PROSPERITY INVESTMENT HOLDINGS LIMITED
嘉 進 投 資 國 際 有 限 公 司

(Incorporated in Bermuda with limited liability)

Stock Code : 310

Annual Report
2008

Contents

Corporate Information

Executive Directors

LAM Kwing Wai, Alvin *(Chairman)*
CHEUK Yuk Lung *(Managing Director)*

Independent Non-executive Directors

YAN Mou Keung, Ronald
CHAN Fai Yue, Leo
CHAN Siu Wing, Raymond

Audit Committee

YAN Mou Keung, Ronald
CHAN Fai Yue, Leo
CHAN Siu Wing, Raymond

Remuneration Committee

LAM Kwing Wai, Alvin
YAN Mou Keung, Ronald
CHAN Fai Yue, Leo

Company Secretary

LEE Yip Wah, Peter

Auditors

H.H. Liu & Co., Certified Public Accountants

Principal Banker

ICBC (Asia)

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

Room A, 11th Floor
Fortune House
61 Connaught Road Central
Central
Hong Kong

Principal Registrars

The Bank of Bermuda Limited
The Bank of Bermuda Building
6 Front Street, Hamilton
Bermuda

Registrars in Hong Kong

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

Website Address

www.irasia.com/listco/hk/prosperityinv/index.htm

Stock Code

The Stock Exchange of Hong Kong Limited : 310

Message from the Chairman

I would like to express my sincere thanks to all our shareholders for their continuing support, and all the directors and staff of the Group for their loyalty, commitment and diligence in the past year.

LAM Kwing Wai, Alvin
Chairman

Management's Statement

On behalf of the board of directors (the "Board"), I have pleasure in presenting the annual report and the audited consolidated results of Prosperity Investment Holdings Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2008.

Investment Portfolios

For the year under review, the Group has mainly engaged in the following investment projects:

(1) investment in securities and equity-linked products;

(2) investment in land development; and

(3) investment in the business of confectionery production

These investments are expected to bring to the Group steady returns and possible capital appreciations.

Business Review and Prospects

Pursuant to an ordinary resolution passed at the special general meeting held on 26 February 2008, 34,896,400 shares of HK$0.10 each in the share capital of the Company were issued on 18 March 2008 by way of an Open Offer to qualifying shareholders on the basis of one offer share for every two consolidated shares held (the "Open Offer").

The Group intends to strengthen its financial position by the Open Offer, which will enable the Company to expand its capital base. In addition, the Open Offer allows the qualifying shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Company. The Directors therefore consider that the Open Offer is in the interests of the Company and the Shareholders as a whole. The Board intends to apply the net proceeds for future investment to achieve long-term capital appreciation of its assets primarily through equity and equity-related investments.

On 24 July 2008, the Company entered into a placing agreement with Baron Capital Limited, the placing agent, for the placing of 20,000,000 shares of HK$0.10 each in the share capital of the Company.

The Directors consider that it is in the best interest of the Company and its shareholders as a whole to raise further capital from the equity market by way of the placing in order to enhance the capital base of the Company as well as to strengthen the cash flow of the Company. The net proceeds has been used as a general working capital for the Group.

2008 was a difficult year as compared to 2007. We are still cautious about prospects in 2009. Though the United States economic and financial difficulties have a global impact, the economic impact on the Greater China region should not be severe since this region enjoys huge surpluses and is able to rely on domestic consumption and investment for economic growth. Stock market performance and investor sentiment are however another matters. We should prepare for a period of depressed investor psychology and diminished appetite for investment risk, particularly if negative news continues to flow from the United States. The Board still believes that the business environment will remain challenging and highly competitive and hopes both the global and Hong Kong economies will soon recover from the difficult time and continue to be growing steadily.

The Group will continue to identify and pursue any investment opportunities and manage the existing investments in accordance with the Company's investment objective and policy of achieving long term capital appreciation and growth in profits. The Board believes that the Group will continue to evaluate potential investments with a view of gaining high investment returns and yields for our shareholders.

Liquidity and Financial Resources

Operations of the Group are generally financed through internal cash resources. As at 31 December 2008, cash and bank balances of the Group were approximately HK$78 million. With cash and other current assets of approximately HK$144 million as at 31 December 2008, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Use of Proceeds

The net proceeds received from the Open Offer were approximately HK$35 million and have been fully applied for the investment in listed securities in Hong Kong in 2008.

The actual and intended applications of the net proceeds are consistent with the reasons for the Open Offer as set out in the prospectus of the Company dated 27 February 2008.

Capital Structure

During the year, the share capital structure of the Company has been changed with details shown in note 26 to the financial statements.

Employees and Remuneration Policies

Remuneration policies for the employees and the directors are reviewed by the Group in accordance with the market situation and their performance from time to time. No director or executive is involved in dealing his own remuneration. In addition to salary payments, the Company has participated in the Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Scheme Authority under the Mandatory Provident Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Pursuant to the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at 5% of their monthly relevant income.

On behalf of the Board

CHEUK Yuk Lung
Managing Director

Hong Kong, 23 March 2009

Director's Report

For the year ended 31 December 2008

The directors present their report together with the audited financial statements for the year ended 31 December 2008.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the holding of equity or equity-related investments and the provision of management services to these investee companies.

Results and Appropriations

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 19 to 21.

The directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

Subsidiaries and Associates

Particulars of the Company's principal subsidiaries and the Group's principal associates as at 31 December 2008 are set out in notes 14 to 15 to the financial statements respectively.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 26 to the financial statements.

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 82.

Directors

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

Executive directors

Lam Kwing Wai, Alvin

Cheuk Yuk Lung

Tsui Yee Ni *(resigned on 1 July 2008)*

Independent non-executive directors
Yan Mou Keung, Ronald
Chan Fai Yue, Leo
Chan Siu Wing, Raymond

In accordance with the Company's Bye-Laws, Mr. Yan Mou Keung, Ronald and Mr. Chan Siu Wing, Raymond shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The other directors shall remain in office.

Each independent non-executive director has, pursuant to the rule 3.13 of the Listing Rules, confirmed that he is independent of the Company. The Company considers that they are independent. The term of office of each independent non-executive director is for a period of three years until 30 December 2010 subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Bye-Laws of the Company.

Biographical Details of Directors

The biographical details of the directors of the Company are as follows:

Executive Directors
Mr. Lam Kwing Wai, Alvin, aged 64, was appointed as an executive director of the Company in 2006 and was then appointed as the Chairman of the Company in 2007 and is a member of the remuneration committee of the Company. Mr. Lam is the managing director of Golden Resources Development International Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lam is also an independent non-executive director of Regal Portfolio Management Limited, the manager of Regal Real Estate Investment Trust, a Hong Kong collective investment scheme authorized under section 104 of the Securities and Futures Ordinance and the units of which are listed on the main board of the Stock Exchange. Mr. Lam is a director of and wholly owns Favor Hero Investments Limited (substantial shareholder of the Company). Mr. Lam holds a master degree in business administration from University of California, Berkerly, U.S.A.. Mr. Lam has extensive experience in financial management and investment planning.

Mr. Cheuk Yuk Lung, aged 43, was appointed as an executive director of the Company in 2004 and is the managing director of the Company. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants. Mr. Cheuk has extensive professional experience in management, finance, accounting and auditing fields.

Independent Non-Executive Directors

Mr. Yan Mou Keung, Ronald, aged 54, was appointed as an independent non-executive director of the Company in 2001 and is a member of the audit committee and remuneration committee of the Company. Mr. Yan is also an independent non-executive director of China Investment Fund Company Limited (substantial shareholder of the Company), a company incorporated in Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange. Mr. Yan has more than 19 years of experience in running retail fashions. Mr. Yan is the Director of Art Concept International Culture Studies Foundation Funds. He is also the Hon Life President of Tsimshatsui Kai Fong Welfare Association, Vice President of HK Island/Northern District Scout Association, Hong Kong, Hon Life President of Artiste Training Alumni Association, the President of Pragmatic Kwon-Do and the Chairman of Chung Hop Pai, Lau Kan Tung Chinese Martial Arts Association.

Mr. Chan Fai Yue, Leo, aged 67, was appointed as an independent non-executive director of the Company in 2001 and is a member of the audit committee and remuneration committee of the Company. Mr. Chan is also an independent non-executive director of Golden Resources Development International Limited and Datronix Holdings Limited, companies incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange. Mr. Chan has over 20 years of invaluable experience in Hong Kong stock market and manufacturing industry. During his early years in Japan, he exposed in trading and finance fields. He is a director of a paint manufacturing company in Bangkok. Mr. Chan is a member of The Hong Kong Institute of Directors.

Mr. Chan Siu Wing, Raymond, aged 44, was appointed as an independent non-executive director of the Company in 2004 and is a member of the audit committee of the Company. He is currently the Chief Operating Officer of Chinachem Group. Mr. Chan is the executive director of ENM Holdings Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange. Mr. Chan is also an independent non-executive director of Cardlink Technology Group Limited and Intelli-Media Group (Holdings) Limited, companies incorporated in Cayman Islands with limited liability and the shares of which are listed on the Growth Enterprise Market ("GEM") of the Stock Exchange. He gained his bachelor degree in economics from University of Sydney in 1986 and is qualified as certified practising accountants in both Australia and Macau. Mr. Chan is an associate member of The Hong Kong Institute of Certified Public Accountants. Mr. Chan has over 17 years of professional experience in accounting, taxation and business consulting with various accountancy, consultancy and trustee companies.

Senior Management

The Company is being managed by its investment manager, Sinox Fund Management Limited ("SINOX"), pursuant to the terms of the written management agreement. The executive directors are closely involved in and responsible for the activities of the Company. The board of directors considered that the Company's senior management comprises the executive directors.

Directors' Service Contract

None of the directors has a service contract with the Company which cannot be terminated by the Company within one year without payment of compensation.

Directors' Interests and Short Positions in the Shares and Underlying Shares

As at 31 December 2008, the interests and short positions of the directors and any of their associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

Long positions in shares of HK$0.10 each of the Company

Name of Director	Personal Interests*	Family Interests+	Corporate Interests#	Total Interests	Percentage of issued share capital of the Company
Lam Kwing Wai, Alvin	—	—	65,120,710	65,120,710	52.23% *(Note (a))*

* Beneficial owner
\+ Interests of spouse
\# Interests beneficially held by the company itself or through companies controlled by it

Notes:

(a) The shares were held by Favor Hero Investments Limited, a company which was wholly owned by Mr. Lam Kwing Wai, Alvin as disclosed in the "Substantial Shareholders" below. Mr. Lam Kwing Wai, Alvin was therefore deemed to be interested in 65,120,710 shares held by Favor Hero Investments Limited.

