FAR EAST GOLDEN RESOURCES GROUP LIMITED
遠東金源集團有限公司

(Stock Code: 01188)

Annual Report **2008**

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Corporate Information

BOARD OF DIRECTORS

Executive

Dr. Yeung Yung *(Chairman)*
Mr. Liu Quan *(Deputy Chairman)*
Mr. Hui Wing Sang, Wilson
Dr. Zhu Shengliang *(appointed on 28 May 2008)*
Mr. Wang Xiaolin *(removed on 15 April 2009)*
Mr. Chen Peiquan *(appointed on 15 January 2008 and resigned on 28 May 2008)*
Mr. Yury Royba *(appointed on 15 January 2008 and resigned on 28 May 2008)*

Independent Non-Executive

Mr. He Bangjie
Mr. Ting Kwok Kit, Johnny
Mr. Wong Lee Hing *(appointed on 24 October 2008)*
Mr. Li Zheng, Jack *(resigned on 11 August 2008)*
Mr. Ba Shusong *(appointed on 11 September 2008 and resigned on 24 October 2008)*

AUDITORS

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

PRINCIPAL BANKERS

East West Bank
(U.S. branch)
9550 Flair Drive
E1 Monte CA91731

HSBC

PRINCIPAL OFFICE

Suites 1407-8, 14/F,
Great Eagle Centre
23 Harbour Road, Wanchai
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HONG KONG LEGAL ADVISOR

Chiu & Partners
41st Floor, Jardine House,
1 Connaught Place,
Hong Kong.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street, Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Hong Kong

Chairman's Statement

Dear Shareholders,

For and on behalf of the board ("Board") of directors ("Directors") of Far East Golden Resources Group Limited ("the Company"), I am pleased to present to all shareholders the annual report of the Company together with its subsidiaries (the "Group") for the year ended 31 December 2008.

For the year ended 31 December 2008, the Group recorded a turnover of approximately HK$1 million, a increase of 72.41% from 2007. The profit attributable to shareholders was approximately HK$35.21 million (The loss for the year 2007 was approximately HK$30.69 million). Such significant improvement was mainly attributable to the disposal of the Ningbo Meili Assets Management Company Limited ("Ningbo Meili" and together with its subsidiaries "Ningbo Meili Group").

The Group completed the rights issue in February 2008 and raised additional capital of approximately HK$266 million. Besides maintaining sufficient level of operating cash, the additional capital raised made the Group ready for the business opportunities accompanied with the financial crisis commenced in 2008.

As stated in the annual report of the Group for the year 2007 and subsequent announcements, the Group implemented the plan of investing in various industries such as natural mineral resources and environmental products.

During the year, the Group completed two acquisition transactions, including the acquisition of Jilin Shengshi Mining Limited ("Jilin Shengshi") and Beijing Century Wanyeyuan Bio-Engineering Company Limited ("Beijing Century"). The Board believes that such acquisitions would help the Group to enter into magnificent business opportunities which are in line with the national development plan of the People's Republic of China (the "PRC").

The Group had the plan to dispose its automotive dealership network in the PRC for years. As a results, the Group completed the disposal of Ningbo Meili Group in 2008 and recorded gain on disposal of approximately HK$113.90 million.

Beijing Century, the subsidiary of the Company in the PRC, is planning to enter into the market of sludge treatment in the PRC. The progress of field testing for our bio-fertilizer was also promising in the North-Eastern part of the PRC. We believe that the environmental protection business would be able to grow significantly in the coming years.

We understand that year 2009 and 2010 would be difficult for many companies due to international financial crisis and possible depression. We also believe that opportunities still exist and the poor economic situation would be a good chance for the Company to build up its first-mover advantage. The Group will look for investment opportunities in the coming years with due care.

Chairman's Statement

In March 2009, the Group proposed to acquire 80% of the equity interest in Alabama Center for Foreign Investment, LLC ("ACFI"). As a regional center approved by the United States (the "U.S.") federal government, ACFI would be able to participate in immigration investment related business under the Immigrant Investor Pilot Program. The Group also incorporated a subsidiary (namely Hybrid Kinetic Motors Corporation) in the U.S. to explore business opportunities in the automobile industry in the U.S.. The Group considers that the acquisition of ACFI and the incorporation of Hybrid Kinetic Motors Corporation could compliment the Group's objective to diversify its business and strengthen its overall competitiveness and core competence.

