviewing the 2007 audited financial statements and the annual results announcement, reviewing the interim report for the six months ended 30 June 2008 and the interim results announcement, considering the accounting standards adopted, overseeing the financial control, internal control and risk management system, reviewing the management letter about audit submitted by the auditors to the management and the response of the management, the basis of opinion made by the auditors in their report.

## REMUNERATION COMMITTEE

The remuneration committee comprises three independent non-executive directors and two executive directors. The remuneration committee is principally responsible for reviewing and approving remuneration plans for directors and senior management, determining the remuneration package of executive directors and senior management, including benefits, pension interests and the payment of compensation. Mr. Chen Da Cheng is the chairman of the remuneration committee and is responsible for reporting the meeting results and recommendations of the remuneration committee to the board after each meeting.

In 2008, the remuneration committee convened one meeting. Members and their attendance are as follows:

| Member Name | Attendance | Attendance Rate |
|---|---|---|
| Chen Da Cheng *(Chairman of the remuneration committee)* | 1 | 100% |
| Chan Kwok Wai | 1 | 100% |
| Deng Hong Ping | 1 | 100% |
| Leung Siu Fai | 1 | 100% |
| Kam Hung Chung | 1 | 100% |

*Note:* On 26 February 2009, Mr. Leung Siu Fai and Mr. Kam Hung Chung were no longer the members of the remuneration committee, Mr. You Guang Wu and Mr. Su Wenzhao were appointed as members of the remuneration committee.

Tasks undertaken by the remuneration committee during the year included reviewing the bonus system of the Group, considering the incentive payment for the year ended 2007 and making recommendations to the board. The remuneration committee also ensures that no director or senior management member determines his own remuneration.

The remuneration policy of the Group is to determine the remuneration based on the responsibilities, qualifications and working performance of staff (including directors). In addition, the Group has adopted the share option scheme on 20 May 2003. Currently, the Group has not granted any share options.

## DIRECTOR NOMINATION

Pursuant to the bye-laws of the Company, the Board is entitled to appoint any person as director from time to time or at any time to fill a casual vacancy or add a new board member. For nomination, the nominee's qualifications, capabilities and potential to make contribution to the Company shall be taken into consideration. The Board has not established the nomination committee at the moment. However, the Board will assess from time to time whether there is a need to establish the nomination committee to deal with the appointment, re-election and retirement of directors.

In 2008, there is no change of directors of the Company.

On 20 January 2009, Mr. Su Wenzhao was appointed as executive director of the Company. In addition, with effect from 26 February 2009, (a) Mr. Leung Siu Fai resigned as an executive director of the Company due to his health reason and accordingly ceased to act as chairman of the Board and member of the remuneration committee of the Board; (b) Mr. Kam Hung Chung resigned as an executive director of the Company due to personal reason and accordingly ceased to act as managing director of the Company and member of the remuneration committee of the Board; (c) Mr. You Guang Wu, an existing executive director of the Company and vice chairman of the Board, was appointed as chairman of the board and member of the remuneration committee of the Board; and (d) Mr. Su Wenzhao, an existing executive director of the Company, was appointed as the managing director of the Company and member of the remuneration committee of the Board.

## INTERNAL CONTROL

The Board is responsible for maintaining a stable and effective internal control system for the Group. The system includes a management structure with terms of reference to protect its assets from misappropriation, and ensures keeping appropriate accounting records so as to provide reliable financial information for internal use or for dissemination, as well as ensuring compliance with the laws and regulations. The system aims at providing reasonable (but not absolute) guarantees for the prevention of material untrue statements or losses, as well as management on the interruption of the Group's management system and risks existing in the course of arriving at the Group's objectives.

The management of the Group has reviewed whether the Group's internal control and risk management system for the year ended 31 December 2008 were effective, and had submitted the results of the review and its recommendations and opinions for consideration by the audit committee and the Board. The audit committee and the Board have discussed the relevant results of review, and agreed that internal control procedures and risk management systems have been implemented in the various major operation sectors.

## ACCOUNTABILITY AND AUDIT

Directors acknowledge their responsibility in preparing financial statements of the Group.

The financial department of the Company is managed by a qualified accountant. With the assistance of the financial department, the Board will ensure the preparation of the financial statements of the Group complies with relevant regulations and applicable accounting standards.

For the year ended 31 December 2008, the audit fee was approximately HK$1,100,000. There was no non-audit service fee for the year.

The statement of reporting responsibility issued by HLM & Co., the auditors of the Company, in respect of the financial statements of the Group is set out in the independent auditor's report on pages 23 to 24.

## COMMUNICATION WITH SHAREHOLDERS

The Company has maintained communication with shareholders through the annual general meeting or other general meetings and encourages them to participate in general meetings. Registered shareholders receive notices of general meetings by post. The notice of general meeting contains the agenda, the proposed resolutions and the voting form. Any registered shareholder is entitled to attend the annual general meeting and special general meetings provided that their shares must be registered in the register of members. Shareholders who are unable to attend the general meeting can fill in the proxy form attached with the notice of general meeting and return the same to the Company so as to appoint their representatives or the chairman of the meeting as their proxies. The procedure for demanding voting by poll is set out in the circular to shareholders sent together with the notice of general meeting and will be read out by the chairman of the meeting at the general meeting.

At the 2008 annual general meeting, all directors were present to answer questions raised by shareholders and proposed separate resolutions in respect of each separate issue for shareholders to vote thereon. The Company appointed representatives of the share registrar of the Company to act as scrutineers, to ensure that votes cast are properly counted and recorded. The numbers of votes for and against each resolution cast by shareholders present and proxies were announced at the general meeting.

# DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2008.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 33 to the financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 25.

## INVESTMENT PROPERTIES

The Group revalued all of its investment properties at the year ended date. The revaluation resulted in a deficit of HK$39,000 (2007: surplus of HK$2,190,000), which has been credited directly to the consolidated income statement. Details of such revaluation are set out in note 14 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Movements during the year of the Group's property, plant and equipment are set out in notes 14 to the financial statements.

Particulars regarding the Group's major properties are set out on pages 87 to 88.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 23 to the financial statements.

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

## RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in statement of changes in equity on pages 28 and 29 respectively.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2008, the Company had no reserves available for cash distribution and/or distribution in specie, except that under the laws of Bermuda, the Company's share premium account, in the amount of approximately HK$484,159,000, may be distributed in the form of fully paid bonus shares.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

*Executive Directors*

| | |
|---|---|
| Mr. Leung Siu Fai | (resigned on 26 February 2009) |
| Mr. You Guang Wu | |
| Mr. Su Wenzhao | (appointed on 20 January 2009) |
| Mr. Kam Hung Chung | (resigned on 26 February 2009) |
| Mr. Wang Jin Yuan | |

*Independent Non-Executive Directors*

Mr. Chan Kwok Wai
Mr. Chen Da Cheng
Mr. Deng Hong Ping

In accordance with the provisions of the Company's Bye-laws, Mr. Su Wenzhao, Mr. Wang Jin Yuan and Mr. Chan Kwok Wai shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each independent non-executive director is two years.

## BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

*Executive Directors*

**Leung Siu Fai**, aged 58, was the chairman of the board of the Company. Mr. Leung was appointed as a director of the Company in July 1995. He graduated from Guangzhou Jinan University and has extensive experience in finance and business management. Mr. Leung resigned as an executive director and ceased to be the chairman of the board and a member of the remuneration committee of the board of the Company on 26 February 2009.

**You Guang Wu**, aged 44, joined the Company as independent non-executive director of the Company in September 2004 and was redesignated as an executive director and was appointed vice chairman of the board of the Company on 6 April 2006. He was appointed the chairman of the board and a member of the remuneration committee of the board of the Company on 26 February 2009. Mr. You is a senior accountant in the PRC. Mr. You holds a master degree in economics, and is now a doctorate candidate in finance of Zhongnan University of Economics and Law. He has accumulated extensive experience in investment, financing and financial management.

**Su Wenzhao,** aged 53, was appointed as an executive director of the Company on 20 January 2009 and the managing director of the Company and a member of the remuneration committee of the board of the Company on 26 February 2009. Mr Su graduated from Sun Yat-sen University, with a diploma in philosophy, and has extensive management experience of more than 25 years.

**Kam Hung Chung**, aged 61, joined the Company as an assistant managing director in April 1998 and was appointed as managing director in September 2004. He has extensive experience in the enterprise management and property development both in Hong Kong and the PRC. Mr. Kam resigned as an executive director of the Company and ceased to act as managing director and a member of the remuneration committee of the board of the Company on 26 February 2009.

**Wang Jin Yuan**, aged 43, joined the Group in July 2003 and was appointed as a director of the Company in September 2004. Mr. Wang was graduated from Guangdong Academy of Social Sciences as a research fellow in economic management. Mr. Wang has many years of experience in enterprise and financial management.

*Independent Non-Executive Directors*

**Chan Kwok Wai**, aged 50, was appointed as a director of the Company in September 2004 and is the chairman of the audit committee and a member of the remuneration committee of the board of the Company. Mr. Chan holds a bachelor degree in Accounting and Commerce, and is an associate member of the CPA Australia and a member of Hong Kong Securities Institute. He has over 29 years of experience in the finance and accounting industry. Mr. Chan is also currently independent non-executive director of 5 listed public companies in Hong Kong, namely Chinese Estates Holdings Limited, Tern Properties Company Limited, National Electronics Holdings Limited, Far East Consortium International Limited and Junefield Department Store Group Limited.