(b) Pursuant to an ordinary resolution passed on 26 February 2008, every ten shares of HK$0.01 each of the Company have been consolidated into one share of HK$0.10 each of the Company.

Save as disclosed above, none of the directors nor their associates of the Company had or was deemed to have any interest or short position in the shares or underlying shares of the Company or any of its associated corporations as recorded in the register that required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

Directors' Rights to Acquire Shares

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company.

Directors' Interests in Contracts

Mr. Lam Kwing Wai, Alvin, a director of the Company, has an interest of 80% in SINOX. Pursuant to Rule 21.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), SINOX is a connected person of the Company and, accordingly, the investment management agreement entered into between the Company and SINOX constitutes a connected transaction for the Company under the Listing Rules.

Details of the directors' interests in contracts of significance in relation to the Group's business are set out in the "Connected Transactions" below.

Save as disclosed above, no other contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which 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.

Connected Transactions

On 31 August 2007, the Company entered into agreement with SINOX for a period of three years commencing from 1 September 2007 to 31 August 2010 (the "Agreement") unless either party provides written termination notice of at least six months to the other and shall be on the same terms and conditions of the agreement dated 27 April 2006 (the "Last Agreement") except that (i) the calculation of the amount of the management fee payable to SINOX from the Company has been revised from 0.75 per cent per annum of the consolidated net asset value of the Company to 1.90 per cent per annum of the consolidated net asset value of the Company and (ii) the tenor has been revised from the period from 1 April 2006 to 31 March 2009 to the period from 1 September 2007 to 31 August 2010. The Agreement superseded the Last Agreement and become the latest investment management agreement entered into between the Company and SINOX.

The amount of the management fee payable to SINOX in accordance with the Last Agreement was calculated based on 0.75 percent per annum of the consolidated net asset value of the Company and is now revised to 1.90 percent per annum of the consolidated net asset value of the Company during the duration of the Agreement after discussion between SINOX and the Board of the Company by reason that the value of the assets of the Group has been drastically increased in the past year and will be expected to increase under the current favourable economic growth and stock market performance in both the PRC and Hong Kong and that the Group is evaluating some potential investment projects in the PRC with a view of gaining favourable investment returns and yields for the shareholders of which SINOX will be required to involve more time and effort in the management and administrative services including but not limited to the performance of the feasibility studies and financial analysis of the relevant potential investment projects in the PRC when comparing with its previous scope of works provided with the Company.

Pursuant to the terms of the Agreement, SINOX shall receive from the Company a management fee of 1.90 percent per annum of the consolidated net asset value of the Company payable at the end of each month.

In view of the financial tsunami and the difficult and uncertain economic environment, the Company agreed to pay and SINOX agreed to receive a temporarily adjusted monthly management fee at a fix sum of HK$250,000 for a period of 12 months until June 2009.

The directors, including the Company's independent non-executive directors, Mr. Yan Mou Keung, Ronald, Mr. Chan Fai Yue, Leo and Mr. Chan Siu Wing, Raymond, considered that the Agreement is in the best interests of the Group and was entered into on normal commercial terms, in the ordinary course of business of the Company and that the rate of the management fee is fair and reasonable so far as the shareholders of the Company are concerned.

The Board has also confirmed that a letter pursuant to Rule 14A.38 of the Listing Rules has been issued to the Board by the auditors of the Company.

Substantial Shareholders

As at 31 December 2008, the following persons had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of HK$0.10 each of the Company

Name	Personal Interests*	Family Interests+	Corporate Interests#	Total Interests	Percentage of issued share capital of the Company	*Notes*
Favor Hero Investments Limited	—	—	65,120,710	65,120,710	52.23%	*1*
Lam Kwing Wai, Alvin	—	—	65,120,710	65,120,710	52.23%	*1*
China Investment Fund Company Limited	3,696,000	—	7,500,000	11,196,000	8.98%	*2*
Cosmopolitan International Holdings Limited	—	—	12,000,000	12,000,000	9.62%	*3*

* Beneficial owner
\+ Interests of spouse
\# Interests beneficially held by the company itself or through companies controlled by it

Notes:

1. Favor Hero Investments Limited was wholly-owned by Mr. Lam Kwing Wai, Alvin. Mr. Lam Kwing Wai, Alvin was therefore deemed to be interested in 65,120,710 shares held by Favor Hero Investments Limited.

2. Delux Famous Business Limited held 7,500,000 shares and was a wholly-owned subsidiary of China Investment Fund Company Limited. China Investment Fund Company Limited was therefore deemed to be interested in 7,500,000 shares held by Delux Famous Business Limited.

3. Sinofame International Limited held 12,000,000 shares and was an indirect wholly-owned subsidiary of Cosmopolitan International Holdings Limited. Cosmopolitan International Holdings was therefore deemed to be interested in 12,000,000 shares held by Sinofame International Limited.

4. Pursuant to an ordinary resolution passed on 26 February 2008, every ten shares of HK$0.01 each of the Company have been consolidated into one share of HK$0.10 each of the Company.

Save as disclosed above, as at 31 December 2008, the directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register that required to be kept by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of more than 25% of the issued share capital of the Company as required under the Listing Rules.

Purchase, Sale or Redemption of Shares of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the Company Act (1981) of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Auditors

On 1 November 2006, RSM Nelson Wheeler tendered their resignation as the auditors of the Company and then H.H. Liu & Co., C.P.A. was appointed as auditors of the Company by the Board on the same date to fill the casual vacancy.

H. H. Liu & Co., C.P.A. retires and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

LEE Yip Wah, Peter
Secretary

Hong Kong, 23 March 2009

The Group is dedicated to maintaining a good credible framework of corporate governance with a view to being transparent, open and accountable to our shareholders.

The Company adopted all the code provisions in the Code on Corporate Governance Practices ("the Code") contained in Appendix 14 of the Listing Rules as its own code on corporate governance practices.

During the year, the Company complied with the Code except for a single deviation. According to code provision E1.2 of the Code, the Chairman of the Board should attend the annual general meeting. Due to an unexpected business commitment, Mr. Lam King Wai, Alvin, the Chairman of the Board, was unable to attend the annual general meeting of the Company (the "AGM") held on 19 June 2008. Mr. Cheuk Yuk Lung, the managing director, was elected in accordance with the Company's Bye-laws, to act as the chairman of the AGM and answered questions raised by shareholders together with the members of the Audit Committee and the Remuneration Committee.

The Board

Composition

The Board consists of three Executive Directors and three Independent Non-executive Directors ("INED(s)"), one of whom namely Mr. Chan Siu Wing, Raymond has the appropriate professional accounting experience and expertise. The names and biographical details of each Director are disclosed on pages 7 to 8 of this Annual Report.

Each INED has, pursuant to the rule 3.13 of the Listing Rules, confirmed he is independent of the Company and the Company also considers that they are independent. The current term of office of each INED is for a period of three years until 30 December 2010 subject to the requirement that one-third of all the Directors shall retire from office by rotation at each annual general meeting pursuant to the Bye-Laws of the Company. Save as disclosed in "Biographical Details of Directors" on pages 7 to 8, there is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

Function

The Board is responsible both for how the Company is managed and the Company's direction. Approval of the Board is required for the strategy of the Group, major acquisition and disposal, major capital investment, dividend policy, appointment and retirement of Directors, remuneration policy and other major operational and financial matters. Day-to-day operations of the Group are taken up by the Company's management and the Company's investment manager.

The Board has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Company.

The Board held four regular Board meetings at approximately quarterly interval during the year 2008. Additional board meetings were held when necessary. Due notice and board papers were given to all directors prior to the meeting in accordance with the Listing Rules and the Code. Details of individual attendance of Directors are set out in the table below:

Attendance of individual Directors at Board meetings in 2008	
Number of meetings	12
Executive Director	
Lam Kwing Wai, Alvin	9/12
Cheuk Yuk Lung	12/12
Tsui Yee Ni *(resigned on 1/7/2008)*	6/7
INEDs	
Yan Mou Keung, Ronald	6/12
Chan Fai Yue, Leo	7/12
Chan Siu Wing, Raymond	7/12

The Board has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expanse

Board Committees

To strengthen the functions of the Board and to enhance its expertise, there are two Board committees namely, the Audit Committee and Remuneration Committee formed under the Board, with each performing different functions.

Audit Committee

The Audit Committee comprises three INEDs.

The role and function of the Audit Committee include:

— to serve as a focal point for communication between other Directors and the auditors in respect of the duties relating to financial and other reporting, internal controls, audits, and such other matters as the Board may determine from time to time.

— to assist the Board in fulfilling its responsibility by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group and the adequacy of the audits.

— to review the appointment of auditors on an annual basis including the review of the audit scope and approval of the audit fees.

— to review the annual and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to the financial reporting requirements.

— to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors.

Set out below is the summary of work done in year 2008:

— to review of the financial statements for the year ended 31 December 2007 and for the six months ended 30 June 2008;

— to review of the effectiveness of the internal control system;

— to review of the auditors' statutory audit plan and the letters of representation; and

— to consider and approve the 2008 audit fees and audit work.

The Audit Committee held two meetings during the year. Details of individual attendance of its members are set out in the table below:

Attendance of individual members at Audit Committee meetings in 2008	
Number of meetings	2
INED	
Chan Fai Yue, Leo *(Chairman of the Committee)*	2/2
Yan Mou Keung, Ronald	1/2
Chan Siu Wing, Raymond	2/2

Remuneration Committee

The Board has established a Remuneration Committee, comprising two INEDs and the Chairman of the Company appointed by the Board, which meets at least once a year. The role and function of the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the Executive Directors.

Set out below is the summary of work of the Remuneration Committee done in year 2008:

— to review of the remuneration policy for 2008/2009;

— to review of the remuneration of the Executive Directors and the INEDs; and

— to review of the annual share option policy.

The Remuneration Committee held one meeting during 2008. Details of individual attendance of its members are set out in the table below:

Attendance of individual members at Remuneration Committee meetings in 2008	
Number of meetings	1
Executive directors	
Lam Kwing Wai, Alvin *(Chairman of the Committee)*	1/1
INEDs	
Yan Mou Keung, Ronald	1/1
Chan Fai Yue, Leo	1/1

Other information

The Board has not established a nomination committee. Ms. Tsui Yee Ni resigned as director on 1 July 2008. There was no removal of director and appointment of new director during the year.