Finally, I would like to represent the Board to extend my appreciation to shareholders of the Company for their continued support and to our staff members for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the support of our business partners and customers.

Yeung Yung
Chairman

Hong Kong, 23 April 2009

Information of Directors

EXECUTIVE DIRECTORS

Dr. Yeung Yung, aged 51, was appointed as a Director in November, 1998, and is the Chairman of the Group. Dr. Yeung holds a PhD degree in Economics from China's Southwest University of Finance & Economics and is currently an Adjunct Professor in the university. Dr. Yeung has been a Vice Chairman of China National Development Research Foundation at the Research and Development Centre under the State Council of China (中國國務院研究發展中心國家發展研究基金會副會長) and was elected as a director of the John Hopkins University Center-Nanjing University Centre for Chinese and American Studies (中美文化交流中心理事). Dr. Yeung was the chairman, chief executive officer and president of Brilliance China Automotive Holdings Limited and also the chairman and president of Shenyang Jinbei Passenger Vehicle Manufacture Co., Ltd. from 1992 to 2002. Dr. Yeung was a member of International Who's Who 1995.

Mr. Liu Quan, aged 54, was appointed as a Director in October 2007, and is the Deputy Chairman of the Group. Mr. Liu holds a Master's degree in business, economics and finance from China Europe International Business School (CEIBS). Mr. Liu has extensive knowledge and experience in the management of supply chain business. He has been in the supply chain industry for more than 20 years and was one of the founders of several industrial companies and investment companies in China and the United States of America.

Mr. Hui Wing Sang Wilson, aged 41, was appointed as a Director in September 2007, and is the Chief Financial Officer, Qualified Accountant and Company Secretary of the Group. Mr. Hui holds a Master's degree in Business Administration from University of Surrey and a Master's degree in Professional Accounting and Information System from City University of Hong Kong. He is an associate member of Hong Kong Institute of Company Secretaries (HKICS) and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Hui was the Qualified Accountant and Company Secretary of Shanghai Jiaoda Withub Information Industrial Company Limited, a GEM Board listed company. Mr. Hui possesses more than 15 years of experience in accounting, finance and corporate management.

Dr. Zhu Shengliang, aged 58, was appointed as a Director in May 2008. Dr. Zhu holds a PhD degree in Economics from Southwestern University of Finance and Economics. Dr. Zhu is currently a chairman of Ningbo Meilide Consulting Co., Limited, a subsidiary of the Company. Dr. Zhu possesses extensive experience in finance and corporate management. He took senior managerial roles in several companies, including Shanghai Shenhua Holdings Co., Ltd., a PRC-listed company.

Information of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. He Bangjie, aged 46, was appointed as an independent non-executive Director in April 2003. Mr. He holds a Bachelor's degree in Engineering from Zhejiang Medical University in China. Mr. He was a senior manager and a director in international trading and investment companies in the United States of America and China, and had extensive experience in international trading and investments. He currently acts as a senior manager in an American company.

Mr. Ting Kwok Kit Johnny, aged 48, was appointed as an independent non-executive Director in November 2007. Mr. Ting holds a Bachelor's degree in Economics from the University of Victoria of Canada and a MBA from the City University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants (ACCA) and a member of the Certified General Accountants Association of Canada (CGA). He is also a fellow member of the Institute of Chartered Secretaries and Administrators (FCIS). Mr. Ting has more than 10 years in accounting, finance and corporate management. Currently, Mr. Ting is a finance manager of an eyewear manufacturing company.

Mr. Wong Lee Hing, aged 40, was appointed as an independent non-executive Director in October 2008. Mr. Wong holds a Bachelor's degrees in Manufacturing Engineering and Postgraduate Certificate in Business Administration from the City University of Hong Kong. Mr. Wong possesses more than 10 years' experience in the production industry and information technology management. He is currently a director of an electronic trading company.

Directors' Report

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

As the Company disposed its entire interest in Ningbo Meili Group in 2008, the presentation of the financial figures for the year ended December 31, 2007 are hereby amended. The Group's turnover and profit attributable to shareholders of the Company for the year ended 31 December 2008 amounted to HK$1 million (2007: HK$0.58 million) and HK$35.21 million (2007: loss of HK$30.69 million) respectively. As compared to the corresponding period in 2007, the turnover increased by approximately 72.41% while the loss turned to a profit. The significant improvement is mainly attributable to the disposal of Ningbo Meili Group which recorded disposal gain of HK$113.90 million. For the year ended 31 December 2008, the general operating expenses increased from HK$26.63 million in 2007 to HK$70 million, including the value of HK$14.45 million in relation to the granting of share options in February 2008.