**Chen Da Cheng**, aged 44, was appointed as a director of the Company in September 2004 and is a member of the audit committee and the chairman of the remuneration committee of the Board of the Company. Mr. Chen graduated from the Sun Yat-sen University and is a practicing solicitor in the PRC. He has over 20 years of experience in legal services.

**Deng Hong Ping**, aged 35, was appointed as an independent non-executive director of the Company on 6 April 2006 and is a member of the audit committee and the remuneration committee of the Board of the Company. Mr. Deng holds a Bachelor Degree in marine engineering of the Ocean University of China in Guangdong and graduated in master of economics and legal studies of Huazhong University of Science and Technology. Mr. Deng is a practicing lawyer in the PRC and he has accumulated extensive experience in legal sectors, particularly in enterprises mergers and acquisition and debt reorganization.

*Qualified Accountant*

**Ng Chun Hing**, aged 44, was appointed the qualified accountant of the Company in July 2004. Mr. Ng holds a degree of Bachelor of Commerce (Accounting), and is an associate member of the Hong Kong Institute of Certified Public Accountants and a Certified Practicing Accountant member of the CPA Australia. He has over 20 years of experience in the accounting and financing field.

*Note:* The Group's businesses are under the direct responsibility of the above executive directors who are regarded as members of the senior management of the Group.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director 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.

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2008, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meanings of Part XV of the Securities and Future Ordinance (the "SFO") are as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

| Name of Director | Number of shares | Capacity | Notes | % of total issued share capital as at 31 December 2008 |
|---|---|---|---|---|
| Leung Siu Fai | 151,610,779 | Corporate | 1 | 12.76% |
| Kam Hung Chung | 58,971,428 | Corporate | 2 | 4.96% |
| Wang Jin Yuan | 2,800,000 | Beneficial owner | | 0.24% |

*Notes:*

1. These shares were held by Mighty Management Limited which was wholly-owned by Mr. Leung Siu Fai.

2. These shares were held by Sintex Investment Limited in which Mr. Kam Hung Chung had 50% interest.

3. Mr. Leung Siu Fai and Mr. Kam Hung Chung resigned as executive directors of the Company on 26 February 2009.

Save as disclosed above, none of the Directors, or their associates, had any interests in any securities of the Company or any of its associated corporations.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, according to the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance, the shareholders who were interested in 5% or more of the issued share capital of the Company are as follows:

| Name | Number of Shares | Notes | Capacity | Approximate percentage (in aggregate) of total issued share capital as at 31 December 2008 |
|---|---|---|---|---|
| 佛山市南海聯達投資（控股）有限公司 (Foshan Nanhai Lian Da Investment (Holding) Co., Ltd.*) | 203,703,703 | 1 | Beneficial owner/ Corporate | 17.14% |
| Leung Siu Fai | 151,610,779 | 2 | Corporate | 12.76% |
| Mighty Management Limited | 151,610,779 | 2 | Beneficial owner | 12.76% |
| Industrial and Commercial Bank of China | 131,657,142 | | Beneficial owner | 11.08% |
| Nam Keng Van Investment Co. Ltd. | 121,864,487 | 3 | — | 10.26% |

*Notes:*

1. These interests were disclosed by 佛山市南海聯達投資（控股）有限公司 (Foshan Nanhai Lian Da Investment (Holding) Co., Ltd.*) and were held by Prize Rich Inc which was wholly-owned by 佛山市南海聯達投資（控股）有限公司 (Foshan Nanhai Lian Da Investment (Holding) Co., Ltd.*).

2. These 151,610,779 shares were held by Mighty Management Limited which was wholly-owned by Mr. Leung Siu Fai.

3. These 121,864,487 shares were held by Nam Keng Van Investment Co. Ltd. which was wholly-owned by 崔國堅 (Cui Guo Jian*), 陳桃源 (Chen Tao Yuan*) and 鍾寶國 (Mr. Zhong Baoguo).

4. The convertible notes issued by the Company were due on 9 May 2007. Most of them were either converted into shares of the Company or repaid in cash. Those portion which were neither converted into shares nor repaid in cash was reflected as current liabilities in the balance sheet. The derivative interests in connection therewith as previously reported were accordingly ceased.

Save as disclosed above, no other parties were recorded in the register as having an interest in 5% or more of the issued share capital of the Company.

* *For identification purpose only.*

## SHARE OPTIONS

A share option scheme was adopted by the Company on 20 May, 2003 (the "Scheme"). During the year, no options was granted, exercised, lapsed or cancelled under the Scheme. At 31 December 2007 and 2008, there were no options outstanding under the Scheme.

The primary purpose of the Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including Directors, and business associates of the Company and its subsidiaries, to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of approval of the Scheme without prior approval from the Company's shareholders.

The subscription price for shares of the Company under the Scheme will be highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the offer date (which date must be a business day), (ii) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date, and (iii) the nominal value of a share of the Company.

An option may be exercised during a period to be determined by the Directors in its absolute discretion and in any even such period shall not be longer than 2 years which shall commence on the expiry of 1 month after the date of grant.

The maximum entitlement for any one participant is that the total number of ordinary shares of the Company issued and to be issued upon exercise of the options granted to such participant under the Scheme and any other option schemes of the Company (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of ordinary shares of the Company in issue.

The Scheme is for a term of 10 years from the date of adoption and will expire on 20 May 2013. No option has been granted since the adoption of the Scheme.

No charge is recognised in the income statement in respect of the value of options granted for both years.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the listing rules of The Hong Kong Stock Exchange Limited.

## CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK$341,256.

## MAJOR SUPPLIERS AND CUSTOMERS

During the year, the largest supplier accounted for 10% of the Group's purchases and the five largest suppliers accounted for 26% of the Group's total purchases. The largest customer accounted for 18% of the Group's turnover and the five largest customers accounted for 62% of the Group's total turnover.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has an interest in the Group's five largest suppliers and customers.

## EMPLOYEES

The total number of employees of the Group is approximately 1,060. The remuneration of each employee of the Group is determined on the basis of his or her performance and responsibility. The Group provides education allowances to the employees.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## BANK BORROWINGS

Details of the bank loans of the Group are set out in note 26 to the consolidated financial statements.

## AUDITORS

HLM & Co. will retire and will seek for re-election at the forthcoming annual general meeting.

On behalf of the Board

**You Guang Wu**
*CHAIRMAN*

Hong Kong, 19 March 2009

恒健會計師行
**HLM & Co.**
**Certified Public Accountants**

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**TO THE MEMBERS OF CHINA INVESTMENTS HOLDINGS LIMITED**
**中國興業控股有限公司**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of China Investments Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 85, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

## AUDITORS' RESPONSIBILITY (CONTINUED)

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's 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.

**HLM & Co.**
*Certified Public Accountants*
Hong Kong

19 March 2009

# Consolidated Income Statement

For the year ended 31 December 2008

| | NOTES | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Turnover | 6 | **472,503** | 497,834 |
| Cost of sales and services | | **(452,462)** | (382,714) |
| Gross profit | | **20,041** | 115,120 |
| Other operating income | 7 | **53,785** | 40,193 |
| Selling and distribution costs | | **(614)** | (590) |
| Administrative expenses | | **(50,079)** | (46,397) |
| (Decrease)/increase in fair value on investment properties | | **(39)** | 2,190 |
| Impairment loss in respect of property held for sale | | **(4,661)** | (12,890) |
| Finance costs | 8 | **(492)** | (3,429) |
| Profit before taxation | | **17,941** | 94,197 |
| Income tax expense | 9 | **(826)** | (6,945) |
| Profit for the year | 10 | **17,115** | 87,252 |
| Earnings per share | 13 | | |
| Basic | | **1.44 cents** | 8.01 cents |
| Diluted | | **N/A** | N/A |

# Consolidated Balance Sheet

At 31 December 2008

| | NOTES | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 14 | **10,051** | 10,090 |
| Property, plant and equipment | 15 | **287,150** | 253,001 |
| Land use rights | 16 | **52,952** | 13,959 |
| Goodwill | 17 | **89,880** | 89,880 |
| | | **440,033** | 366,930 |
| **Current assets** | | | |
| Properties held for sale | 19 | **87,049** | 91,710 |
| Inventories | 20 | **77,259** | 91,444 |
| Trade and other receivables | 21 | **52,301** | 22,318 |
| Financial assets at fair value through profit or loss | 22 | **242** | 434 |
| Bank balances and cash | 23 | **110,993** | 223,932 |
| | | **327,844** | 429,838 |
| **Current liabilities** | | | |
| Trade and other payables | 24 | **162,657** | 195,623 |
| Provision for loss in litigation | 25 | **—** | 38,000 |
| Tax payable | | **2,180** | 6,162 |
| Secured bank loan | 26 | **22,727** | — |
| | | **187,564** | 239,785 |
| **Net current assets** | | **140,280** | 190,053 |
| | | **580,313** | 556,983 |
| **Capital and reserves** | | | |
| Share capital | 27 | **118,833** | 118,833 |
| Reserves | | **461,480** | 438,150 |
| | | **580,313** | 556,983 |

The financial statements on pages 25 to 85 were approved and authorised for issue by the Board of Directors on 19 March 2009 and are signed on its behalf by:

| | |
|---|---|
| **YOU GUANG WU** | **SU WENZHAO** |
| *Director* | *Director* |