Internal Control

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorized use or deposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance of applicable laws, rules and regulations. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud.

Internal audit has been conducted by the investment manager, Sinox Fund Management Limited ("Sinox") for the Company and its subsidiaries, associated companies and jointly controlled entities. Sinox is responsible for the review of the effectiveness of the Group's material internal controls so as to provide assurance that key business and operational risks are identified and managed. The work carried out by Sinox will ensure the internal controls are carried out appropriately and functioning as intended. Sinox will report to the Board with its findings and make recommendations to improve the internal control of the Group.

During the year, the Board together with Sinox reviewed the internal control procedures and risk management system of the Group and noted that there was no significant weakness.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees (as defined in the Code). All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year 2008.

Auditors' Remuneration

During the year, the fees paid to the Company's Auditors, H.H. Liu & Co., C.P.A. amounted to HK$138,000 in respect of audit and taxation services. In respect of non-audit services, the fees paid to the Company's Auditors in relation to the professional services rendered for the Open Offer of the Company amounted to HK$25,000.

Directors' Responsibility for Preparing the Financial Statements

The Directors acknowledge that it is their responsibilities in preparing the Financial Statements. The Statement of the Auditors about their reporting responsibilities on the Financial Statements is set out in the Auditors' Report on page 18.

Shareholder Communication

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in circular of the Company accompanying notice convening general meeting and has been read out by the chairman at the general meeting.

At the 2008 annual general meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including re-election of Directors. Except for the Chairman of the Board of Directors who was unable to attend the meeting, all other directors including the members of the Audit Committee and Remuneration Committee attended the 2008 Annual General Meeting to answer questions of shareholders.

Independent Auditor's Report

廖慶雄會計師事務所
H. H. LIU & CO., *Certified Public Accountants*

To the shareholders of
Prosperity Investment Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Prosperity Investment Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 81, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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 auditor considers 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 loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

H. H. Liu & Co.
Certified Public Accountants

Hong Kong, 23 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 HK$	2007 HK$
Revenue			
Dividend income from investment securities and other investments/ financial assets, listed		**5,535,503**	3,745,026
Net (loss)/gain on financial assets at fair value through profit or loss		**(10,142,991)**	13,221,457
		(4,607,488)	16,966,483
Other revenue	5	**9,129,379**	45,991,651
Net (loss)/gain on disposal of available-for-sale financial assets		**(19,835,040)**	30,078,180
Net (loss)/gain on disposal of derivative financial instruments		**(116,233)**	2,861,302
Fair value (loss)/gain on investments held for trading		**(657,875)**	1,693,884
Fair value gain on derivative financial instruments		**—**	1,181,631
		(16,087,257)	98,773,131
Gain on disposal of an associate	7	**247,456**	—
Written off of an associate		**(312)**	—
Investment management fees		**(5,400,000)**	(3,829,827)
Provision for impairment losses	8	**(23,209,698)**	5,990,815
Finance costs	9	**(75,120)**	(7,994)
Other operating expenses		**(6,117,335)**	(13,071,264)
Staff costs		**(1,323,368)**	(1,303,448)
Share of associates' results		**(1,496,051)**	64,457,198
(Loss)/Profit before taxation	6	**(53,461,685)**	151,008,611
Income tax expense	11	**(97,774)**	(769,698)
(Loss)/Profit for the year	27	**(53,559,459)**	150,238,913
(Loss)/Earnings per share	13		
— Basic		**(49.26 cents)**	24.53 cents
— Diluted		**(47.89 cents)**	23.25 cents

The notes on pages 26 to 81 form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 December 2008

	Note	2008 HK$	2007 HK$
Non-current assets			
Interests in associates	15	**9,943,299**	11,136,579
Held-to-maturity investments	16	**66,805,273**	—
Available-for-sale financial assets	17	**160,325,179**	310,757,986
Other asset	18	**150,000**	150,000
		237,223,751	322,044,565
Current assets			
Available-for-sale financial assets	17	**37,689,717**	47,935,200
Derivative financial instruments	19	**—**	1,181,631
Financial assets at fair value through profit or loss	20	**237,125**	2,676,600
Other receivables	21	**28,715,692**	50,558,439
Cash with brokers	34	**30,962,280**	10,008,519
Cash and bank balances	34	**46,877,963**	119,952,702
		144,482,777	232,313,091
***Less:* Current liabilities**			
Other payables	23	**337,780**	1,789,061
Interest-bearing borrowings	24	**6,064,618**	—
Due to Sinox Fund Management Limited	25	**240,404**	648,821
Provision for taxation		**3,801,980**	4,057,860
		10,444,782	6,495,742
Net current assets		**134,037,995**	225,817,349
NET ASSETS		**371,261,746**	547,861,914
Capital and reserves			
Share capital	26	**12,468,920**	6,479,280
Reserves	27	**358,792,826**	541,382,634
SHAREHOLDERS' FUNDS		**371,261,746**	547,861,914
Net asset value per share	29	**298 cents**	85 cents

Approved by the Board of Directors on 23 March 2009

LAM Kwing Wai, Alvin
Director

CHEUK Yuk Lung
Director

The notes on pages 26 to 81 form an integral part of these financial statements.

Balance Sheet

At 31 December 2008

	Note	2008 HK$	2007 HK$
Non-current assets			
Interests in subsidiaries	14	**90,010,748**	90,010,748
Available-for-sale financial assets	17	**47,263,053**	84,398,309
		137,273,801	174,409,057
Current assets			
Other receivables	21	**3,301,549**	6,383,557
Due from a subsidiary	22	**105,926,454**	5,112,194
Cash with brokers	34	**697**	815,261
Cash and bank balances	34	**28,561,880**	71,189,882
		137,790,580	83,500,894
***Less:* Current liabilities**			
Other payables	23	**331,300**	252,766
Due to Sinox Fund Management Limited	25	**240,404**	648,821
		571,704	901,587
Net current assets		**137,218,876**	82,599,307
NET ASSETS		**274,492,677**	257,008,364
Capital and reserves			
Share capital	26	**12,468,920**	6,479,280
Reserves	27	**262,023,757**	250,529,084
SHAREHOLDERS' FUNDS		**274,492,677**	257,008,364

Approved by the Board of Directors on 23 March 2009

LAM Kwing Wai, Alvin
Director

CHEUK Yuk Lung
Director

The notes on pages 26 to 81 form an integral part of these financial statements.

Consolidated Statements of Changes in Equity

For the year ended 31 December 2008

		Reserve						
	Share capital *HK$*	Share premium *HK$*	Share option reserve *HK$*	Contributed surplus *HK$*	Exchange fluctuation reserve *HK$*	Changes in fair value of Available-for-sale financial assets *HK$*	(Accumulated losses)/ Retained profits *HK$*	Total *HK$*
At 1 January 2007	4,319,520	169,564,710	—	100,383,317	131,919	8,702,957	(34,007,728)	249,094,695
Increase in fair value of available-for-sale financial assets	—	—	—	—	—	97,107,576	—	97,107,576
Realisation of change in fair value for disposal of available-for-sale financial assets	—	—	—	—	—	(4,484,111)	—	(4,484,111)
Capital and Premium arise from open offer	2,159,760	—	—	26,997,000	—	—	—	29,156,760
Equity-settled share-based payment	—	—	26,880,000	—	—	—	—	26,880,000
Realisation of exchange fluctuation reserve on disposal of an investment	—	—	—	—	(131,919)	—	—	(131,919)
Profit for the year	—	—	—	—	—	—	150,238,913	150,238,913
At 31 December 2007	6,479,280	169,564,710	26,880,000	127,380,317	—	101,326,422	116,231,185	547,861,914
Prior year adjustment *note 27(a)*	—	26,997,000	—	(26,997,000)	—	—	—	—
At 1 January 2008. as restated	6,479,280	196,561,710	26,880,000	100,383,317	—	101,326,422	116,231,185	547,861,914
Decrease in fair value of available-for-sale financial assets	—	—	—	—	—	(196,886,391)	—	(196,886,391)
Realisation of change in fair value for disposal of available-for-sale financial assets	—	—	—	—	—	14,946,770	—	14,946,770

Consolidated Statements of Changes in Equity

For the year ended 31 December 2008

	Share capital	Share premium	Share option reserve	Contributed surplus	Exchange fluctuation reserve	Changes in fair value of Available-for-sale financial assets	(Accumulated losses)/ Retained profits	Total
		Reserve						
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Capital and Premium arise from:								
— exercise of share option *note 26 (a)*	500,000	9,500,000	—	—	—	—	—	10,000,000
— open offer *note 26 (c)*	3,489,640	31,406,760	—	—	—	—	—	34,896,400
— share placing *note 26(d)*	2,000,000	20,000,000	—	—	—	—	—	22,000,000
Exercise of share option	—	—	(15,627,907)	—	—	—	—	(15,627,907)
Reversal of reserve for share option	—	—	—	7,627,907	—	—	—	7,627,907
Release on disposal and written off of associates	—	—	—	—	—	—	2,512	2,512
Loss for the year	—	—	—	—	—	—	(53,559,459)	(53,559,459)
At 31 December 2008	**12,468,920**	**257,468,470**	**11,252,093**	**108,011,224**	**—**	**(80,613,199)**	**62,674,238**	**371,261,746**

The notes on pages 26 to 81 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 *HK$*	2007 *HK$*
OPERATING ACTIVITIES		
(Loss)/Profit before taxation	**(53,461,685)**	151,008,611
Adjustments for:		
Interest on bank deposits	**(9,735,663)**	(10,601,201)
Dividend income from investment securities and other investments/financial assets, listed	**(5,535,503)**	(3,745,026)
Gain on disposal of an associate	**(247,456)**	—
Written off of an associate	**312**	—
Provision for impairment losses	**23,209,698**	(5,990,815)
Net loss/(gain) on disposal of available-for-sale financial assets	**19,835,040**	(30,078,180)
Net loss/(gain) on disposal of derivative financial instruments	**116,233**	(2,861,302)
Net gain on disposal of structured investments	**(65,649)**	—
Amortization of held-to-maturity investments	**(59,034)**	—
Share of associates' results	**1,496,051**	(64,457,198)
Fair value gain on derivative financial instruments	**—**	(1,181,631)
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	**(24,447,656)**	32,093,258
(Increase)/Decrease in amounts due from associated companies	**(247,456)**	15,022,200
Decrease in financial assets at fair value through profit or loss	**2,439,475**	5,251,454
Decrease/(Increase) in other receivables	**6,879,934**	(29,507,589)
(Decrease)/Increase in other payables	**(1,451,281)**	1,474,552
(Decrease)/Increase in amount due to Sinox Fund Management Limited	**(408,417)**	505,676
CASH (USED FOR)/GENERATED FROM OPERATIONS	**(17,235,401)**	24,839,551
Tax paid	**(353,654)**	(11,430,902)
Tax refund	**—**	1,005
NET CASH (OUTFLOWS)/INFLOWS FROM OPERATING ACTIVITIES	**(17,589,055)**	13,409,654