Continuing operations

(a) Environment products and related business

The Group completed the acquisition of Beijing Century Wanyeyuan Bio-Engineering Co., Ltd ("Beijing Century") in September 2008. The new business recorded turnover HK$0.32 million and a loss of HK$1.13 million for the year ended 31 December 2008. During the year 2008, Beijing Century developed promising sales channel in the North-Eastern part of the PRC and the management expected that the turnover would grow significantly in 2009.

(b) Natural resources business

The Group completed the acquisition of Jilin Shengshi Mining Limited ("Jilin Shengshi") in August 2008. The new business has not recorded any turnover yet and incurred a loss of HK$5.37 million for the year ended 2008. Currently, the subsidiary of Jilin Shengshi owns two mine exploration rights in Jilin. Other than holding and managing its own mine exploration rights, Jilin Shengshi also entered into management agreements with the owners of mine exploration rights for providing mine management services.

Directors' Report

(c) Game centers

For the year ended 31 December 2008, the Group operated two indoor family entertainment game centers in the PRC. This business recorded turnover HK$0.69 million (2007: HK$0.58 million) and a loss of HK$0.57 million (2007: HK$1.13 million). The Group has no intention to commit more resources to this business line as the prospect of operating indoor game center in the PRC is gloomy in the highly competitive environment in the market.

(d) Automobile axles

The Group's 51% owned sino-foreign equity joint venture (the "JV") established in the PRC, Shenyang Liaohua Automobile Axles Company Ltd has suspended operations since the mid of 2004 as the result of re-allocation of plant. For the year ended 31 December 2008, the business recorded losses from the operation HK$0.31 million (2007: HK$0.27 million).

Discontinued operations

(a) Dealership of motor vehicles and provision of repair services

The Group completed the disposal of Ningbo Meili Group in December 2008 and ceased to have any interest in its businesses. Before such disposal, the Group operated five sales outlets and five repair centers in Shanghai and Ningbo. For the year ended 31 December 2008, the turnover and the loss from sale and repair of motor vehicles business were HK$373.28 million (2007: HK$915.86 million) and HK$2.62 million (2007: HK$4.26 million) respectively.

(b) Property development

One of the subsidiaries of Ningbo Meili undertakes property development in Ningbo. For the year ended 31 December 2008, it sold a total of approximately 243.98 square meters (2007: 50.04 square meters) floor area. The turnover decreased from HK$3.87 million in 2007 to HK$511,000 in 2008 and the loss for the year ended 31 December 2008 was approximately HK$13.11 million (2007: profit of HK$14.24 million).

Directors' Report

PROSPECTS

The Company has shifted its focus and reallocated more resources towards the environmental products and the development of the natural resources sectors. Due to the scarcity of natural resources and increasing concern of food safety and environmental protection, the Company believes that the future of these sectors will be more promising.

The Group has been actively re-evaluating its existing business operations, which includes studying the feasibility of exploring investment opportunities with high growth potentials with an aim to improve the financial performance of the Group.

In March 2009, the Group announced the acquisition of controlling equity interests in Alabama Center for Foreign Investment, LLC ("ACFI"). ACFI has been designated by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security ("USCIS") as regional center for the State of Alabama to participate in the Immigrant Investor Pilot Program. As a regional centre approved by the U.S. federal government, ACFI would be able to participate in immigration investment related business. The Company considered such new business could compliment the Group's objective to diversify its business and strengthen its overall competitiveness and core competence. Other than the above mentioned businesses, the Group is also actively exploring the opportunities in overseas automotive industry. In March 2009, the Group incorporated a subsidiary in the US as a vehicle for pursuing this new direction.

FUND RAISING ACTIVITIES AND USE OF PROCEEDS DURING THE PERIOD

As disclosed in the announcement of the Company dated 4 February 2008, the Company raised net proceeds of approximately HK$266 million from a right issue of 2,724,003,232 rights shares at the subscription price of HK$0.10 per rights share. As at 31 December 2008, approximately HK$67 million was utilized as general working capital of the Group, approximately HK$19 million was used for repayment of loan, and approximately HK$180 million remained unutilized.