# BALANCE SHEET

At 31 December 2008

| | NOTES | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Non-current asset** | | | |
| Investments in subsidiaries | 18 | **23,607** | 23,607 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | **358,368** | 359,023 |
| Deposits and other receivables | | **567** | 633 |
| Bank balances and cash | 23 | **45,661** | 51,015 |
| | | **404,596** | 410,671 |
| **Current liabilities** | | | |
| Other payables | | **79,204** | 79,222 |
| **Net current assets** | | **325,392** | 331,449 |
| | | **348,999** | 355,056 |
| **Capital and reserves** | | | |
| Share capital | 27 | **118,833** | 118,833 |
| Reserves | | **230,166** | 236,223 |
| | | **348,999** | 355,056 |

The financial statements on pages 25 to 85 were approved and authorised for issue by the Board of Directors on 19 March 2009 and are signed on its behalf by:

| | |
|---|---|
| **YOU GUANG WU** | **SU WENZHAO** |
| *Director* | *Director* |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

| | Share capital HK$'000 | Share premium HK$'000 | Statutory reserve HK$'000 | Convertible notes equity reserve HK$'000 | Hotel property revaluation reserve HK$'000 | Exchange reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **THE GROUP** | | | | | | | | |
| At 1 January 2007 | 91,500 | 426,372 | 17,839 | 30,545 | 79,944 | (56,044) | (183,624) | 406,532 |
| Shares issued on conversion of convertible notes | 27,333 | 57,787 | — | (11,339) | — | — | — | 73,781 |
| Release of convertible notes reserve upon redemption | — | — | — | (19,206) | — | — | 19,206 | — |
| Deficit on revaluation of hotel properties | — | — | — | — | (12,505) | — | — | (12,505) |
| Release of revaluation reserve of hotel properties | — | — | — | — | (4,049) | — | 4,049 | — |
| Exchange differences arising on translation of foreign operations | — | — | — | — | — | 1,923 | — | 1,923 |
| Transfer to statutory reserve | — | — | 3,322 | — | — | — | (3,322) | — |
| Profit for the year | — | — | — | — | — | — | 87,252 | 87,252 |
| **At 31 December 2007 and 1 January 2008** | **118,833** | **484,159** | **21,161** | **—** | **63,390** | **(54,121)** | **(76,439)** | **556,983** |
| Surplus on revaluation of hotel properties | — | — | — | — | 6,828 | — | — | 6,828 |
| Release of revaluation reserve of hotel properties | — | — | — | — | (3,381) | — | 3,381 | — |
| Exchange differences arising on translation of foreign operations | — | — | — | — | — | (613) | — | (613) |
| Profit for the year | — | — | — | — | — | — | 17,115 | 17,115 |
| **At 31 December 2008** | **118,833** | **484,159** | **21,161** | **—** | **66,837** | **(54,734)** | **(55,943)** | **580,313** |

# Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2008

| | Share capital HK$'000 | Share premium HK$'000 | Convertible notes equity reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **THE COMPANY** | | | | | |
| At 1 January 2007 | 91,500 | 426,372 | 30,545 | (211,670) | 336,747 |
| Share issued on conversion of convertible notes | 27,333 | 57,787 | (11,339) | — | 73,781 |
| Release of convertible notes reserve upon redemption | — | — | (19,206) | 19,206 | — |
| Loss for the year | — | — | — | (55,472) | (55,472) |
| **At 31 December 2007 and 1 January 2008** | **118,833** | **484,159** | **—** | **(247,936)** | **355,056** |
| Loss for the year | — | — | — | (6,057) | (6,057) |
| **At 31 December 2008** | **118,833** | **484,159** | **—** | **(253,993)** | **348,999** |

# Consolidated Cash Flow Statement

For the year ended 31 December 2008

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Operating activities** | | |
| Profit for the year | **17,115** | 87,252 |
| Adjustment for: | | |
| Interest income | **(2,961)** | (5,643) |
| Interest expenses | **492** | 3,429 |
| Income tax expenses | **826** | 6,945 |
| Decrease/(increase) in fair value on investment properties | **39** | (2,190) |
| Impairment loss in respect of property held for sales | **4,661** | 12,890 |
| Exchange gain | **(16,122)** | (11,501) |
| Depreciation of property, plant and equipment | **17,547** | 15,883 |
| Gain on disposal of investment properties/ properties held for development | **—** | (125) |
| Provision for loss in litigation written back | **(10,260)** | — |
| Amortisation of land use rights | **531** | 319 |
| Unrealised holding loss/(gain) on financial assets at fair value through profit or loss | **192** | (431) |
| Gain on disposal of property, plant and equipment | **(22)** | (7) |
| Operating cash flow before movements in working capital | **12,038** | 106,821 |
| Decrease/(increase) in inventories | **14,185** | (23,603) |
| (Increase)/decrease in trade and other receivables | **(30,055)** | 18,512 |
| (Decrease)/increase in trade and other payables | **(32,966)** | 14,318 |
| Provision of loss in litigation set off | **(27,740)** | — |
| Cash (used in)/generated from operating activities | **(64,538)** | 116,048 |
| Tax paid | **(4,808)** | (13,642) |
| Interest paid | **(492)** | (5,123) |
| **Net cash (used in)/generated from operating activities** | **(69,838)** | 97,283 |

# Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2008

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| **Investing activities** | | |
| Purchases of property, plant and equipment | **(36,887)** | (22,556) |
| Acquisition of land use rights | **(38,138)** | — |
| Interest received | **3,033** | 5,880 |
| Net proceeds from disposal of investment properties | **—** | 29,625 |
| Net proceeds from disposal of properties held for development | **—** | 20,728 |
| Net proceeds from disposal of property, plant and equipment | **24** | 11 |
| **Net cash (used in)/generated from investing activities** | **(71,968)** | 33,688 |
| **Financing activities** | | |
| Repayments of convertible notes | **—** | (50,000) |
| Bank borrowing raised | **22,727** | — |
| **Net cash generated from /(used in) financing activities** | **22,727** | (50,000) |
| **Net (decrease)/increase in cash and cash equivalents** | **(119,079)** | 80,971 |
| **Cash and cash equivalents at 1 January** | **223,932** | 137,415 |
| **Effect of foreign exchange rates changes** | **6,140** | 5,546 |
| **Cash and cash equivalents at 31 December** | **110,993** | 223,932 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Being: | | |
| Bank balances and cash | **110,993** | 223,932 |

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is considered as the functional currency of the Group.

The principal activities of the Group are manufacturing and trading of fibreboards, property development and investment, hotel operation and investment holding.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (HKFRSs')

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective for the Group's financial year beginning on 1 January 2008.

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

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

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

| | |
|---|---|
| HKFRS 1 and HKAS 27 (Amendments) | Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1] |
| HKFRS 2 (Amendments) | Vesting Conditions and Cancellations[1] |
| HKFRS 3 (Revised) | Business Combinations[2] |
| HKFRS 8 | Operating Segments[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 39 (Amendments) | Eligible Hedged Items[2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes[3] |
| HK(IFRIC)- Int 15 | Agreements for the Construction of Real Estate[1] |
| HK (IFRIC)- Int 16 | Hedges of a Net Investment in a Foreign Operation[4] |
| HK(IFRIC)- Int 17 | Distributions of Non-cash Assets to Owners[2] |
| HK(IFRIC)- Int 18 | Transfers of Assets from Customers[2] |

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (HKFRSs') *(continued)*

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5, and HK(IFRIC)-Int 9, which are effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for accounting periods beginning on or after 1 January 2009
2 Effective for accounting periods beginning on or after 1 July 2009
3 Effective for accounting periods beginning on or after 1 July 2008
4 Effective for accounting periods beginning on or after 1 October 2008

* Improvements to HKFRSs contain amendments to HKFRS1, HKFRS4, HKFRS5, HKFRS6, HKFRS7, HKFRS8, HKAS2, HKAS7, HKAS8, HKAS10, HKAS12, HKAS14, HKAS16, HKAS18, HKAS19, HKAS20, HKAS21, HKAS27, HKAS28, HKAS29, HKAS31, HKAS33, HKAS34, HKAS36, HKAS37, HKAS38, HKAS39, HKAS40 and HKAS41, HK(IFRIC)-Int 2.

The directors of the Company are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the directors of the Company have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and financial assets at fair value through profit or loss, which are measured at revalued amounts or fair values as explained in the accounting policies set out below.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Basis of consolidation**

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

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

All significant intra-group transactions, balances, income and expenses have been eliminated on consolidation.

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

**Goodwill**

Goodwill arising on acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's share of the identifiable assets and liabilities at the date of acquisition.

Goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Goodwill** *(continued)*

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

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

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

**Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment

i. *Hotel Property*

Hotel properties are stated in the balance sheet at their open market value based on independent professional valuations at each balance sheet date. The Group has resolved to account for the hotel properties using the revaluation model.

ii. *Property, plant and equipment (other than Hotel properties)*

Property, plant and equipment (other than hotel properties) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

| | |
|---|---|
| Land and buildings in Hong Kong under medium-term leases | Over the lease term |
| Land and buildings outside Hong Kong under medium-term leases | 2.5% to 4.5% or over the lease term, if shorter |
| Furniture, equipment and leasehold improvements | 10% to 20% |
| Plant and machinery | 10% to 30% |
| Motor vehicles | 15% to 30% |

iii. *Construction in progress*

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when it is completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Properties held for development**

Properties held for development are stated at cost less any identified impairment loss.