The notes on pages 26 to 81 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	HK$	*HK$*
NET CASH (OUTFLOWS)/INFLOWS FROM OPERATING ACTIVITIES	**(17,589,055)**	13,409,654
INVESTING ACTIVITIES		
Dividends received from investment securities and other investments/financial assets, listed	**5,535,503**	3,745,026
Dividends received from an associate	**—**	65,000,000
Interest on bank deposits	**9,735,663**	10,601,201
Payment for available-for-sale financial assets	**(119,215,143)**	(203,417,483)
Payment for associated companies	**(2,200)**	(3,742,200)
Payment for held-to-maturity investments	**(66,746,239)**	—
Proceeds from disposal of an associate company	**249,656**	—
Proceeds from disposal of derivative financial instruments	**1,065,397**	—
Proceeds from disposal of financial assets	**69,884,422**	125,116,152
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES	**(99,492,941)**	(2,697,304)
FINANCING ACTIVITIES		
Proceeds from issue of share	**34,896,400**	29,156,760
Proceeds from share option	**2,000,000**	13,760,000
Proceeds from share placement	**22,000,000**	—
Repayment of interest-bearing borrowings	**(9,535,382)**	—
Proceeds from interest-bearing borrowings	**15,600,000**	—
NET CASH INFLOWS FROM FINANCING ACTIVITIES	**64,961,018**	42,916,760
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(52,120,978)**	53,629,110
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF FINANCIAL YEAR	**129,961,221**	76,332,111
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR	**77,840,243**	129,961,221
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash with brokers	**30,962,280**	10,008,519
Cash and bank balances	**46,877,963**	119,952,702
	77,840,243	129,961,221

The notes on pages 26 to 81 form an integral part of these financial statements.

1. General Information

Prosperity Investment Holdings Limited (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 addresses of the registered office and principal place of business of the Company are disclosed in the corporation information of the annual report.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the holding of equity or equity-related investments and the provision of management services to the investee companies.

2. Basis of Preparation of Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") (which also include Hong Kong Accounting Standards (the "HKASs") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Impact of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the "HKICPA", which are effective for the Group's financial year beginning 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 Assets, Minimum Funding Requirements and their Interaction

2. Basis of Preparation of Consolidated Financial Statements *(Continued)*

(a) HKAS 39 & HKFRS 7 (Amendments) — Reclassification of Financial Assets

The amendments allow reclassifications of financial assets out of the fair value through profit or loss (FVTPL) category or available-for-sale (AFS) category. Under these amendments, for those debt securities and loans and receivables that they no longer intends to hold for trading purpose may be reclassified out of the fair value through profit or loss category or available-for-sale category. Provided that certain criteria are met and ongoing fair value related disclosures and additional disclosures required under HKFRS 7 are made.

(b) HK(IFRIC) — INT 11 — HKFRS 2 Group and Treasury Share Transactions

It clarifies that certain types of transaction are accounted for as equity-settled or cash-settled transactions under HKFRS 2. It also addresses the accounting for share-based payment transactions involving two or more entities within one group. The Group will apply HK(IFRIC) INT 11 for annual periods beginning on or after 1 January 2008, but it is not expected to have any impact on the Group's financial statements.

(c) HK(IFRIC) — INT 12 — Service Concession Arrangements

It applies to companies that participate in service concession arrangements and provides guidance on the accounting by operators in public-to-private service concession arrangements. As the Group has not involved in service concession arrangements, HK(IFRIC) INT 12 is not relevant to the Group's operations.

(d) HK(IFRIC) — INT 14 — HKAS 19 — The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction

The Interpretation addresses the question of "when should refunds or reductions in future contributions be considered to be "available" in accordance with paragraph 58 of HKAS 19, Employee benefits". That is, paragraph 58 of HKAS 19, also referred to as the "asset ceiling", limits the amount of a defined benefit plan surplus that can be recognised by the employer as an asset. The Interpretation is not relevant to the Group's operations.

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

2. Basis of Preparation of Consolidated Financial Statements *(Continued)*

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Cost[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKFRS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKFRS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK (IFRIC) — Int 13	Customer Loyalty Programmes[4]
HK (IFRIC) — Int 15	Agreements for the Construction of Real Estate[2]
HK (IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK (IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[3]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods beginning on or after 1 July 2008

[5] Effective for annual periods beginning on or after 1 October 2008

3. Principal Accounting Policies

(a) Revenue recognition

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

Service income is recognised when services are provided.

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

Dividend income from investments excluding financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. 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.

All significant intercompany transactions and balances, income and expenses within the Group are eliminated on consolidation.

(c) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

3. Principal Accounting Policies *(Continued)*

(c) Subsidiaries *(Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(d) Associates

An associate is an entity over which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating decisions.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations) or when the investment is designated as at fair value through profit or loss upon initial recognition or is classified as held for trading (in which case it is accounted for under HKAS 39 Financial Instruments: Recognition and Measurement). Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. Principal Accounting Policies *(Continued)*

(e) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets ("disposal groups") previous carrying amount and fair value less costs to sell.

(f) Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

A jointly controlled entity is a corporation, partnership, or other entity in which two or more venturers have an interest, under a contractual arrangement that establishes joint control over the entity. The Group's interests in jointly controlled entities are accounted for by the equity method. The Group's interests in jointly controlled entities include the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition profits or losses of jointly controlled entities is included in the consolidated income statement.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

(g) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of acquisition over the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to each of the relevant cash-generating units and is tested annually for impairment. In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in the consolidated income statement.

3. Principal Accounting Policies *(Continued)*

(g) Goodwill *(Continued)*

On disposal of the relevant cash generating unit, an impairment loss for goodwill is not reversed in subsequent periods, any attributable amount of purchased goodwill is included in the determination of the amount of profit or loss on disposal.

(h) Financial instruments

Financial assets and financial liabilities are recognised on the 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.

(i) Financial assets

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

Effective interest method

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

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

3. Principal Accounting Policies *(Continued)*

(h) Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

— *Financial assets at fair value through profit or loss*

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

A financial asset is classified as held for trading if:

— it has been acquired principally for the purpose of selling in the near future; or

— it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking ; or

— it is a derivative that is not designated and effective as a hedging instrument.

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

— such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

— the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

— it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. Principal Accounting Policies *(Continued)*

(h) Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

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

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

— *Loans and receivables*

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

— *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group designated certain debt securities as held-to-maturity investments. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

— *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. In addition to equity investments, the Group has also designated certain debt securities as available-for-sale financial assets.

3. Principal Accounting Policies *(Continued)*

(h) Financial instruments *(Continued)*

(i) Financial assets (Continued)

— *Available-for-sale financial assets (Continued)*

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

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

Impairment of financial assets

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

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

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

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. Principal Accounting Policies *(Continued)*

(h) Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

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

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

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

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

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

3. Principal Accounting Policies *(Continued)*

(h) Financial instruments *(Continued)*

(ii) Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL, of which the interest expense is included in net gains or losses.

— *Financial liabilities at fair value through profit or loss*

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

A financial liability is classified as held for trading if:

— it has been incurred principally for the purpose of repurchasing in the near future; or

— it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

— it is a derivative that is not designated and effective as a hedging instrument.

3. Principal Accounting Policies *(Continued)*

(h) Financial instruments *(Continued)*

(ii) Financial liabilities and equity *(Continued)*

— *Financial liabilities at fair value through profit or loss (Continued)*

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

— such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

— the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

— it forms part of a contract containing one or more embedded derivatives, and HKSA 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

— *Other financial liabilities*

Other financial liabilities (including bank and other borrowings, trade payables and other payables) are subsequently measured at amortized cost, using the effective interest method.

— *Convertible loan notes*

Convertible loan notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

3. Principal Accounting Policies *(Continued)*

(h) Financial instruments *(Continued)*

(ii) Financial liabilities and equity *(Continued)*

— *Convertible loan notes (Continued)*

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 gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortized cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the conversion option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to retained profits. 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 loan notes are allocated to the liability and equity components in proportion to the allocation of the gross 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 component and amortized over the period of the convertible loan notes using the effective interest method.

— *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. Principal Accounting Policies *(Continued)*

(h) Financial instruments *(Continued)*

(ii) ***Financial liabilities and equity*** *(Continued)*

— *Derivative financial instruments and hedging*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

— *Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

(iii) ***Hedge accounting***

The Group designates certain derivatives as either hedges of the fair value of fixed-rate bank borrowings (fair value hedges), hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges), or hedges of net investments in foreign operations.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

— *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk. The adjustment to the carrying amount of the hedged item for which the effective interest is used is amortised to profit or loss as soon as an adjustment exists. The adjustment is based on a recalculated effective interest rate at the date of the amortisation begins.

3. Principal Accounting Policies *(Continued)*

(h) Financial instruments *(Continued)*

(iii) ***Hedge accounting*** *(Continued)*

— *Fair value hedge (Continued)*

Hedge accounting is discontinued when the Group revokes the hedge relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

— *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedge relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

— *Hedges of net investments in foreign operations*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Gains and losses deferred in the translation reserve are recognised in profit or loss on disposal of the foreign operation.

3. Principal Accounting Policies *(Continued)*

(h) Financial instruments *(Continued)*

(iv) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(v) Derecognition

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

Financial liabilities are derecognised 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 and payable is recognised in profit or loss.

(i) Golf club membership

Golf club membership is stated at cost less impairment losses, if any. The carrying amount of individual golf club membership is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such golf club membership is reduced to its fair value. The amount of the reduction is recognised as an expense in the consolidated income statement.

3. Principal Accounting Policies *(Continued)*

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Share capital

Ordinary shares are classified as equity. Mandatory redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes,) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

(l) Leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor are charged to the income statement on a straight-line basis over the period of the lease.

(m) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

3. Principal Accounting Policies *(Continued)*

(m) Foreign currency translation *(Continued)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included as reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— incomes and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3. Principal Accounting Policies *(Continued)*

(n) Employee benefits

Obligations for contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as expenses in the consolidated income statement as incurred.