Directors' Report

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the shareholders' fund of the Group amounted to HK$253 million (31 December 2007: capital deficiency of HK$77 million). The gearing ratio of the Group as at 31 December 2008 measured in terms of total liabilities divided by shareholders' equity was approximated 14.2% (31 December 2007: N/A). As at 31 December 2008, net current assets of the Group were approximately HK$159.95 million (31 December 2007: net current liabilities: HK$145.47 million). The pledged bank deposits were approximately HK$0.8 million (31 December 2007: HK$76.53 million) while the cash and cash equivalents amounted to HK$178.81 million (31 December 2007: HK$77.34 million). The Group has outstanding borrowings and bills payable of approximately HK$1.9 million (31 December 2007: HK$178.74 million) comprising (i) bills payable of HK$0 million (31 December 2007: HK$124.42 million) (ii) secured bank loans of HK$0 million (31 December 2007: HK$48.00 million) and (iii) other loan of HK$1.9 million (31 December 2007: HK$6.32 million). The bank borrowings are basically on floating interest rate basis.

HUMAN RESOURCES

The Group had a total of approximately 146 employees as at 31 December 2008. It has been the Group's policy to ensure that the pay levels of its directors and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

RETIREMENT SCHEME

The Group's Hong Kong employees participate in a mandatory provident fund scheme. Particulars of this retirement scheme are set out in note 32 to the financial statements.

CHARGES OF GROUP ASSETS

As at 31 December 2008, bank deposits of HK$0.8 million (at 31 December 2007: HK$76.53 million) were pledged to secure the general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

Almost all of the income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollar and the U.S. Dollar. The Group has not taken any financial instruments for hedging purpose in 2008 due to tightened foreign exchange control.

Directors' Report

BORROWINGS

Brief details of borrowing of the Group for the year ended 31 December 2008 are set out in Note 33 to the financial statements.

NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

On 8 August, 2008 the Group completed the acquisition of the entire equity interest in Jilin Shengshi which has become the Company's subsidiary since then. The Board considered that the prospect of the natural resources businesses is optimistic given the scarcity of, and the increasing demand for, natural resources globally.

On 18 September 2008 the Group completed the acquisition of 65% equity interest in Beijing Century. Beijing Century has become the Company's subsidiary since then. In view of the steady growth of the global population, on-going reduction in arable land, and progressive rise in living standards globally, the demand for fertilizers (especially bioorganic fertilizer which is capable of purifying the living environment and improving food crops) has increased and is expected to continue to increase significantly. The fertilizer industry is not only highly promising, but allows the Group to be committed to social responsibilities to help improve the cultivation of plants to produce food suitable to humans and increasing crop yields to support a growing population globally.

On 22 December, 2008 the Group completed the disposal of its entire interest in Ningbo Meili Group. (comprising Ningbo Meili), which was then principally engaged in the sale of motor vehicles, provision of repair and maintenance services and sale of property businesses in the PRC. The business environment of the businesses carried on by Ningbo Meili Group has been challenging and its business performance has been far from satisfactory over the years. In order to strengthen the Group's overall competitiveness and improve its financial performance, it is considered to be more realistic to take steps to rationalise its business direction by redeploying more resources to expand the relatively more promising businesses and mitigate the financial loss by disposing of its under-performed businesses such as those carried on by the Ningbo Meili Group. Following the disposal, Ningbo Meili ceased to be a subsidiary of the Company and the Company ceased to have any interest in the Ningbo Meili Group.

Directors' Report

POST BALANCE SHEET EVENT

In March 2009, the Company entered into a conditional equity swap agreement with certain independent third parties (collectively the "Vendors") (as supplemented by a supplemental agreement entered into between the same parties) pursuant to which the Company agreed to purchase and the Vendors agreed to sell 80% of the equity interest in ACFI ("Acquisition"). The consideration for the Acquisition was HK$7,800,000 to be satisfied by the issue and allotment by the Company of 78,000,000 shares of the Company at HK$0.1 each ("Consideration Shares") to the Vendors. Each of the Vendors shall be allotted half of the Consideration Shares. Completion of the Acquisition is still pending as at the date of this report.

On 31 March 2009, the Group incorporated a wholly owned subsidiary (namely, Hybrid Kinetic Motors Corporation) in the U.S. which is intended to be used as a vehicle to explore business opportunities in the automobile industry in the U.S. market. The Board is of the view that, based on the future market demand and the series of economic stimulus policies by the U.S. Government, the automobile industry has high growth potentials.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2008 (2007: Nil) and the Company did not declare any interim dividend during the year (2007: Nil).