Depreciation of these properties, on the same basis as other property, plant and equipment, commences when the assets are put into use.

**Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value.

**Financial instruments**

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

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition. All regular purchases or sales of financial assets at fair value through profit or loss are recognised and derecognised on a trade date basis. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

*Financial liabilities and equity*

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

*Convertible notes*

Convertible notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity, is included in equity (convertible notes equity reserve).

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

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Derecognition

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

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

### Inventories

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

### Provisions

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

### Impairment losses (other than goodwill)

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Impairment losses (other than goodwill)** *(continued)*

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

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

**Turnover**

Turnover represents the gross amounts received and receivable for revenue arising on hotel operations and goods sold by the Group to outside customers, less return and allowances and gross rental income during the year.

**Revenue recognition**

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

*(i)* *Hotel operations*

Revenue arising from hotel operations is recognised when the relevant services are rendered.

*(ii)* *Sales of goods*

Sales of goods other than properties are recognised when goods are delivered and title has passed.

*(iii)* *Rental income*

Rental income arising from properties let under operating leases is recognised on a straight-line basis over the periods of the respective leases.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Revenue recognition** *(continued)*

*(iv) Interest income*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

**Taxation**

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Government grants**

A government grant is recognised only when there is reasonable assurance that (a) the enterprise will comply with any conditions attached to the grant and (b) the grant has been approved and will be received. Government grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. They shall not be credited directly to shareholders' interests. A grant receivable as compensation for costs already incurred or for immediate financial support, with no future related costs, should be recognised as income in the period in which it is receivable. Grants related to income are presented as a credit in the consolidation income statement, under a general heading "Other income".

**Retirement benefits scheme**

Payments to defined contribution retirement scheme are charged as an expense as they fall due.

**Leases**

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

*The Group as lessor*

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

*The Group as lessee*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Foreign currencies**

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Foreign currencies** *(continued)*

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

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

**Cash and cash equivalents**

Cash and cash equivalents represent cash at bank and on hand, time deposits with banks and other financial institutions, and short-term liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the consolidated cash flow statement, bank overdrafts or bank loans, if any, which are repayable on demand and form an integral part of an enterprise's cash managements are also included as component of cash and cash equivalents.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management has made the following estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

**Estimated the useful lives of property, plant and equipment**

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to previously estimated, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

**Estimate of impairment of hotel properties**

Hotel properties are reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of fair value less costs to sell and value in use of the hotel properties. Management makes judgements on whether such events or changes in circumstances have occurred, and makes estimates in determining the recoverable amount.

**Estimated impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008 and 2007, the carrying amount of goodwill is HK$89,880,000. Details of the recoverable amount calculation are disclosed in note 17.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

**Estimate of net realizable value of properties held for sale**

Management reviews the recoverable amount of properties held for sale at each balance sheet date. The recoverable amount is the estimated selling price of the properties less costs to sell. Management makes estimates in determining the recoverable amount.

**Estimated allowance for doubtful debts of trade and other receivables**

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other receivable. Allowances are made on trade and other receivable whenever there is any objective evidence that the balances may not be collectible. In determining whether an allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the management investigate the relevant debts and report on the recoverability. Specific allowance is only made for those trade and other receivable that are unlikely to be collected. Where the expectation on the recoverability of trade and other receivable is different from the original estimate, such difference will impact the carrying amounts of debtors and doubtful debt expenses in the periods in which such estimate has been changed.

The carrying amount of trade and other receivable at 31 December 2008 is HK$52,301,000 (2007: HK$22,318,000). Details of the recoverable amount calculation are disclosed in note 21.

## 5. FINANCIAL RISK MANAGEMENT

The Group's businesses are principally conducted in the PRC and Hong Kong and accordingly are subject to special considerations and several risks.

**Foreign Exchange Exposure**

The Group mainly earned revenue and incurred cost in Renminbi ("RMB") and Hong Kong Dollar. The effect of exchange rate fluctuation on earned revenue and incurred cost would be able to offset each other in the business operation of the Group. In past several years, the exchange rates of Renminbi to Hong Kong Dollars kept on increasing till the second half of 2008 when it became stable. The directors expect that Renminbi's exchange rate will remain stable and will not cause material adverse foreign exchange risk on the Group. Therefore, the Group currently does not have any specific foreign exchange risk hedging need for this matter.

The carrying amount of the Group's and Company's foreign currency denominated monetary assets and monetary liabilities at the respective balance sheet dates are as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **As at 31 December** | | **As at 31 December** | |
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Assets | | | | |
| Denominated in Renminbi | **102,263** | 100,787 | **—** | — |
| Denominated in US dollars | **340** | 291 | **—** | — |
| | **102,603** | 101,078 | **—** | — |
| Liabilities | | | | |
| Denominated in Renminbi | **104,440** | 97,821 | **—** | — |

The following shows the sensitivity analysis of a 5% increase/decrease in RMB against the Hong Kong dollars. The sensitivity analysis includes only RMB dollars denominated monetary items and adjusts their translation at the year and for a 5% change in RMB dollars rates. If there is a 5% increase/decrease in RMB against the Hong Kong currencies, the effect in the profit for the year is as follows:

## 5. FINANCIAL RISK MANAGEMENT *(continued)*

**Foreign Exchange Exposure** *(continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | As at 31 December | | As at 31 December | |
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Increase/Decrease in profit for the year | **11,210** | 9,823 | — | — |

**Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt.

During 2008, the Group's strategy remained unchanged.The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowing divided by total assets.

The Management considers the gearing ratio at the year end was as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Secured bank loans (note 26) | **22,727** | — |
| Total assets | **767,877** | 796,768 |
| Total debt to total assets ratio | **2.96%** | 0% |

The increase in the gearing ratio during 2008 resulted primarily from the increase in bank borrowings and decrease in cash and bank balance, which was mainly due to the increase in cash used in investing activities.

## 5. FINANCIAL RISK MANAGEMENT *(continued)*

### Interest rate risk

The interest rates and terms of repayment of interest-bearing bank loans are disclosed in note 26. The Group does not have any significant exposure to the risk of changes in market interest rates as the Group does not have any long term receivables/liabilities which are subject to floating interest rate.

### Liquidity risk management

Ultimate responsibility for liquidity risk management rest with the board of directors. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As at 31 December 2008, the Group's net current assets amounted to HK$140,280,000 (2007: HK$190,053,000), current ratio (being current assets divided by current liabilities) was approximately 1.75 times (2007: 1.79 times), while total current assets amounted to HK$ 327,844,000 (2007: HK$429,838 ,000), which is sufficient to meet the capital requirement of the Group's operations and development in the near future.

The following tables detail the Group's remaining contractual maturity for its financial liabilities at the balance sheet date:

| | 2008 | | | |
|---|---|---|---|---|
| | On demand | Within 1 year | 1-3 years | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Trade and other payables | 162,657 | — | — | 162,657 |
| Provision for loss in litigation | — | — | — | — |
| Tax payables | 2,180 | — | — | 2,180 |
| Secured bank loan | — | 22,727 | — | 22,727 |
| | 164,837 | 22,727 | — | 187,564 |

## 5. FINANCIAL RISK MANAGEMENT *(continued)*

**Liquidity risk management** *(continued)*

| | 2007 | | | |
|---|---|---|---|---|
| | On demand | Within 1 year | 1-3 years | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Trade and other payables | 195,623 | — | — | 195,623 |
| Provision for loss in litigation | 38,000 | — | — | 38,000 |
| Tax payables | 6,162 | — | — | 6,162 |
| Secured bank loan | — | — | — | — |
| | 239,785 | — | — | 239,785 |

**Credit risk**

Details of the Group's credit risk are included in note 21.

**Securities price risk**

The Group's investments in equity are Hong Kong listed equity. Those financial assets at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity securities price risk. The management manages this exposure by maintaining a portfolio of investment with a limited budget. The sensitivity analysis has been determined based on the exposure to equity securities price risk.

*Sensitivity analysis*

The sensitivity analysis below have been determined based on the exposure to equity securities price risk at the reporting date. For sensitivity analysis purpose, the sensitivity rate is increased to 15% in the current year as a result of the volatile financial market.

If listed equity prices had been 15% higher/lower (2007: 5% higher/lower), profit for the year ended 31 December 2008 would increase/decrease by HK$36,268 (2007: HK$21,678). This is mainly due to the changes in fair value of financial assets at fair value through profit or loss.

## 5. FINANCIAL RISK MANAGEMENT *(continued)*

### Fair value

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

i) the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

ii) the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group is currently organised into three operating divisions - fibreboards, hotel operations and property investment. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

| | | |
|---|---|---|
| Fibreboards | — | manufacturing and trading of fibreboards |
| Hotel operations | — | hotel ownership and management |
| Property investment | — | holding investment properties, properties held for development and properties held for sale |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Segment information about these businesses is presented below.