(o) Provisions and contingent liabilities

Provisions are recognised when the Group has a present 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.

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

(p) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

3. Principal Accounting Policies *(Continued)*

(p) Current and deferred income tax *(Continued)*

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Share-based payment transactions

Equity-settled share-based payment transactions

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or service qualify for recognition as assets. Corresponding adjustment has been made to equity (share options reserve).

(r) Events after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(s) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3. Principal Accounting Policies *(Continued)*

(t) Related parties

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

(i) directly, or indirectly through one or more intermediaries, the party:

- — controls, is controlled by, or is under common control with, the Group;
- — has an interest in the Group that gives it significant influence over the Group; or
- — has joint control over the Group;

(ii) the party is a member of key management personnel of the Company or its parent company;

(iii) the party is a close member of the family of any individual referred to in (i) and (ii);

(iv) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, the individual referred to in (ii) or (iii); and

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

4. Segmental Information

No business and geographical segment information are presented as over 90% of the Group's revenue was derived from the sales of equity-related investments and dividend received, which were transacted in Hong Kong.

5. Other Revenue

	Group	
	2008	2007
	HK$	*HK$*
Interest on bank deposits	**9,735,663**	10,601,201
Gain on future trading	**—**	672,777
Loss on disposal of foreign currency	**(1,872,472)**	—
Amortization on held-to-maturity investments	**59,034**	—
Interest income	**1,026,454**	278,777
Other income	**180,700**	1,438,896
Bad debt recovery *(Note a)*	**—**	33,000,000
	9,129,379	45,991,651

5. Other Revenue *(Continued)*

Note:

(a) Bad debt recovery represents the recovery in the last year for the balance of consideration received in relation to the disposal of an associated company, namely, Shanghai White Cat Company Limited. A provision for non-recoverable amount which had been made in previous year was written back accordingly.

6. (Loss)/Profit for the Year

(Loss)/Profit for the year is stated after charging/(crediting) the following:

	Group	
	2008	2007
	HK$	*HK$*
Auditors' remuneration	**138,000**	138,000
Amortization of other receivables	**114,725**	—
Provision for impairment losses	**23,209,698**	(5,990,815)
Operating lease payments on land and buildings	**—**	938
Retirement benefit cost	**52,694**	55,773
Interest on bank deposits	**(9,735,663)**	(10,601,201)
Exchange loss/(gains), net	**69,150**	(128,273)
Fair value loss/(gain) on investments held for trading	**657,875**	(1,693,884)
Fair value gain on derivative financial instruments	**—**	(1,181,631)

7. Gain on Disposal of an Associate

	Group	
	2008	2007
	HK$	*HK$*
Gain on disposal of an associate	**247,456**	—

It represents the gain arising from the Group's disposal of its 22% equity interest in an associate namely, Creative Candy International Limited, previously known as Loyal Brilliant Limited.

8. Provision for Impairment Losses

	Group	
	2008	2007
	HK$	*HK$*
Impairment loss on associate	**1,501,529**	1,554,644
Impairment loss on other loan *(Note a)*	**14,962,813**	—
Impairment loss on available-for-sale investment *(Note b)*	**8,300,000**	—
Reversal of impairment loss	**(1,554,644)**	(7,545,459)
	23,209,698	(5,990,815)

Notes:

(a) The impairment loss on other receivables represented the loan due from a borrower, who is an independent third party, namely "Eurotarget Investment Ltd". Legal action had been taken against the borrower for repayment of the debts and positive judgement had been obtained from the court. However, objective evidence shows that the borrower may have significant financial difficulty. In view of these, a provision for the full amount of debt overdue has been recognized in the income statement.

(b) Impairment loss has been made against an investment on available-for-sale equity securities (note 17). The Group owns 15% ordinary share capital of a company, namely "Golden Chain Development Ltd", a company invested in land development with cost of investment amounted to HK$12,120,000. The discount rate at 1.84% per annum is used for estimation of the recoverable amount. As the result, the impairment loss for the investment approximately to HK$8,300,000 has been provided in current year's income statement.

9. Finance Costs

	Group	
	2008	2007
	HK$	*HK$*
Bank charges	**75,120**	7,994

10. Directors' and Senior Management's Emoluments

(a) Directors' emoluments

The aggregate amounts of fees payable to directors of the Company during the year are as follows:

	Group	
	2008	2007
	HK$	*HK$*
Fees:		
Executive directors	**186,000**	216,000
Non-executive directors	**160,000**	160,000
Other emoluments	**—**	—
Retirement benefits scheme contributions:		
Executive directors	**9,300**	10,800
Non-executive directors	**—**	—
	355,300	386,800

Emoluments breakdown of each of the directors for the year ended 31 December 2008:

	Directors' fees	**Retirement benefits scheme contributions**	**Total**
	HK$	***HK$***	***HK$***
Executive directors			
Cheuk Yuk Lung	**96,000**	**4,800**	**100,800**
Lam Kwing Wai, Alvin	**60,000**	**3,000**	**63,000**
Tsui Yee Ni *	**30,000**	**1,500**	**31,500**
	186,000	**9,300**	**195,300**
Non-executive directors			
Yan Mou Keung, Ronald	**60,000**	**—**	**60,000**
Chan Siu Wing, Raymond	**60,000**	**—**	**60,000**
Chan Fai Yue, Leo	**40,000**	**—**	**40,000**
	160,000	**—**	**160,000**
	346,000	**9,300**	**355,300**

* The executive director was resigned on 1 July 2008.

10. Directors' and Senior Management's Emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

There was no arrangement under which a director of the Company waived or agreed to waive any emoluments during the year.

During the year, no share option was granted to the directors.

Emoluments breakdown of each of the directors for the year ended 31 December 2007:

	Directors' fees	Retirement benefits scheme contributions	Total
	HK$	*HK$*	*HK$*
Executive directors			
Cheuk Yuk Lung	96,000	4,800	100,800
Lam Kwing Wai, Alvin	60,000	3,000	63,000
Tsui Yee Ni *	60,000	3,000	63,000
	216,000	10,800	226,800
Non-executive directors			
Yan Mou Keung, Ronald	60,000	—	60,000
Chan Siu Wing, Raymond	60,000	—	60,000
Chan Fai Yue, Leo	40,000	—	40,000
	160,000	—	160,000
	376,000	10,800	386,800

10. Directors' and Senior Management's Emoluments *(Continued)*

(b) Five highest paid individuals

The five individuals with the highest emoluments in the Group for the year include:

	2008	2007
Number of directors	**1**	1
Number of employees	**4**	4

Details of the directors' emoluments are presented above.

The aggregate of the emoluments in respect of the remaining highest paid non-director individuals are as follows:

	2008	2007
	HK$	*HK$*
Fees, basic salaries and other benefits in kind	**924,674**	871,675
Retirement benefits scheme contributions	**43,394**	44,973
	968,068	916,648

The emoluments paid to each highest paid non-director individual during the year fall within the band of HK$Nil — HK$1,000,000.

During the year, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Income Tax Expense

	Group	
	2008	2007
	HK$	*HK$*
Company and subsidiaries		
— Hong Kong profits tax	**147,774**	2,890,775
— Over provision in previous years	**(50,000)**	(2,121,077)
	97,774	769,698

Hong Kong profits tax has been provided as the individual companies comprising the Group has assessable profits arising in Hong Kong for the year.

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

Reconciliation between taxation and tax at the applicable rate:

	Group	
	2008	2007
	HK$	*HK$*
(Loss)/profit before taxation	**(53,461,685)**	151,008,611
Tax at the applicable tax rate	**(8,821,178)**	26,426,506
Tax effect of income that is not taxable in determining taxable profit	**(3,202,434)**	(28,046,494)
Tax effect of expenses that are not deductible in determining taxable profit	**4,424,847**	22,376
Tax effect of temporary differences not recognised	**(390)**	—
Tax effect of unused tax losses not recognised	**7,746,929**	4,488,387
Over provision of tax payable	**(50,000)**	(2,121,077)
Taxation charge	**97,774**	769,698

No provision for deferred income tax has been made in the consolidated financial statements as the tax effect of temporary differences is immaterial to the Group.

12. (Loss)/Profit Attributable to Shareholders

The loss attributable to shareholders for the year ended 31 December 2008 is dealt with in the financial statements of the Company to the extent of HK$4,276,831 (2007: profit of HK$19,868,392).

13. (Loss)/Earnings per Share

The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

	Group	
	2008	2007
	HK$	*HK$*
(Loss)/Earnings		
(Loss)/Earnings for the purposes of both basic and diluted (loss)/earnings per share	**(53,559,459)**	150,238,913
Number of shares		
Weighted average number of shares for the purpose of basic (loss)/earnings per share	**108,717,541**	612,360,837
Effect of dilutive potential shares — Options	**3,118,033**	33,890,592
Weighted average number of shares for the purpose of diluted (loss)/earnings per share	**111,835,574**	646,251,429

The weighted average number of shares for the purpose of basic (loss)/earnings per share has been adjusted for the effect of Open Offer.

14. Interests in Subsidiaries

	Company	
	2008	2007
	HK$	*HK$*
Unlisted shares, at cost	**780**	780
Due from a subsidiary	**90,009,968**	90,009,968
	90,010,748	90,010,748

14. Interests in Subsidiaries *(Continued)*

The amount due from a subsidiary is unsecured, interest free and not repayable within the next twelve months.

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

Name	Place of incorporation/ operation	Particulars of issued share capital/registered capital	Percentage of issued share capital/ registered capital held	Principal activities
Directly held by the Company:				
Accufocus Investments Limited	British Virgin Islands ("BVI")/ Hong Kong	100 shares of US$1 each	100%	Investment holding
Indirectly held by the Company:				
Attentive Investments Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
B2C E-Commerce Group Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Best Policy Management Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Chief Success Management Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Ever Honest Investments Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Founder China Industrial Investments Company Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Investment holding

14. Interests in Subsidiaries *(Continued)*

Name	Place of incorporation/ operation	Particulars of issued share capital/registered capital	Percentage of issued share capital/ registered capital held	Principal activities
Indirectly held by the Company: *(Continued)*				
Linkson Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Dormant
Founder Industrial Investments (Holdings) Company Limited	Hong Kong	10,000,000 ordinary shares of HK$1 each	100%	Investment holding
Genius Choice investments Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
GR Investment Holdings Limited	Hong Kong	899,900,000 ordinary shares of HK$0.1 each	100%	Investment holding
Glorious Bright Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Money lending
Home Growth Assets Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
GR Investment International Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Dormant
Rich Concept Investments Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Rich Profits International Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding

14. Interests in Subsidiaries *(Continued)*

Name	Place of incorporation/ operation	Particulars of issued share capital/registered capital	Percentage of issued share capital/ registered capital held	Principal activities
Indirectly held by the Company: *(Continued)*				
Market Court Resources Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Target Plus Holdings Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Contessa Assets Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding

15. Interests in Associates

	Group	
	2008	2007
	HK$	*HK$*
Unlisted shares at cost	**7,931,669**	7,931,981
Share of associates' results net of dividends received *(Note a)*	**(2,036,341)**	(542,802)
	5,895,328	7,389,179
Amounts due from associates	**12,152,516**	11,905,060
Provision for impairment losses on interests in associates	**(8,104,545)**	(8,157,660)
	4,047,971	3,747,400
	9,943,299	11,136,579

Note:

(a) During the year 2007, the Group received a dividend of HK$65,000,000 from an associate, Bright Honest Limited, being distribution of the gain on disposal of the investment properties of the associate's direct subsidiaries.