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31 December 2008 are set out in note 17 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company for the year ended 31 December 2008 are set out in note 38 to the financial statements.

SHARE CAPITAL

The details of issued share capital of the Company for the year ended 31 December 2008 are set out in note 36 to the financial statements.

Directors' Report

RELATED PARTY TRANSACTIONS

Significant balances with related parties and related party transactions entered into by the Group during the year ended 31 December 2008 are disclosed in notes 28 and 39 to the financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the annual report on pages 131 to 132.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2008, according to the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO") and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons had an interest or short position in the shares ("Shares") and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Nature of interest	Number of Shares	Percentage (Note 1)
Sun East LLC	Beneficial Owner (Note 2)	2,213,268,989	40.37%
Huang Xiujuan	Beneficial Owner	340,560,000	6.21%

Notes:

1. The percentage of shareholding is calculated on the basis of 5,483,054,464 Shares in issue as at 31 December 2008 and has not taken into account any Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to any share options granted by the Company.

2. Sun East LLC is owned as to 35% by Dr. Yeung Yung (shared commonly with his wife under the laws of California, the US) and 65% by Mr. Ma Manwai (alias Ma Manwai, Philip) and Mr Jimmy Wang (alias Wang Jian) as co-trustees for certain trusts established for the benefit of the children of Dr. Yeung Yung on 30 December 2002. Dr. Yeung Yung (as well as his spouse) was deemed to be interested in these 2,213,268,989 Shares held by Sun East LLC under Part XV of the SFO.

Save as disclosed above, no person, other than Directors whose interests are set out in the section "Directors' and Chief Executive's Interests and short positions in securities" below, had registered an interest or short positions in the share capital or underlying shares of the Company that was required to be recorded under Section 336 of SFO.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2008, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(1) Long positions in the ordinary Shares of HK$0.10 each in the Company

Name	Capacity	Number of Shares held	Percentage of the issued share capital of the Company (Note 1)
Yeung Yung	Interest of controlled corporation (Note 2)	2,213,268,989	40.37%
Liu Quan	Family Interest (Note 3)	241,760,000	4.41%
Zhu Shengliang	Beneficial Owner	5,333,883	0.10%

Notes:

1. The percentage of shareholding is calculated on the basis of 5,483,054,464 Shares in issue as at 31 December 2008 and does not take into account any Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to any share options granted by the Company.

2. These Shares are held by Sun East LLC. Sun East LLC is a limited liability company incorporated in California, the US, which is owned as to (i) 35% by Dr. Yeung Yung (shared commonly with his spouse under the laws of California, the US) and (ii) 65% by Mr. Ma Manwai (alias Ma Manwai, Philip) and Mr. Jimmy Wang (alias Wang Jian) as co-trustees for certain trusts established for the benefit of the children of Dr. Yeung Yung on 30 December 2002. Dr. Yeung Yung (as well as his spouse) was deemed to be interested in these 2,213,268,989 Shares held by Sun East LLC under Part XV of the SFO.

3. These Shares are held by Fortune Venture Holdings Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Ms. Li Xiaoqin (the spouse of Mr. Liu Quan). Mr. Liu Quan is deemed to be interested in these 241,760,000 Shares held by his spouse by virtue of Part XV of the SFO.

Directors' Report

(2) Interests in share options of the Company

Name of Director	Date of grant	Exercisable period	Exercise price (HK$)	Number of underlying Shares subject to Outstanding Options	Approximate percentage of shareholding (Note)
Yeung Yung	16 February 2000	16 February 2000 to 15 February 2010	0.619	11,140,000	
	2 November 2000	2 November 2000 to 1 November 2010	0.343	24,028,980	
	9 August 2005	29 August 2005 to 8 August 2015	0.102	11,140,000	
	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	
				73,308,980	1.34%
Liu Quan	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	0.49%
Wang Xiaolin	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	0.49%
Hui Wing Sang, Wilson	9 August 2005	29 August 2005 to 8 August 2015	0.102	1,114,000	
	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	
				28,114,000	0.51%

Directors' Report

Name of Director	Date of grant	Exercisable period	Exercise price (HK$)	Number of underlying Shares subject to Outstanding Options	Approximate percentage of shareholding (Note)
Zhu Shengliang	9 August 2005	29 August 2005 to 8 August 2015	0.102	16,710,000	0.30%
He Bangjie	6 February 2008	6 February 2008 to 5 February 2018	0.114	2,000,000	0.04%
Ting Kwok Kit, Johnny	6 February 2008	6 February 2008 to 5 February 2018	0.114	2,000,000	0.04%

Notes:

The percentage of shareholding is calculated on the basis of 5,483,054,464 Shares in issue as at 31 December 2008.