**2008**

| | Fibreboards | Hotel operations | Property investment | Consolidated |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **TURNOVER** | 447,283 | 24,159 | 1,061 | 472,503 |
| **RESULTS** | | | | |
| Segment result | 14,030 | 3,330 | 32 | 17,392 |
| Interest income | | | | 2,961 |
| Net unrealized holding loss on financial assets at fair value through profit or loss | | | | (192) |
| Unallocated corporate expenses | | | | (1,728) |
| Finance costs | | | | (492) |
| Profit before taxation | | | | 17,941 |
| Income tax expense | | | | (826) |
| Profit for the year | | | | 17,115 |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### BALANCE SHEET

| | Fibreboards | Hotel operations | Property investment | Consolidated |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **ASSETS** | | | | |
| Segment assets | 332,013 | 135,602 | 97,371 | 564,986 |
| Goodwill | 89,880 | | | 89,880 |
| Financial assets at fair value through profit or loss | | | | 242 |
| Bank balances and cash | | | | 110,993 |
| Other unallocated corporate assets | | | | 1,776 |
| Consolidated total assets | | | | 767,877 |
| **LIABILITIES** | | | | |
| Segment liabilities | 98,377 | 7,256 | 348 | 105,981 |
| Other unallocated corporate liabilities | | | | 81,583 |
| Consolidated total liabilities | | | | 187,564 |

### OTHER INFORMATION

| | Fibreboards | Hotel operations | Property investment | Unallocated | Consolidated |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Capital additions | 73,395 | 1,627 | — | 3 | 75,025 |
| Depreciation and amortisation | 9,991 | 7,569 | — | 518 | 18,078 |
| Decrease in fair value on investment properties | — | — | 39 | — | 39 |
| Impairment loss in respect of properties held for sale | — | — | 4,661 | — | 4,661 |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

**2007**

| | Fibreboards | Hotel operations | Property investment | Consolidated |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **TURNOVER** | 467,490 | 29,073 | 1,271 | 497,834 |
| **RESULTS** | | | | |
| Segment result | 103,168 | 8,282 | (9,421) | 102,029 |
| Interest income | | | | 5,643 |
| Net unrealized holding gain on financial assets at fair value through profit or loss | | | | 431 |
| Unallocated corporate expenses | | | | (10,477) |
| Finance costs | | | | (3,429) |
| Profit before taxation | | | | 94,197 |
| Income tax expense | | | | (6,945) |
| Profit for the year | | | | 87,252 |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### BALANCE SHEET

| | Fibreboards | Hotel operations | Property investment | Consolidated |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **ASSETS** | | | | |
| Segment assets | 161,859 | 135,299 | 102,119 | 399,277 |
| Goodwill | 89,880 | | | 89,880 |
| Financial assets at fair value through profit or loss | | | | 434 |
| Bank balances and cash | | | | 223,932 |
| Other unallocated corporate assets | | | | 83,245 |
| Consolidated total assets | | | | 796,768 |
| **LIABILITIES** | | | | |
| Segment liabilities | 106,828 | 8,119 | 1,661 | 116,608 |
| Other unallocated corporate liabilities | | | | 123,177 |
| Consolidated total liabilities | | | | 239,785 |

### OTHER INFORMATION

| | Fibreboards | Hotel operations | Property investment | Unallocated | Consolidated |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Capital additions | 22,867 | 392 | — | 1,342 | 24,601 |
| Depreciation and amortisation | 7,665 | 8,020 | — | 517 | 16,202 |
| Increase in fair value on investment properties | — | 2,190 | — | — | 2,190 |
| Impairment loss in respect of properties held for sale | — | — | (12,890) | — | (12,890) |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### Geographical segments

The Group's fibreboards and hotel operations are located in the People's Republic of China, other than Hong Kong (the "PRC").

Property investment and development are located in both PRC and Hong Kong.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

| | **Sales revenue by geographical market** | | **Contribution to profit for the year** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| The PRC | **471,942** | 497,033 | **16,835** | 101,619 |
| Hong Kong | **561** | 801 | **557** | 410 |
| | **472,503** | 497,834 | **17,392** | 102,029 |
| Interest income | | | **2,961** | 5,643 |
| Net unrealised holding (loss)/gain on financial assets at fair value through profit or loss | | | **(192)** | 431 |
| Unallocated corporate expenses | | | **(1,728)** | (10,477) |
| Finance costs | | | **(492)** | (3,429) |
| Profit before taxation | | | **17,941** | 94,197 |
| Income tax expense | | | **(826)** | (6,945) |
| Profit for the year | | | **17,115** | 87,252 |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

**Geographical segments** *(continued)*

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

| | Carrying amount of segment assets | | Additions to property, plant and equipment and land use rights | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| The PRC | **689,405** | 497,764 | **75,022** | 23,259 |
| Hong Kong | **78,472** | 299,004 | **3** | 1,342 |
| | **767,877** | 796,768 | **75,025** | 24,601 |

## 7. OTHER OPERATING INCOME

Other operating income included the following items:

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Valued added tax ("VAT") refunded (note) | **22,454** | 20,431 |
| Interest income | **2,961** | 5,643 |
| Exchange gain | **16,122** | 11,501 |
| Provision for loss in litigation written back | **10,260** | — |

*Note:* The VAT refunded for the years ended 31 December 2008 and 2007 represented refund of net VAT to certain PRC subsidiaries pursuant to Cai Shui [2006] No 102 Circular of the State Administration of Taxation.

## 8. FINANCE COSTS

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Interest on bank borrowing wholly repayable within one year | **492** | — |
| Interest on convertible notes | **—** | 3,429 |
| | **492** | 3,429 |

## 9. TAXATION

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Tax charges comprises: | | |
| Current tax – Provision for PRC enterprises income tax | **1,804** | 6,945 |
| Under-provision for PRC enterprises income tax | **1,568** | — |
| Over-provision for income tax outside Hong Kong other than PRC | **(2,546)** | — |
| | **826** | 6,945 |

No provision for Hong Kong profits tax has been made as the Group has no assessable profits in Hong Kong for the year ended 31 December 2008 (2007: Nil). PRC enterprises income tax is computed according to the relevant laws and regulations in the PRC. The applicable PRC enterprises income tax rate is 25% (2007: 33%).

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

One of the Group's PRC subsidiaries operating in the PRC are eligible for certain tax holidays and concessions. Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiary is exempted from PRC enterprises income tax for two years starting from their first profit-making year, followed by a 50% reduction for the following three years.

## 9. TAXATION *(continued)*

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

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Profit before taxation | **17,941** | 94,197 |
| Tax at the rates applicable to profits in the countries concerned | **5,097** | 30,011 |
| Tax effect of non deductible expenses | **4,300** | 469 |
| Tax effect of non taxable revenue | **(5,871)** | (1,588) |
| Net tax effect of overprovision in previous year | **(978)** | — |
| Tax effect of tax deductible not recognised | **(160)** | (136) |
| Effect of tax exemptions granted to PRC subsidiaries | **(1,636)** | (21,889) |
| Tax effect of tax loss for the year | **74** | 78 |
| Tax effect for the year | **826** | 6,945 |

The revaluation deficit for the year (2007: surplus) arising on the revaluation of properties of the Group does not constitute a timing difference. Therefore, deferred tax has not been recognised in respect of the valuation deficit/surplus relating to properties.

## 10. PROFIT FOR THE YEAR

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Profit for the year has been arrived at after charging/(crediting): | | |
| Amortisation of land use rights | **531** | 319 |
| Depreciation of property, plant and equipment | **17,547** | 15,883 |
| Total depreciation and amortisation | **18,078** | 16,202 |
| Auditors' remuneration | **1,100** | 1,100 |
| Staff costs (including directors' remuneration and retirement benefit scheme contribution) | **40,021** | 39,377 |
| Unrealised holding loss/(gain) on financial assets at fair value through profit or loss | **192** | (431) |
| Gain on disposal of property, plant and equipment | **(22)** | (7) |
| Net foreign exchange gains | **(16,122)** | (11,501) |
| Gross rental income from investment properties | **(1,061)** | (1,271) |
| Less: | | |
| Direct operating expenses from investment properties that generated rental income during the year | **67** | 154 |
| Direct operating expenses from investment properties that did not generate rental income during the year | **1,029** | 466 |
| | **35** | (651) |

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### a. Directors' emoluments

The emoluments paid or payable to each of the 7 (2007: 7) directors were as follows:

| 2008 | Fees HK$'000 | Salaries and other benefits HK$'000 | Performance-based or discretionary bonus HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Mr. Leung Siu Fai | — | **1,244** | **68** | **41** | **1,353** |
| Mr. Kam Hung Chung | — | **1,080** | **60** | **36** | **1,176** |
| Mr. You Guang Wu | — | **927** | **50** | **23** | **1,000** |
| Mr. Wang Jin Yuan | **50** | **146** | **759** | **6** | **961** |
| Mr. Chan Kwok Wai | **73** | — | — | — | **73** |
| Mr. Chen Da Cheng | **73** | — | — | — | **73** |
| Mr. Deng Hong Ping | **76** | — | — | — | **76** |

| 2007 | Fees HK$'000 | Salaries and other benefits HK$'000 | Performance-based or discretionary bonus HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Mr. Leung Siu Fai | — | 1,244 | 204 | 41 | 1,489 |
| Mr. Kam Hung Chung | — | 1,080 | 180 | 36 | 1,296 |
| Mr. You Guang Wu | 390 | 243 | 150 | — | 783 |
| Mr. Wang Jin Yuan | 50 | 122 | 609 | — | 781 |
| Mr. Chan Kwok Wai | 70 | — | — | — | 70 |
| Mr. Chen Da Cheng | 70 | — | — | — | 70 |
| Mr. Deng Hong Ping | 70 | — | — | — | 70 |

No Directors had waived any emoluments for both years.