15. Interests in Associates *(Continued)*

The amounts due from associates are unsecured, interest free and not repayable within the next twelve months.

Details of the principal associates, of all of which are unlisted, as at 31 December 2008 are as follows:

Name	Place of incorporation	Particulars of issued/registered share capital	Proportion of associates' capital owned	Principal activities
Luck Point Investments Limited	BVI	200 shares of US$1 each	35%	Investment holding
Happy Online Group Limited	BVI	14,000 shares of US$1 each	33.75%	Investment holding
Bright Honest Limited	BVI	50,000 shares of US$1 each	25%	Investment holding
Halway Development Limited	Hong Kong	10 ordinary shares of HK$1 each	30%	Investment holding
Magic Mark Limited	Hong Kong	10,000 shares of HK$1 each	22%	Investment holding
Albert Candy (Shenzhen) Co. Ltd *(Note b)*	PRC	HK$17,000,000 registered capital	22%	Manufacturing

Note:

(b) By signing a sales and purchase of share agreement dated 16 September 2008, the Group committed to dispose the investment at approximately HK$4,296,730. The shares registration is expected to be completed in 5 years. The unrealized gain has not been made in current year's financial statement pending the finalization of formal procedures for shares transfer.

15. Interests in Associates *(Continued)*

The summariesed financial information of the Group's share of assets, liabilities, income and results of the associates based on the unaudited management accounts of the associates are as follows:

	2008	2007
	HK$	*HK$*
Assets	**13,576,523**	14,860,098
Liabilities	**(11,845,094)**	(14,706,684)
Income	**123,569**	66,207,206
(Loss)/Gain	**(1,496,051)**	63,421,767

16. Held-to-maturity Investments

	2008	2007
	HK$	*HK$*
Debt securities *(Note a)*	**66,805,273**	—
Analysed for reporting purposes as:		
Current assets	**—**	—
Non-current assets	**66,805,273**	—
	66,805,273	—

Note:

(a) The debt securities carrying fixed interest rate at 2%-5.5% (2007: Nil) per annum and interest payable semi-annually, will mature from February 2010 to June 2011 (2007: Nil).

17. Available-for-sale Financial Assets

	Group		Company	
	2008	2007	**2008**	2007
	HK$	*HK$*	***HK$***	*HK$*
Non-current assets				
Hong Kong unlisted equity securities, at cost	**—**	12,120,000	**—**	—
Overseas unlisted equity securities, at cost	**20,885,906**	20,885,906	**—**	—
Less: Impairment losses *(Note a)*	**(20,885,906)**	(20,885,906)	**—**	—
	—	12,120,000	**—**	—
Hong Kong listed equity securities, at fair value	**131,892,440**	282,913,969	**47,263,053**	84,398,309
Fund	**18,860,400**	—	**—**	—
Equity Linked Note	**9,572,339**	11,700,000	**—**	—
Overseas collateral financial assets, at cost	**—**	4,024,017	**—**	—
	160,325,179	310,757,986	**47,263,053**	84,398,309
Current assets				
Hong Kong listed equity securities, at fair value	**7,954,000**	3,985,200	**—**	—
Hong Kong unlisted equity securities, at cost	**12,120,000**	4,950,000	**—**	—
Less: Impairment loss *(Note b)*	**(8,300,000)**	—	**—**	—
	11,774,000	8,935,200	**—**	—
Equity Linked Note	**25,509,510**	39,000,000	**—**	—
Overseas unlisted equity securities, at fair value	**406,207**	—	**—**	—
	37,689,717	47,935,200	**—**	—

Notes:

(a) Impairment losses have been provided in full for the cost of investment for the unlisted overseas equity securities.

(b) Impairment loss has been made against an investment in Golden Chain Development Ltd, a company invested in land development. The Group held 15% of its ordinary share capital (note 8).

17. Available-for-sale Financial Assets *(Continued)*

As at 31 December 2008, the carrying amounts of interests in the following available-for-sale financial assets exceeded 5% of total assets of the Group and the Company:

Name	Place of incorporation	Proportion of investee's capital owned	Cost and advances thereto	Directors' valuation/ market value	Dividend income received during the year	Net assets attributable to the investment	Unrealised gain/(loss) taken in the accounts	Principal Activities/ place of operation
			HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	
Golden Resources Development International Limited	Bermuda	4.90%	22.20	16.55	1.90	42.48	(5.65)	Investment holding/ Hong Kong
Cosmopolitan International Holdings Limited	Cayman Islands	8.39%	31.58	66.79	—	16.11	35.21	Investment holding/ Hong Kong
Sun Hung Kai & Co. Limited	Hong Kong	0.12%	27.14	7.95	1.29	16.23	(19.19)	Investment holding/ Hong Kong
Country Garden Holdings Co. Limited	Cayman Islands	0.01%	10.15	1.99	0.32	1.39	(8.16)	Property investment/ PRC
China Investment Fund Company Limited	Cayman Islands	7.44%	27.57	4.32	—	6.72	(23.25)	Investment holding/ Hong Kong
HSBC Holdings plc	England	0.0010031%	16.09	8.95	0.85	61.17	(7.14)	Banking and financial services/Asia Pacific region, Europe, the Americas, the Middle East and Africa
Golden Chain Development Limited *(Note b)*	Hong Kong	15%	12.12	3.82	—	5.33	(8.30)	Investment holding/ Hong Kong

17. Available-for-sale Financial Assets *(Continued)*

Name	Place of incorporation	Proportion of investee's capital owned	Cost and advances thereto HK$ million	Directors' valuation/ market value HK$ million	Dividend income received during the year HK$ million	Net assets attributable to the investment HK$ million	Unrealised gain/(loss) taken in the accounts HK$ million	Principal Activities/ place of operation
Regal Real Estate Investment Trust	Hong Kong	0.10%	7.03	2.91	0.54	10.43	(4.12)	Hotels and hospitality-related properties investment/Hong Kong
iOne Holdings Limited	Bermuda	0.83%	3.02	1.56	0.03	0.58	(1.46)	Investment holding/ Hong Kong
Big Media Group Limited	Cayman Islands	0.73%	13.65	17.20	—	0.40	3.55	Film, video, production and sales and copyright licensing/ Hong Kong

As at 31 December 2008, Group's available-for-sale equity securities were individually determined to be impaired on the basis of a prolonged decline in the fair value below cost. Impairment losses on these investments were recognised in the income statement in accordance with the accounting policy set out in note 3(h).

18. Other Asset

	Group 2008 HK$	Group 2007 HK$
Golf club membership, at cost	**150,000**	150,000

19. Derivative Financial Instruments

	Group	
	2008	2007
	HK$	*HK$*
Foreign currency forward contract	**—**	1,181,631

Details of the foreign currency forward contract is as below:

Principal amount	**Maturity**	**Forward Exchange Rates**
TRY1,373,000	From September 2007 to March 2008	Sell USD/buy TRY at USD1: TRY1.373

20. Financial Assets at Fair Value through Profit or Loss

	Group	
	2008	2007
	HK$	*HK$*
Held for trading:		
Equity securities, at fair value		
— listed in Hong Kong	**125,000**	2,676,600
— listed outside Hong Kong *(Note a)*	**112,125**	—
	237,125	2,676,600

Note:

(a) The equity securities listed outside Hong Kong are denominated in US dollars.

Changes in fair values of financial assets at fair value through profit or loss are recognised as fair value gain on the financial assets at fair value through profit or loss in the consolidated income statement.

21. Other Receivables

	Group		Company	
	2008	2007	**2008**	2007
	HK$	*HK$*	***HK$***	*HK$*
Other loans	**25,915,813**	30,452,000	**—**	—
Less: impairment losses *(Note 8)*	**(14,962,813)**	—	**—**	—
Other loans *(Note a)*	**10,953,000**	30,452,000	**—**	—
Prepayments and deposits	**3,444,417**	13,956,439	**3,301,549**	233,557
Others	**14,318,275**	6,150,000	**—**	6,150,000
	28,715,692	50,558,439	**3,301,549**	6,383,557

Note:

(a) The aging analysis of the other loans are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$	*HK$*	***HK$***	*HK$*
Within 3 months	**10,018,000**	20,350,000	**—**	—
3 to 6 months	**863,000**	—	**—**	—
6 to 12 months	**42,000**	10,000,000	**—**	—
Over 1 year	**30,000**	102,000	**—**	—
	10,953,000	30,452,000	**—**	—

The other loans amounted to HK$10,953,000 (2007: HK$30,452,000) are advanced to independent third parties and are secured, interest bearing ranking from 10% per annum to prime lending rate less 1% per annum.

22. Due from a Subsidiary — Company

The amount due from a subsidiary is unsecured, interest-free and expected to be realized in the next twelve months of the balance sheet date. Details of amount due from a subsidiary is as follows:

Name of related company	Connected directors	Maximum amount outstanding during the year	Balance at 31.12.2008	Balance at 31.12.2007
GR Investment Holdings Limited	Cheuk Yuk Lung and Lam Kwing Wai	105,926,454	105,926,454	5,112,194

At the balance sheet date, there was no interest due or interest.

The carrying amount of amount due from a subsidiary approximates to its fair value.

23. Other Payables

	Group		Company	
	2008	2007	**2008**	2007
	HK$	*HK$*	***HK$***	*HK$*
Accrued Expenses	**337,780**	1,789,061	**331,300**	252,766

24. Interest-bearing Borrowings

	Company	
	2008	2007
	HK$	*HK$*
Interest-bearing borrowing	**6,064,618**	—
Less: Current Portion	**(6,064,618)**	—
Non-current portion	**—**	—

The borrowing has no fixed repayment terms and chargeable with floating interest rate approximate from 3% to 4% per annum.