Save as disclosed above, as at 31 December 2008, none of the Directors nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO SUBSCRIBE FOR SHARES

Save as disclosed under the section headed "Directors' and Chief Executive's Interests and short positions in securities" above, and the section headed "Share Option Scheme" below, at no time during the year ended 31 December 2008 were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

Directors' Report

SHARE OPTION SCHEME

The Company adopted a share option scheme on 15 March 1995 (the "1995 Scheme"), which was terminated on 12 June 2003, and a new share option scheme (the "2003 Scheme"), which are currently in force, was adopted by the Company on 12 June 2003.

The following share options were outstanding under the 1995 scheme and 2003 scheme during the period commencing from 1 January 2008 to 31 December 2008:

Name or Category of Participant	As at 1 January 2008	Reclassification during the year	Share Options Granted	Shares Lapsed/ cancelled during the year	Share Options Exercised	Adjustment due to Rights Issue	As at 31 Dec 2008	Date of Grant	Exercise Price	Exercise Period
Directors										
Yung Yeung	10,000,000	–	–	–	–	1,140,000	11,140,000	Note 1	Note 1	Note 1
	21,570,000	–	–	–	–	2,458,980	24,028,980	Note 2	Note 2	Note 2
	10,000,000	–	–	–	–	1,140,000	11,140,000	Note 4	Note 4	Note 4
	–	–	27,000,000	–	–	–	27,000,000	Note 5	Note 5	Note 5
Liu Quan	–	–	27,000,000	–	–	–	27,000,000	Note 5	Note 5	Note 5
Wang Xiaolin	–	–	27,000,000	–	–	–	27,000,000	Note 5	Note 5	Note 5
Hui Wing Sang, Wilson	1,000,000	–	–	–	–	114,000	1,114,000	Note 4	Note 4	Note 4
	–	–	27,000,000	–	–	–	27,000,000	Note 5	Note 5	Note 5
Zhu Shengliang	–	16,710,000	–	–	–	–	16,710,000	Note 4	Note 4	Note 4
Chen Peiquan (Note 6)	–	–	5,000,000	(5,000,000)	–	–	–	Note 5	Note 5	Note 5
Yury Royba (Note 6)	–	–	5,000,000	(5,000,000)	–	–	–	Note 5	Note 5	Note 5
He Bangjie	–	–	2,000,000	–	–	–	2,000,000	Note 5	Note 5	Note 5
Li Zheng, Jack (Note 7)	–	–	2,000,000	(2,000,000)	–	–	–	Note 5	Note 5	Note 5
Ting Kwok Kit, Johnny	–	–	2,000,000	–	–	–	2,000,000	Note 5	Note 5	Note 5
Sub-Total	42,570,000	16,710,000	124,000,000	(12,000,000)	–	4,852,980	176,132,980			
Employees:	4,800,000	–	–	(668,400)	–	547,200	4,678,800	Note 1	Note 1	Note 1
(in aggregate)	9,400,000	–	–	(1,114,000)	–	1,071,600	9,357,600	Note 2	Note 2	Note 2
	18,472,000	–	–	(1,336,800)	–	2,105,808	19,241,008	Note 3	Note 3	Note 3
	61,500,000	(16,710,000)	–	–	(2,228,000)	7,011,000	49,573,000	Note 4	Note 4	Note 4
	–	–	111,000,000	(20,800,000)	(400,000)	–	89,800,000	Note 5	Note 5	Note 5
Sub-Total	94,172,000	(16,710,000)	111,000,000	(23,919,200)	(2,628,000)	10,735,608	172,650,408			
Other eligible persons:										
(in aggregate)	10,800,000	–	–	(12,031,200)	–	1,231,200	–	Note 2	Note 2	Note 2
	46,020,000	–	–	(51,266,280)	–	5,246,280	–	Note 3	Note 3	Note 3
	65,000,000	–	–	(16,710,000)	(32,420,000)	7,410,000	23,280,000	Note 4	Note 4	Note 4
	–	–	35,000,000	–	–	–	35,000,000	Note 5	Note 5	Note 5
Sub-Total	121,820,000	–	35,000,000	(80,007,480)	(32,420,000)	13,887,480	58,280,000			
Total:	**258,562,000**	**–**	**270,000,000**	**(115,926,680)**	**(35,048,000)**	**29,476,068**	**407,063,388**			

Directors' Report

Notes:

Adjustments had been made to the exercise price and the number of share options outstanding in accordance with the terms of the share option scheme as a result of the rights issue on 1 February 2008. The adjusted exercise price and the number of share options outstanding are as follows:

1. These share options were granted on 16 February 2000 and are exercisable at a subscription price of HK$0.619 per Share at any time during the period of 10 years from 16 February 2000 to 15 February 2010.