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

### b. Employees' emoluments

During the year, the six highest paid individuals included four Directors (2007: four Directors), details of whose emoluments are set out above. The emoluments of the other two individuals (2007: two individuals) were as follows:

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Salaries and other benefits | **1,625** | 1,278 |
| Retirement benefit scheme contributions | **10** | — |
| | **1,635** | 1,278 |

The aggregate emoluments of each of these two (2007: two) highest paid individuals are less than HK$1,000,000.

## 12. RETIREMENT BENEFIT SCHEME

The Group contributes to a defined contribution retirement scheme which is available to Hong Kong permanent employees. This retirement scheme is administered by independent trustees with their assets held separately from those of the Group. Contributions under the staff retirement scheme for each year are based on a percentage of the eligible employees' salaries and are charged to the consolidated income statement as incurred. The total contribution to the scheme amounted to HK$136,442 (2007: HK$113,110) for the year and has been charged to the consolidated income statement. Forfeited employer contributions in respect of former employees from the staff retirement scheme before vesting period may be used by the Group to reduce its ongoing employer contributions. There is no forfeited contribution utilised during the year.

At the balance sheet date, there is no balance of forfeited contributions available to reduce the contribution payable in the future years.

## 12. RETIREMENT BENEFIT SCHEME *(continued)*

Since the introduction of the Mandatory Provident Fund ("MPF") Scheme in Hong Kong, the Group has also participated in an approved MPF Scheme with Bank Consortium Trust Company Limited effective 1 December 2001 to provide an MPF Scheme to all employees.

The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited at 5% of HK$20,000 for each eligible employee) as calculated under the MPF legislation. During the year under review, the total amount contributed by the Group to the MPF Scheme and charged to the consolidated income statement amounted to HK$52,920 (2007: HK$55,647).

## 13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of HK$17,115,000 (2007: profit of HK$87,252,000) and the number of 1,188,329,142 ordinary shares (2007: 1,089,471,712 weighted average number of ordinary shares) in issue during the year.

No diluted earnings per share has been presented as there were no diluting events existing for both years.

## 14. INVESTMENT PROPERTIES

| | In the PRC held under medium-term leases HK$'000 | In Hong Kong held under medium-term leases HK$'000 | Total HK$'000 |
|---|---|---|---|
| **FAIR VALUE OF INVESTMENT PROPERTIES** | | | |
| As at 1 January 2007 | 900 | 36,500 | 37,400 |
| Disposal | — | (29,500) | (29,500) |
| Increase/(decrease) in fair value recognized in the income statement | (110) | 2,300 | 2,190 |
| As at 31 December 2007 and 1 January 2008 | 790 | 9,300 | 10,090 |
| Decrease in fair value recognized in the income statement | (39) | — | (39) |
| **As at 31 December 2008** | **751** | **9,300** | **10,051** |

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

Investment properties were revalued at their open market value at 31 December 2008 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers, on an open market value basis. This valuation gave rise to a revaluation deficit of HK$39,000 (2007: surplus of HK$2,190,000), which has been debited to the consolidation income statement.

Associated Surveyors & Auctioneers Ltd is a member of the Institute of Valuers, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

## 15. PROPERTY, PLANT AND EQUIPMENT

**2008**

| | Hotel properties in the PRC held under medium-term leases | Land and buildings | Construction in progress | Furniture equipment and leasehold improvements | Plant and machinery | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **THE GROUP** | | | | | | | |
| **At 1 January 2008** | 128,000 | 20,036 | 4,198 | 18,399 | 159,001 | 3,815 | 333,449 |
| Exchange adjustments | – | 1,564 | 345 | 1,219 | 10,018 | 124 | 13,270 |
| Additions | – | 22,857 | 9,536 | 444 | 3,620 | 430 | 36,887 |
| Transfer | – | – | (3,473) | – | 3,473 | – | – |
| Disposals and write off | – | – | – | (1,299) | (1,346) | – | (2,645) |
| **At 31 December 2008** | 128,000 | 44,457 | 10,606 | 18,763 | 174,766 | 4,369 | 380,961 |
| **Comprising:** | | | | | | | |
| At cost | – | 44,457 | 10,606 | 18,763 | 174,766 | 4,369 | 252,961 |
| At valuation - 2008 | 128,000 | – | – | – | – | – | 128,000 |
| | 128,000 | 44,457 | 10,606 | 18,763 | 174,766 | 4,369 | 380,961 |
| **DEPRECIATION** | | | | | | | |
| **At 1 January 2008** | – | 5,471 | – | 16,637 | 56,865 | 1,475 | 80,448 |
| Exchange adjustments | – | 359 | – | 1,214 | 3,667 | 47 | 5,287 |
| Provided for the year | 6,828 | 1,288 | – | 769 | 8,232 | 430 | 17,547 |
| Eliminated on disposals and write off | – | – | – | (1,299) | (1,344) | – | (2,643) |
| Eliminated on revaluation | (6,828) | – | – | – | – | – | (6,828) |
| **At 31 December 2008** | – | 7,118 | – | 17,321 | 67,420 | 1,952 | 93,811 |
| **NET BOOK VALUES** | | | | | | | |
| **At 31 December 2008** | 128,000 | 37,339 | 10,606 | 1,442 | 107,346 | 2,417 | 287,150 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

**2007**

| | Hotel properties in the PRC held under medium-term leases HK$'000 | Land and buildings HK$'000 | Construction in progress HK$'000 | Furniture equipment and leasehold improvements HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| THE GROUP | | | | | | | |
| **At 1 January 2007** | 148,000 | 18,204 | — | 17,063 | 130,202 | 3,189 | 316,658 |
| Exchange adjustments | — | 1,832 | — | 1,322 | 11,084 | 73 | 14,311 |
| Additions | — | — | 4,198 | 370 | 17,730 | 2,303 | 24,601 |
| Disposals and write off | — | — | — | (356) | (15) | (1,750) | (2,121) |
| Deficit on revaluation | (20,000) | — | — | — | — | — | (20,000) |
| **At 31 December 2007** | 128,000 | 20,036 | 4,198 | 18,399 | 159,001 | 3,815 | 333,449 |
| **Comprising:** | | | | | | | |
| At cost | — | 20,036 | 4,198 | 18,399 | 159,001 | 3,815 | 205,449 |
| At valuation - 2007 | 128,000 | — | — | — | — | — | 128,000 |
| | 128,000 | 20,036 | 4,198 | 18,399 | 159,001 | 3,815 | 333,449 |
| DEPRECIATION | | | | | | | |
| **At 1 January 2007** | — | 3,786 | — | 15,014 | 45,180 | 2,809 | 66,789 |
| Exchange adjustments | — | 820 | — | 1,338 | 5,180 | 50 | 7,388 |
| Provided for the year | 7,495 | 865 | — | 641 | 6,516 | 366 | 15,883 |
| Eliminated on disposals and write off | — | — | — | (356) | (11) | (1,750) | (2,117) |
| Eliminated on revaluation | (7,495) | — | — | — | — | — | (7,495) |
| **At 31 December 2007** | — | 5,471 | — | 16,637 | 56,865 | 1,475 | 80,448 |
| NET BOOK VALUES | | | | | | | |
| **At 31 December 2007** | 128,000 | 14,565 | 4,198 | 1,762 | 102,136 | 2,340 | 253,001 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Hotel properties situated in the PRC were revalued on the basis of their open market value on 31 December 2008 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers. This valuation gave rise to revaluation surplus of HK$6,828,000 (2007: deficit of HK$12,505,000), which has been directly credited to the hotel property revaluation reserve.

If hotel properties had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK$61,164,000 (2007: HK$64,610,000).

The net book value of land and buildings shown above comprises:

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| In the PRC held under medium-term leases | **37,339** | 14,565 |

The Group is in the process of applying for the properties certification for buildings with carrying value of HK$22,144,000 (2007: Nil).

## 16. LAND USE RIGHTS

The Group's interest in land use rights represent prepaid operating lease payments and their net book value are as follows:

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | **13,959** | 13,323 |
| Addition, at cost | **38,138** | — |
| Exchange difference | **1,386** | 955 |
| Amortisation of land use rights | **(531)** | (319) |
| Carrying amount at 31 December | **52,952** | 13,959 |

## 16. LAND USE RIGHTS *(continued)*

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| In the PRC held under medium-term leases | **14,478** | 13,959 |
| In the PRC held under long-term leases | **38,474** | — |
| | **52,952** | 13,959 |

The Group is in the process of applying for the land use rights for prepaid lease payments with carrying value of HK$38,474,000 (2007:Nil).

As at 31 December 2008, the carrying value of land use rights of HK$14,478,000 (2007: Nil) has been pledged as security for a short term bank loan of HK$22,727,000 (2007: Nil) (note 26).

## 17. GOODWILL

| | THE GROUP |
|---|---|
| | HK$'000 |
| **COST LESS AMORTIZATION** | |
| At 1 January 2007 and 31 December 2007, 1 January 2008 and 31 December 2008 | 97,484 |
| **IMPAIRMENT LOSS** | |
| At 1 January 2007 and 31 December 2007, 1 January 2008 and 31 December 2008 | 7,604 |
| **CARRYING VALUES** | |
| **At 31 December 2008** | **89,880** |
| At 31 December 2007 | 89,880 |

Goodwill is assessed for impairment annually irrespective of whether there is any indication of impairment.