25. Due to Sinox Fund Management Limited

The amount due to SINOX represents investment management fees payable at the year end. The amount due is unsecured, interest free and repayable on demand.

SINOX is the Investment Manager of the Group and provides administrative and investment management services to the Group in relation to the investment of the Group's assets.

26. Share Capital

		Number of shares		Share capital	
	Note	**2008**	2007	**2008** *HK$*	2007 *HK$*
Authorised:					
At beginning of the year					
(ordinary shares of HK$0.01 each)		**3,000,000,000**	3,000,000,000	**30,000,000**	30,000,000
Share consolidation	(b)	**(2,700,000,000)**	—	**—**	—
At end of the year					
(ordinary shares of HK$0.1 each)		**300,000,000**	3,000,000,000	**30,000,000**	30,000,000
Issued and fully paid:					
At beginning of the year					
(ordinary shares of HK$0.01 each)		**647,928,000**	431,952,000	**6,479,280**	4,319,520
Share option exercised	(a)	**50,000,000**	—	**500,000**	—
Shares consolidation	(b)	**(628,135,200)**	—	**—**	—
Issued on Open Offer	(c)	**34,896,400**	215,976,000	**3,489,640**	2,159,760
Issued on share placing	(d)	**20,000,000**	—	**2,000,000**	—
At end of the year					
(ordinary shares of HK$0.1 each)		**124,689,200**	647,928,000	**12,468,920**	6,479,280

Note:

(a) On 8 January 2008, pursuant to the agreement entered into between China Investment Fund Company Limited ("CIF") and the Company on 17 August 2007 regarding the share option granted by the Company, CIF has exercised the option to subscribe for 50,000,000 ordinary shares of HK$0.01 each at HK$0.20 each. The premium on issue of shares in HK$9.5 million was credited to the share premium account. The remaining subscription right for 36,000,000 shares (equivalent to 3,600,000 consolidated shares) are still outstanding (note 28).

(b) By a special resolution passed on 26 February 2008, the issued and unissued share capital of the Company has been consolidated for every ten shares of HK$0.01 each into one share of HK$0.10 each.

(c) After the share consolidation, the Company has made an Open Offer by issuing shares at a price of HK$1.00 per Open Offer Share. As a result, 34,896,400 shares of nominal value of HK$0.10 each were issued on 18 March 2008. The share premium amounting to HK$31,406,760 was credited to share premium account accordingly (note 27).

(d) On 24 July 2008, the Company entered into a placing agreement with Baron Capital Limited for placing 20,000,000 ordinary shares of HK$0.10 each at a price of HK$1.10 each. The premium on issue of shares in HK$20 million was credited to the share premium account accordingly (note 27).

27. Reserves

	Share premium *HK$*	Share Option reserve *HK$*	Contributed surplus *HK$*	Exchange fluctuation reserve *HK$*	Changes in fair value of available-for-sale financial assets *HK$*	Retained profits *HK$*	Total *HK$*
Group							
As at 1 January 2007	169,564,710	—	100,383,317	131,919	8,702,957	(34,007,728)	244,775,175
Increase in fair value of available-for-sale financial assets	—	—	—	—	97,107,576	—	97,107,576
Realisation of change in fair value for disposal of available-for-sale financial assets	—	—	—	—	(4,484,111)	—	(4,484,111)
Premium arise from open offer	—	—	26,997,000	—	—		26,997,000
Equity-settled share-based payment	—	26,880,000	—	—	—	—	26,880,000
Realisation of exchange fluctuation reserve on disposal of an investment	—	—	—	(131,919)	—	—	(131,919)
Profit for the year	—	—	—	—	—	150,238,913	150,238,913
31 December 2007	169,564,710	26,880,000	127,380,317	—	101,326,422	116,231,185	541,382,634
As at 1 January 2008	169,564,710	26,880,000	127,380,317	—	101,326,422	116,231,185	541,382,634
Prior year adjustment *note 27 (a)*	26,997,000	—	(26,997,000)	—	—	—	—
At 1 January 2008, as restated	196,561,710	26,880,000	100,383,317	—	101,326,422	116,231,185	541,382,634
Decrease in fair value of available-for-sale financial assets	—	—	—	—	(196,886,391)	—	(196,886,391)
Realisation of change in fair value for disposal of available-for-sale financial assets	—	—	—	—	14,946,770	—	14,946,770
Premium arise from:							
— exercise of share option *note 26(a)*	9,500,000	—	—	—	—	—	9,500,000
— open offer *note 26(c)*	31,406,760	—	—	—	—	—	31,406,760
— share placing *note 26(d)*	20,000,000	—	—	—	—	—	20,000,000
Exercise of share option	—	(15,627,907)	—	—	—	—	(15,627,907)
Reversal of reserve for share option	—	—	7,627,907		—	—	7,627,907
Release on disposal and written off of associates	—	—	—	—	—	2,512	2,512
Loss for the year	—	—	—	—	—	(53,559,459)	(53,559,459)
31 December 2008	257,468,470	11,252,093	108,011,224	—	(80,613,199)	62,674,238	358,792,826
Company and subsidiaries	257,468,470	11,252,093	108,011,224	—	(80,613,199)	(104,083)	296,014,505
Associates	—	—	—	—	—	62,778,321	62,778,321
	257,468,470	11,252,093	108,011,224	—	(80,613,199)	62,674,238	358,792,826

Notes:

(a) The prior year adjustment was recognised to correct the classification error made during 2007. The premium arising from open offer by the amount of HK$26,997,000 should be adjusted from Contributed Surplus Account to Share Premium Account, the opening balance was restated retrospectively.

(b) Movement of share option reserve and contribution surplus during the year represented the effect of 50,000,000 share options exercised by CIF (note 26(a)).

27. Reserves *(Continued)*

	Share premium HK$	Share option reserve HK$	Contributed surplus HK$	Changes in fair value of available-for-sale financial assets HK$	Retained profits HK$	Total HK$
Company						
At 1 January 2007	3,237,490	—	100,383,317	866,267	864,904	105,351,978
Increase in fair value of available-for-sale financial assets	—	—	—	71,181,131	—	71,181,131
Realisation of change in fair value for disposal of available-for-sale financial assets	—	—	—	250,583	—	250,583
Premium arise from open offer	—	—	26,997,000	—	—	26,997,000
Equity-settled share-based payment	—	26,880,000	—	—	—	26,880,000
Profit for the year	—	—	—	—	19,868,392	19,868,392
31 December 2007	3,237,490	26,880,000	127,380,317	72,297,981	20,733,296	250,529,084
At 1 January 2008	3,237,490	26,880,000	127,380,317	72,297,981	20,733,296	250,529,084
Prior year adjustment *note 27(a)*	26,997,000	—	(26,997,000)	—	—	—
At 1 January 2008, as restated	30,234,490	26,880,000	100,383,317	72,297,981	20,733,296	250,529,084
Decrease in fair value of available-for-sale financial assets	—	—	—	(37,135,256)	—	(37,135,256)
Premium arise from:						
— exercise of share option *note 26(a)*	9,500,000	—	—	—	—	9,500,000
— open offer *note 26(c)*	31,406,760	—	—	—	—	31,406,760
— share placing *note 26(d)*	20,000,000	—	—	—	—	20,000,000
Exercise of share option	—	(15,627,907)	—	—	—	(15,627,907)
Reversal of reserve for share option	—	—	7,627,907	—	—	7,627,907
Loss for the year	—	—	—	—	(4,276,831)	(4,276,831)
31 December 2008	91,141,250	11,252,093	108,011,224	35,162,725	16,456,465	262,023,757

The contributed surplus of the Group and the Company represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganization scheme completed on 12 December 2001 over the nominal value of the Company's shares issued in exchange.

Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus is distributable to the shareholders, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, issued share capital and reserves.

28. Share-based Payment Transactions

Equity-settled share option scheme:

The Company had entered into an agreement with China Investment Fund Company Limited ("CIF") on 17 August, 2007 for acquiring 80,000,000 new shares of CIF at HK$0.276 with an aggregate consideration of HK$22,080,000 and the Company had agreed to grant an option to CIF for the subscription of up to a maximum of 86,000,000 new shares of the Company at HK$0.20 per share with an aggregate subscription price of HK$17,200,000 of which 80% will be regarded as an option money and a payment of HK$8,320,000 in cash. The option is exercisable within an option period of two years starting from the date of granting of the option on 4 September 2007.

On 8 January 2008, pursuant to the agreement with CIF regarding the share option granted by the Company, CIF has exercised the option to subscribe for 50,000,000 new shares of HK$0.01 each at a price of HK$0.2 each. The premium on issue of shares of HK$9.5 million was credited to the share premium account. The remaining subscription right for 36,000,000 shares (equivalent to 3,600,000 consolidated shares) remains outstanding.

On 14 March 2008, the Company announced that the subscription price for CIF outstanding share options was adjusted from HK$0.20 per share to HK$0.1739 per share (HK$1.739 per consolidated share) with effect from 18 March, 2008 as a result of the above mentioned share consolidation and open offer.

Movements in the number of share options outstanding and their related subscription price are as follows:

Subscription price	**HK$0.1739 per share**
Date of grant	4 September 2007
Date of expiry	3 September 2009
Date of exercise	8 January 2008

	2008 **No of share options**
Granted	86,000,000
Forfeited	—
Exercised	50,000,000
Expired	—
At 31 December 2008	3,600,000 (Consolidated shares)

28. Share-based Payment Transactions *(Continued)*

The fair value of the share option granted was measured with reference to the market price of CIF' shares at the transaction date.