2. These share options were granted on 2 November 2000 and are exercisable at a subscription price of HK$0.343 per Share at any time during the period of 10 years from 2 November 2000 to 1 November 2010.

3. These share options were granted on 5 January 2004 and are exercisable at a subscription price of HK$0.144 per Share at any time during the period of 10 years from 26 January 2004 to 4 January 2014.

4. These share options were granted on 9 August 2005 and are exercisable at a subscription price of HK$0.102 per Share at any time during the period of 10 years from 29 August 2005 to 8 August 2015.

5. These share options were granted on 6 February 2008 and are exercisable at a subscription price of HK$0.114 per Share at any time during the period of 10 years from 6 February 2008 to 5 February 2018.

6. Mr. Chen Peiquan and Mr Yury Royba resigned as executive Directors with effect from 28 May 2008, the share options granted to them to subscribe for Shares were lapsed accordingly.

7. Mr. Li Zheng, Jack resigned as independent non-executive Director with effect from 11 August 2008, the share options granted to them to subscribe for Shares were lapsed accordingly.

Referring to Note 37 to the financial statements, the fair value of the options granted during the year ended 31 December 2008 was determined using Binomial Option valuation model. In view of the subjectivity and uncertainty of the values of options due to the underlying assumptions made, any changes in the subjective inputs and assumptions could materially affect the fair value estimate. As such, the application of the model is limited and should not be heavily relied on.

The Board does not consider it is appropriate to disclose a theoretical value of the share options granted to the Directors, employees and other eligible persons of the Company in the previous years because a number of factors crucial for valuation cannot be determined; such factors include the exercise period and the conditions that a share option is subject to. Accordingly, any valuation of the share options based on the various speculative assumptions would not be meaningful and could be misleading to the shareholders.

Directors' Report

Brief information on the 1995 Scheme and the 2003 Scheme are as follows:

		The 2003 Scheme	The 1995 Scheme
1)	Purpose of the share option scheme	As incentives and rewards to eligible participants for their contribution to the Group and assistance to the Group in its recruitment and retention of high calibre professionals, executives and employees who are instrumental to the growth of the Group	Provide incentives and rewards to eligible participants who contribute to the success of the Group's operations
2)	Participants of the share option scheme	a) any employee (whether full time or part time, including any executive Director but excluding any non-executive Director) of the Company, any of its subsidiaries, or any entity (the "Invested Entity") in which any member of the Group holds any equity interest; b) any non-executive Directors (including independent non-executive Directors), any of the subsidiaries of the Company or any Invested Entity; c) any supplier of goods or services to any member of the Group or any Invested Entity;	Eligible employees including executive Directors and employees of the Company and its wholly-owned subsidiaries

Directors' Report

The 2003 Scheme		The 1995 Scheme
d)	any customer of the Group or any Invested Entity;	
e)	any person or entity that provides research, development or other technological support to the Group or any Invested Entity;	
f)	any shareholder of any member of the Group other than the Company or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;	
g)	any advisor (professional or otherwise) or consultant to the Group relating to business development of the Group or any member of the Group or any Invested Entity; and	
h)	any joint venture partner or business alliance that cooperates with any member of the Group or any Invested Entity in any area of business operation or development.	