## 17. GOODWILL *(continued)*

Goodwill has been allocated to the CGU of the Group's operations in relation to the manufacturing and trading of medium density fibreboards. At the end of 2008, the Group appointed Associated Surveyors & Auioneers Ltd., an independent firm of professional valuer, to perform an appraisal of the value-in-use of the CGU. The recoverable amount has been determined based on a value-in-use calculation.

**Review of impairment**

The impairment test compares the carrying amount of the unit to the value-in-use. The key assumptions for the value-in-use calculation are those regarding the discount rates, growth rates and the expected changes to the selling prices and the direct costs during the period. The discount rates are based on the Hong Kong Prime rate, while growth rates are based on management's experience and expectations. Growth rates used do not exceed the long-term average growth rate for the area in which the CGU operates. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market, and are derived from the most recent financial budgets and forecasts that have been prepared by management.

The value calculated by using the discount rate is higher than the carrying amount of the CGU, accordingly, the management of the Group determined that there is no impairment of its goodwill at 31 December 2008.

## 18. INVESTMENTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Unlisted investments, at cost | **1,096,607** | 1,096,607 |
| Less: Impairment loss | **(1,073,000)** | (1,073,000) |
| | **23,607** | 23,607 |

Particulars of the Company's principal subsidiaries as at 31 December 2008 are set out in note 33.

## 19. PROPERTIES HELD FOR SALE

### THE GROUP

Properties held for sale are stated at net realisable value.

## 20. INVENTORIES

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Fibreboards | | |
| Raw materials | **53,815** | 75,164 |
| Work in progress | **2,632** | 2,815 |
| Finished goods | **19,017** | 11,760 |
| | **75,464** | 89,739 |
| Food, beverages and hotel supplies | **1,795** | 1,705 |
| | **77,259** | 91,444 |

## 21 TRADE AND OTHER RECEIVABLES

### THE GROUP

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group allows an average credit period of 90 days to its trade customers.

The following is an aging analysis of the Group's trade receivables at the balance sheet date:

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| 0-60 days | **1,435** | 2,133 |
| 61-90 days | **315** | 542 |
| 91-120 days | **145** | 318 |
| over 120 days | **530** | 1,421 |
| Trade receivables | **2,425** | 4,414 |
| Other receivables | **49,876** | 17,904 |
| | **52,301** | 22,318 |

The Group's other receivables under current assets as at 31 December 2008 included HK$35,235,000 being the fair value of the balance of debt assignment acquired by the Group as part of the arrangement to settle the legal litigation relating to its PRC subsidiaries.

| | THE GROUP |
|---|---|
| | **2008** |
| | **HK$'000** |
| At 1 January | **—** |
| Acquisition of debt assignments | **90,909** |
| Amount recovered during the year | **(27,934)** |
| Amount applied to set off against provision for litigation on withdrawal of claim (note 25) | **(27,740)** |
| At 31 December | **35,235** |

The Group does not hold any collateral or other credit enhancements over these balances.

## 21 TRADE AND OTHER RECEIVABLES *(continued)*

The carrying amounts of the remaining trade and other receivables that were neither past due nor impaired relate to other debtors for whom there was no recent history of default.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **THE GROUP** | | |
| Listed shares in Hong Kong | **242** | 434 |
| Market value of listed shares | **242** | 434 |
| Carrying amount analysed for reporting purposes as: | | |
| Current | **242** | 434 |
| Non current | **—** | — |
| Total | **242** | 434 |

## 23. BANK BALANCE AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of one months or less.

Bank balances are interest bearing at respective saving deposits rate in the Hong Kong and PRC, and the effective interest rates of the Group's bank balances ranged from 0.38% to 0.90% in Hong Kong and ranged from 0.36% to 0.72% in PRC. (2007: 2.5% to 5.9% in Hong Kong and 0.36% to 0.72% in PRC) per annum.

The carrying amounts of bank balances and cash are denominated in the following currencies:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong Dollars | **60,605** | 149,438 | **45,661** | 51,015 |
| Renminbi | **50,048** | 74,203 | **—** | — |
| United States Dollars | **340** | 291 | **—** | — |
| | **110,993** | 223,932 | **45,661** | 51,015 |

## 24. TRADE AND OTHER PAYABLES

### THE GROUP

The following is an aging analysis of the Group's trade payables at the balance sheet date:

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| 0-60 days | **9,926** | 19,572 |
| 61-90 days | **2,130** | 1,475 |
| 91-120 days | **199** | 212 |
| over 120 days | **4,457** | 4,418 |
| Trade payables | **16,712** | 25,677 |
| Other payables | **145,945** | 169,946 |
| | **162,657** | 195,623 |

On 9 May 2002, the Group issued HK$230,000,000 convertible notes (the "Notes") which were due on 9 May 2007 (the "Maturity Date"), bearing interest at 1% per annum and in units of HK$1,000,000 each. As at 31 December 2008 and 2007, the balance of HK$75,000,000 notes were due but not converted. Such principal monies together with all interest accured thereron up to maturity, amounting to HK$3,908,000, was reclassified as other payables and become repayable on demand.

The directors consider that the carrying amount of trade and other payable approximates their fair value.

## 25 PROVISION FOR LOSS IN LITIGATION

### THE GROUP

| | HK$'000 |
|---|---|
| At 1 January 2008 | 38,000 |
| Amount applied in settlement arrangement of legal litigations (Note) | (27,740) |
| Over provision write back to income statement | (10,260) |
| At 31 December 2008 | — |

*Note:* Applied to write off the debt assignments acquired by the Group as part of the arrangement to settle the legal litigations against the PRC subsidiaries.

For details in relation to the purchase of debts and settlement of litigations, please refer to the Company's announcement dated 15 August 2008 and the circular dated 5 September 2008.

## 26. SECURED BANK LOAN

| | THE GROUP | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Secured bank loan wholly repayable within one year | **22,727** | — |

Bank loan secured by Group's land use rights and bear interest at a fixed rate of 7.84% (2007: Nil) per annum.

## 27. SHARE CAPITAL

| | Number of shares | | Nominal value | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | | | **HK$'000** | HK$'000 |
| Ordinary shares of HK$0.10 each | | | | |
| *Authorised* | | | | |
| At beginning and end of the year | **3,000,000,000** | 3,000,000,000 | **300,000** | 300,000 |
| *Issued and fully paid:* | | | | |
| At beginning of the year | **1,188,329,142** | 914,995,817 | **118,833** | 91,500 |
| Shares issued on conversion of convertible notes | **—** | 273,333,325 | **—** | 27,333 |
| At end of the year | **1,188,329,142** | 1,188,329,142 | **118,833** | 118,833 |

The shares issued rank pari passu in all respects with the existing shares of the Company.

## 28. SHARE OPTION SCHEME

The share option scheme was adopted by the Company on 20 May 2003 (the "Scheme"). During the year, no options was granted, exercised, lapsed or cancelled under the Scheme. At 31 December 2007 and 2008, there were no options outstanding under the Scheme.

The primary purpose of the Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including Directors, and business associates of the Company and its subsidiaries, to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of approval of the Scheme without prior approval from the Company's shareholders.

The maximum entitlement for any one participant is that the total number of ordinary shares of the Company issued and to be issued upon exercise of the options granted to such participant under the Scheme and any other option schemes of the Company (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of ordinary shares of the Company in issue.

The Scheme is for a term of 10 years from the date of adoption and will expire on 20 May 2013. No option has been granted since the adoption of the Scheme. Therefore, no charge is recognised in the consolidated income statement in respect of the value of options granted for both years.

## 29. CONTINGENT LIABILITIES

a. On 27 Febuary 2004, the Company's subsidiaries Nanhai Jia Shun Timber Company Limited ("Jia Shun") received summons issued by the People's Court of Foshan City, Guangdong Province, the People's Republic of China (the "Court") regarding a litigation institution (the "Claim") by a constructor (the "Claimant") in relation to a construction fee in a sum of RMB 1,621,109 (approximately HK$1,842,169) and accrued interest thereof.

   The legal proceedings in relation to the above claim was suspended and resumed by the Court on 7 March 2004 and on 7 January 2009 respectively.

   Jia Shun received the written judgements of the above claim from the Court on 3 February 2009 whereby the Court held that Jia Shun was liable to repay the construction fee in the sum of RMB1,621,109 (approximately HK$1,842,169) together with accrued interest to the Claimant, which in aggregate amounted to an equivalent of RMB1,668,593 (approximately HK$1,896,128). Upon receiving the judgments, Jia Shun had promptly engaged PRC lawyers to look into the matters and appeal was filed with the Court on 17 February 2009 to appeal against such written judgments of the above claim.

   Based on the legal opinions of PRC lawyers engaged for each of the Claim, and the facts finding and investigations conducted so far by Jia Shun and PRC lawyers, it has appeared that:- i) Jia Shun had never appointed or approved any construction contract with the Claimant of the alleged construction fee and; ii) Jia Shun had not verified the completion report for the construction project with the Constructor, and the Claimant had not provided sufficient cogent evidence to show that such construction project was in fact performed for Jia Shun.