29. Net Asset Value Per Share

Net asset value per share is computed based on:

	Group	
	2008	2007
	HK$	*HK$*
Net assets	**371,261,746**	547,861,914
Number of ordinary shares	**124,689,200**	647,928,000

30. Operating Lease Commitments

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2008	2007
	HK$	*HK$*
Within one year	**—**	40,800
In the second to fifth year inclusive	**—**	—
	—	40,800

31. Related Party Transactions

Apart form the transactions with related parties disclosed elsewhere in the financial statements, the following transactions were entered into by the Group with the related parties negotiated on terms mutually agreed with these related parties:

(a) Group

	2008 HK$	2007 HK$
Management fees paid to a Company with a common director	**5,400,000**	3,829,827
Commission fees paid to a Company with a common shareholder	**477,938**	341,731

Apart form the transactions with related parties disclosed elsewhere in the financial statements, the following transactions were entered into by the Company with the related parties negotiated on terms mutually agreed with these related parties:

(b) Company

	2008 HK$	2007 HK$
Management fees received from subsidiaries	**5,188,287**	2,240,439
Management fees paid to a Company with a common director	**5,400,000**	3,829,827
Administrative fees paid to a subsidiary	**871,378**	161,923
Commission fees paid to a Company with a common shareholder	**477,938**	341,731

32. Contingent Liabilities

Legal claim

On 14 March, 2008, a subsidiary of the Group namely "GR Investment Holdings Limited" received a court order (HCA 2032/2007) for hearing on 15 April, 2009 for a dispute with an agent "Golden Eagle International (Group) Ltd" in connection with a claim for a balance of unsettled agency commission amounted to RMB12,750,000 regarding the provision of agency services in procuring the sales of investment, namely "Shanghai White Cat Company Ltd" during the year 2000.

The Company defended for counter claim for a sum of RMB7,324,564 for the failure of the agent to discharge its obligations before expiry date under an Agency Agreement. The directors are of the opinions that it is not probable for the subsidiary be liable to the claim based on the legal advice and no provision has therefore been make in respect of this claim. The legal fee is estimated to be HK$790,000.

33. Subsequent Event

After the year ended 31 December 2008, two Equity Linked Note contracts have been exercised by the investment banks and the Group acquired shares at the contracted strike price. Accordingly, the Group has further recognized an unrealised loss of HK$8,085,798 as at the contract exercised date.

34. Cash and Cash Equivalents

	Group		Company	
	2008	2007	**2008**	2007
	HK$	*HK$*	***HK$***	*HK$*
Cash at bank and in hand	**5,663,864**	721,345	**155,233**	305,655
Cash with brokers	**30,962,280**	10,008,519	**697**	815,261
Short term bank deposits	**41,214,099**	119,231,357	**28,406,647**	70,884,227
	77,840,243	129,961,221	**28,562,577**	72,005,143

The average interest rate on short term bank deposits was approximately 3% (2007: approximately 3.5%); these deposits are mature within 31 days.

35. Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy equity ratio in order to support its business and maximize shareholder's value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may consider to make dividend payment to shareholders, return capital to shareholders or issue new shares by way of open offer. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

Capital is monitored on the basis of the equity ratio, which is calculated as being equity as a percentage of total assets. This is reported to senior management as part of the Group's regular internal management reporting. The Group's capital and equity ratio are shown in the table below.

	Group	
	2008	2007
	HK$	*HK$*
	(in thousand)	*(in thousand)*
Capital *(note 26)*	**12,468**	6,479
Reserves *(note 27)*	**358,792**	541,382
Total equity	**371,260**	547,861
Total assets *(i)*	**381,705**	554,357
Equity ratio	**97%**	98%

(i) Total assets include all non-current assets and current assets of the Group.

36. Financial Risk Management

The Group's principal financial instruments comprise bonds, equity link notes, equity instrument, derivative financial instruments which are classified into four categories and including financial assets at fair value through profit or loss, loans and receivable, held-to-maturity investments and available-for-sale financial assets. The objective of the Group is to achieve medium to long-term capital growth through investing in the financial assets.

The main risks arising from the Group's financial instruments are market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized as below.

(a) Foreign currency risk

The Group holds assets (both monetary and non-monetary) in form of bonds, equity link notes, fixed deposits and equity investment which are denominated in foreign currency, such as Australia dollars (AUD), US dollar (USD), New Turkish Lira (TRY) and Renminbi (RMB) respectively. It is therefore exposed to currency risk as the value of the financial instruments denominated in other currencies that will fluctuate due to the changes in exchanges rates. The investment manager is responsible for managing the net position of the monetary and non-monetary positions in each foreign currency by hedging against forward contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2008	2007	**2008**	2007
AUD	**7,002,480**	—	**—**	—
USD	**72,976,550**	54,061,390	**6,064,618**	—
TRY	**15,727,270**	—	**—**	—
RMB	**17,120**	19,260	**—**	—

36. Financial Risk Management *(Continued)*

(a) Foreign currency risk *(Continued)*

In addition, the following table demonstrates the sensitivity at the balance sheet date, to a reasonable possible change in the exchange rates of AUD, USD, TRY and RMB, with all other variables held constant, of the Group's net profit or loss (due to the changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in foreign currency rate	Effect on (loss)/profit after tax
AUD		
2008	+5%	12,247
	-5%	(12,247)
2007	+5%	Nil
	-5%	Nil
USD		
2008	+5%	400,566
	-5%	(400,566)
2007	+5%	472,966
	-5%	(472,966)
TRY		
2008	+5%	16,747
	-5%	(16,747)
2007	+5%	Nil
	-5%	Nil
RMB		
2008	+5%	Nil
	-5%	Nil
2007	+5%	1,580,076
	-5%	(1,580,076)

36. Financial Risk Management *(Continued)*

(b) Price risk

The Group is exposed to price risk through its investment in listed equity securities. It has been classified in the consolidated balance sheet either at available-for-sale financial assets or as financial assets at fair value through profit or loss. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. The Group's equity price risk is mainly concentrated on equity securities operating in banking, financial services, media, property investment and hotel industry sectors listed in Hong Kong and The United States of America. The investment team on regular basis monitors the performance of investment portfolio.

As at the year ended date, the total financial assets at fair value through profit or loss are shown as follows:

	Fair value	
	2008	2007
Financial assets held for trading		
Listed securities	**237,125**	2,676,600
Financial assets designated as at fair value through profit or loss	**—**	—
Total financial assets at fair value through profit or loss	**237,125**	2,676,600

To ensure that a reasonable spread of investments is maintained, the Group's investment restrictions prohibits it from investing the value of its holding of investments shall not exceeding 20% of the Group's net assets value at the time when the investment decision is made. The Group has a treasury team to comply with this fulfillment.

(c) Interest rate risk

The Group's fair value interest rate risk related primarily to floating rate borrowings from a financial institution (note 24). It is the Group's policy to keep its borrowings at floating rate interest so as to minimize the fair value interest rate risk. The Group has continually maintained certain amount of time deposit at bank to hedge against its exposures to interest rate risk.

Other than the above, the Group's exposures to interest rates on financial assets and financial liabilities are not significant. The investment team monitors and reviews the overall interest sensitivity of the Group's assets and liabilities on regular basis.

36. Financial Risk Management *(Continued)*

(d) Credit risk

The Group has no significant concentrations of credit risk. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution and transacts only with recognised and creditworthy third parties.

The Group regards the maximum credit risk exposure limited to the loan due from the associated companies and other receivables, approximately to the carrying value of HK$6 million (2007: 6 million) and HK$28 million (2007: 50 million) respectively. In order to minimize the credit risk, the management has implemented strict control over the outstanding amounts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date and ensure that adequate impairment are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

(e) Liquidity risk

The Group continued to enjoy a strong financial position at the end of 2008, the cash and cash equivalents amounting to HK$77 million (2007: 129 million). It includes the time deposits in an amount approximated to HK$41 million.

The Group aims to monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and investment commitments and mitigate the effects of fluctuations in cash flows. As at 31 December 2008, the Group has entered into an arrangement of currency exchange spot, it borrowed an US dollar interest-bearing against the pledge of TRY deposit for an amount of HK$6,064,618 and HK$15,727,271 respectively. Other than these, the Group has no other bank borrowing (2007: Nil).

36. Financial Risk Management *(Continued)*

(e) Liquidity risk *(Continued)*

The table below summaries the maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments.

Group

	2008				
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Total**
	HK$	***HK$***	***HK$***	***HK$***	***HK$***
Other payables	**337,780**	**—**	**—**	**—**	**337,780**
Interest-bearing borrowings	**6,064,618**	**—**	**—**	**—**	**6,064,618**
Due to Sinox Fund Management Limited	**240,404**	**—**	**—**	**—**	**240,404**
Provision for taxation	**3,801,980**	**—**	**—**	**—**	**3,801,980**
	10,444,782	**—**	**—**	**—**	**10,444,782**

	2007				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
		HK$	*HK$*	*HK$*	*HK$*
Other payables	1,789,061	—	—	—	1,789,061
Due to Sinox Fund Management Limited	648,821	—	—	—	648,821
Provision for taxation	4,057,860	—	—	—	4,057,860
	6,495,742	—	—	—	6,495,742

36. Financial Risk Management *(Continued)*

(f) Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is market price quoted in the stock exchange market, fair value is determined using valuation techniques. Such techniques include the using of recent arm's length market transactions, reference to the current market value of another instrument that is substantially of the same nature, a discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Due to inherent uncertainty of valuations, however, estimated fair values may differ significantly from the values that would have been used has a readily available market for the securities existed and the differences could be material. In case where the carry amount is a reasonable approximation of fair value, no additional fair value is disclosed.

37. Critical Accounting Estimates and Judgements

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on carrying amounts of assets and liabilities as follows:

(a) Estimated impairment of receivables

The Company records impairment of receivables based on an assessment of the recoverability of trade receivables and prepayments, deposits and other receivables. The identification of doubtful debts requires the directors' estimates. Where the expectation is different from the original estimate, such difference will impact the carrying values of the trade receivables and prepayment, deposits and other receivables and doubtful debt expenses in the period in which such estimates have been changed.

(b) Impairment test of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in such case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

37. Critical Accounting Estimates and Judgements *(Continued)*

(c) Fair value of derivatives and other financial instruments

As described in note 15 and 17, the directors use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The Group's unlisted equity instruments with carrying amount of HK$11.7 million (2007: HK$12 million) are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates, The estimation of fair value of these equity instruments also includes some assumptions not supported by observable market prices or rates.

38. Approval of Financial Statements

The financial statements on page 19 to 81 were approved and authorized for issue by the board of directors on 23 March 2009.

Financial Summary

For the year ended 31 December

	2004 *HK$*	2005 *HK$*	2006 *HK$*	2007 *HK$*	**2008** ***HK$***
Results					
Profit/(loss) for the year	(3,784,094)	(7,924,759)	9,673,788	150,238,913	**(53,559,459)**
Assets and liabilities					
Total assets	253,991,023	258,551,037	264,270,410	554,357,656	**381,706,528**
Total liabilities	(19,375,837)	(24,188,899)	(15,175,715)	(6,495,742)	**(10,444,782)**
Net assets	234,615,186	234,362,138	249,094,695	547,861,914	**371,261,746**