   Based on the legal opinion of the PRC lawyers, the Directors consider that the Claimant did not have any valid claim against Jia Shun in relation to the above Claim, and they believe that the Jiashun may successfully defend against the Claim. Thus, Jiashun has contested the Claim. Accordingly, the board has not made any provision on loss in litigation in respective on the Claims. At present, the Board anticipates that the Claim will not cause any material adverse impact on the business operations and financial position of the Group.

## 29. CONTINGENT LIABILITIES *(continued)*

b. The Group had a maximum contingent consideration of HK$48,000,000 in respect of the acquisition of the entire issued share capital of Can Manage. This amount would become payable, among others, if the consolidated net profit of Can Manage and its subsidiary, Jia Shun, achieved an amount of HK$70,000,000 for the year ended 31 December 2002 and HK$80,000,000 for the year ended 31 December 2003.

However, the operation of Jia Shun was suspended during the period from 17 August 2003 to 10 October 2003 due to a failure in the supply of electricity and steam from the power plant operated under the power supply agreement and a court order dated 19 August 2003 to freeze Jia Shun's assets in relation to an alleged claim from the Shenzhen Development Bank Foshan Branch. In addition, the production facilities were substantially different from those prior to the suspension. In view of all the above incidences, and as the consolidated net profit of Can Manage and Jia Shun for the year ended 31 December 2003 did not reach HK$80,000,000, the directors consider that the Group is not liable to pay any contingent consideration.

However, as the vender is not contactable up to the date of this report, the Directors decide to reflect this amount as a contingent liability.

## 30. OPERATING LEASE ARRANGEMENTS

**The Group as lessee**

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Minimum lease payments paid under operating leases during the year: | | |
| Premises | **38,793** | 649 |

## 30. OPERATING LEASE ARRANGEMENTS *(continued)*

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises and plant and machinery, which fall due as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **4,458** | 649 |
| In the second to fifth year inclusive | **13,684** | — |
| Over five years | **20,651** | — |
| | **38,793** | 649 |

Operating lease payments represent rentals payable by the Group for its office premises and plant and machinery. Leases are negotiated for an average terms of 3 years to 4 years, respectively.

**The Group as lessor**

The Group's property rental income earned during the year was approximately HK$1,061,000 (2007: HK$1,271,000). All of the properties held have committed tenants for one years.

At the balance date, the Group had contracted with tenants for the following future minimum lease payments:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **1,152** | 406 |
| In the second to fifth year inclusive | **599** | — |
| | **1,751** | 406 |

## 31. COMMITMENTS

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Commitments for the acquisition of the property, plant and equipment | **3,698** | 4,476 |
| Commitments for the environmental renovation project | **409** | — |
| Commitments for hotel equipment renovation project | **1,601** | — |
| Total commitments | **5,708** | 4,476 |

## 32. RELATED PARTY TRANSACTION

**Compensation of key management personnel**

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

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Short-term employee benefits | **6,010** | 5,550 |
| Post-employment employee benefits | **115** | 77 |
| | **6,125** | 5,627 |

The remuneration of directors and key management personnel is determined or proposed by the remuneration committee having regard to the performance of individuals and market trends.

## 33. PRINCIPAL SUBSIDIARIES

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

| Name of subsidiary | Place of incorporation or registration/ operation | Nominal value of issued and fully paid ordinary share capital/ registered capital | Percentage held % | Principal activity |
|---|---|---|---|---|
| *Direct subsidiary* | | | | |
| China Investments Limited | Hong Kong | HK$1,000 | 100 | Investment holding |
| *Indirect subsidiaries* | | | | |
| Airlane Development Limited | Hong Kong | HK$2 | 100 | Property trading |
| Barmax Development Limited | Hong Kong | HK$2 | 100 | Property trading |
| Botex Development Limited | Hong Kong | HK$2 | 100 | Property trading |
| Centon Development Limited | Hong Kong | HK$2 | 100 | Property trading |
| Charland Investment Limited | Hong Kong | HK$2 | 100 | Property trading |
| China Alliance Industries | Hong Kong | HK$2 | 100 | Property trading |
| China Industrial Development Limited | Hong Kong | HK$2 | 100 | Investment holding |
| Cyro Holdings Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |
| Expert Target Development Limited | Hong Kong | HK$2 | 100 | Property trading |
| Greenswood Property Limited | Hong Kong | HK$2 | 100 | Property investment |
| Guilin Plaza Hotel *(Note)* | PRC | RMB14,500,000 | 100 | Hotel operations |

## 33. PRINCIPAL SUBSIDIARIES *(continued)*

| Name of subsidiary | Place of incorporation or registration/ operation | Nominal value of issued and fully paid ordinary share capital/ registered capital | Percentage held | Principal activity |
|---|---|---|---|---|
| | | | % | |
| *Indirect subsidiaries* | | | | |
| Nanhai Heng Da Timber Company Limited 南海亨達木業有限公司 *(Note)* | PRC | RMB40,789,076 | 100 | Manufacturing and trading of veneers |
| Jofra Company Limited | Hong Kong | HK$1,000 | 100 | Investment holding |
| Forshan City Nanhai Jia Shun Timber Company Limited 佛山市南海佳順木業有限公司 *(Note)* | PRC | RMB39,800,000 | 100 | Manufacturing and trading of medium density fibreboards |
| Forshan City Nanhai Kang Sheng Timber Company Limited 佛山市南海康盛木業有限公司 *(Note)* | PRC | HK$81,000,000 | 100 | Manufacturing and trading of medium density fibreboards |
| Kawan (HK) Trading Company Limited | Hong Kong | HK$4,000,000 | 100 | Trading of steels and other materials |

## 33. PRINCIPAL SUBSIDIARIES *(continued)*

| Name of subsidiary | Place of incorporation or registration/ operation | Nominal value of issued and fully paid ordinary share capital/ registered capital | Percentage held % | Principal activity |
|---|---|---|---|---|
| Langmax Investment Limited | Hong Kong | HK$2 | 100 | Property trading |
| Lina Development Limited | Hong Kong | HK$2 | 100 | Property trading |
| Metropolitan Development Limited | Hong Kong | HK$2 | 100 | Property trading |
| Rich Asset Development Limited | Hong Kong | HK$2 | 100 | Property trading |
| Rich Horn Development Limited | Hong Kong | HK$2 | 100 | Property trading |
| Senicon Investment Limited | Hong Kong | HK$2 | 100 | Property trading |
| Sino Sense Development Limited | Hong Kong | HK$2 | 100 | Property trading |
| Trener Investment Limited | Hong Kong | HK$2 | 100 | Property trading |
| Universal Talent Development Limited | Hong Kong | HK$2 | 100 | Property trading |

*Note:* Wholly foreign owned enterprise.

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

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

# Five Years Financial Summary

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| **RESULTS** | | | | | |
| Turnover | 375,602 | 339,865 | 430,016 | 497,834 | **472,503** |
| Profit/(loss) for the year attributable to shareholders | (48,867) | 10,869 | 70,940 | 87,252 | **17,115** |
| Earnings/(loss) per share | | | | | |
| Basic | (5.34 cents) | 1.19 cents | 7.75 cents | 8.01 cents | **1.44 cents** |
| Diluted | N/A | 1.16 cents | 4.81 cents | N/A | **N/A** |

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 640,897 | 678,111 | 764,171 | 796,768 | **767,877** |
| Total liabilities | (300,824) | (332,879) | (357,639) | (239,785) | **(187,564)** |
| Shareholders' funds | 340,073 | 345,232 | 406,532 | 556,983 | **580,313** |

# Particulars of Major Properties

Particulars of major properties held by the Group as at 31 December 2008 are as follows:

| Name/Location | Effective % held | Category of lease | Type | Total gross floor area on completion (s.m.) | Stage | Expected year of completion |
|---|---|---|---|---|---|---|
| *Hotel properties* | | | | | | |
| Guilin Plaza, 20 Li Jiang Lu Guilin, Guangxi, The PRC. | 100 | Medium | Hotel | 21,708 | Existing | N/A |
| *Investment properties* | | | | | | |
| Kai Yip Factory Building Portion A on G/F, No. 15-17 Sam Chuk Street San Po Kong Kowloon, Hong Kong. | 100 | Medium | Industrial | 459 | Existing | N/A |
| Room 702, 703 and 704 of Block D of Shantou Commercial Plaza at the junction of Jinsha Road East and Huashan Road Shantou Special Economic Zone, Guangdong Province, The PRC. | 100 | Medium | Residential | 291 | Existing | N/A |

Particulars of major properties held by the Group as at 31 December 2008 are as follows:

| Name/Location | Effective % held | Category of lease | Type | Total gross floor area on completion (s.m.) | Stage | Expected year of completion |
|---|---|---|---|---|---|---|
| *Properties held for sale* | | | | | | |
| Levels 5-7, 9, 12-14, 17-22 of Block A and all shopping spaces in the podium under Block B & C of Shantou Commercial Plaza at the junction of Jinsha Road East and Huashan Road, Shantou Special Economic Zone, Guangdong Province The PRC. | 100 | Medium | Commercial/ Residential | 13,323 | Existing | N/A |
| 10th Floor of Building B, 6th, 8th, 11th, 15th, 17th and 25th Floors of Building A, International Commerce Building, Banzhang Lake, South Riverside, Huizhou City, Guangdong Province, The PRC. | 100 | Long | Commercial/ Office | 4,289 | Existing | N/A |