Directors' Report

		The 2003 Scheme	The 1995 Scheme
3)	Maximum entitlement of each participant under the share option scheme	In any 12-month period, shall not exceed 1% of the shares in issue	Shall not exceed 25% of the maximum aggregate number of shares in the capital of the Company at the time of grant or such other percentage as the Board may determine from time to time
4)	The period within which the shares must be taken up under an option	The Board may in its absolute discretion determine save that such period shall not expire later than 10 years from the date of grant	10 years from the date of grant
5)	The minimum period for which an option must be held before it can be exercised	Unless otherwise determined by the Board, no minimum period	At any time after grant and acceptance
6)	The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	Upon acceptance of the option, the grantee shall inform the Company together with HK$1 by way of consideration for the grant within 21 days from the date of offer	Upon acceptance of the option, the grantee shall inform the Company together with HK$1 by way of consideration for the grant within 28 days from the date of offer
7)	The basis of determining the exercise price	The exercise price is determined by the Board and being not less than the higher of:	The exercise price shall not less than the greater of:
		a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; or	a) 80% of the average closing price of the shares of the Company on the Stock Exchange on the 5 trading days immediately preceding the date of offer of such option; or

	The 2003 Scheme	The 1995 Scheme
	b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares for the 5 business days immediately preceding the date of offer for grant which must be a business day; or	b) such amount as the Board may from time to time determine subject to the Listing Rules applicable for the time being; or
	c) the nominal value thereof	c) nominal amount of the share
8) The remaining life of the share option scheme	The scheme remains in force until 12 June 2013	The scheme was terminated on 12 June 2003

On 13 December 2007, the shareholders of the Company approved the renewal of the 10% share option scheme limit under the 2003 Scheme. Therefore, the Company can grant share options to subscribe for up to 272,300,323 shares of the Company under the 2003 Scheme. As 270,000,000 share options have been granted under the 2003 scheme on 6 February 2008, the total number of shares available for issue under the 2003 scheme is 2,300,323 representing 0.1% of the Company's issued share capital as at 31 December 2007.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries, which is not determinable by the employer within one year without payment of compensation, other than statutory compensations.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

Turnover

For the year ended 31 December 2008, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

Purchases

The percentage of the Group's costs attributable to the five largest suppliers for the year is as follows:–

The largest supplier	31%
The five largest suppliers in aggregate	93%

As far as the Directors are aware, no Directors, any of its subsidiaries, their associates or any shareholders of the Company (who to the directors' knowledge is interested in or owns more than 5 per cent. of the Company's share capital) has any shareholding in the suppliers or customers referred to above.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

ANALYSIS OF BORROWINGS AND INTEREST CAPITALISED

The particulars of the Group's bank borrowings as at the end of the year are set out in note 33 to the financial statements respectively. No interest was capitalised by the Group during the year.

PRE-EMPTIVE RIGHTS

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

AUDITORS

The Company's auditors, Grant Thornton retire and, being eligible, offer themselves for re-appointment.

For and on behalf of the Board

Yeung Yung
Chairman

Hong Kong, 23 April 2009

Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance that ensure better transparency, protection and promotion of the interests of the shareholders of the Company and the Company as a whole and to enhance corporate value and accountability.

The Company wishes to highlight the importance of its Board in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

During the year ended 31 December 2008, the Company has devoted time and efforts and taken proactive corporate initiatives to regularly monitoring and refining its corporate governance practices which are best suited its corporate needs with reference to key industry trends, best corporate governance practices and shareholders' interests.

Throughout the year, the Company has complied with the code provisions and certain recommended best practices set out in the code of corporate governance practices ("CG Code") contained in Appendix 14 to the Listing Rules, except the following deviation:

(i) Code Provision E 1.2

Pursuant to code E 1.2 of the CG Code, the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (collectively the "Committees") (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should be available to answer questions at any general meeting to approve a connected transaction or any transaction that is subject to independent shareholders' approval.

The chairman of the Board and the chairman of the Committees could not attend the annual general meeting of the Company held on 28 May 2008 due to business matters. Mr Hui Wing Sang Wilson, being one of the executive Directors and the delegate appointed by the Committees, attended the AGM to ensure effective communication with the shareholders of the Company.

Corporate Governance Report

A. BOARD OF DIRECTORS

Board

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs. The Board focuses on overall corporate strategies and policies with emphasis on the business growth and financial performance of the Group.

The Board has determined that certain matter such as strategic planning; significant transactions; and budget should be retained for the Board's approval. It has formalized the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board delegated its responsibilities to the senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management has frequently reported back to the Board and obtained prior approval before making decisions for key matters or entering into any commitments on behalf of the Company.

In order to maximize the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established audit committee, nomination committee and remuneration committee with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the Committees are reviewed and amended (if necessary) from time to time, as are the Committees' structure, duties and memberships.

The Company Secretary and the Qualified Accountant shall, as far as possible, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Group's compliance with the continuing obligations under the Listing Rules, the Codes on Takeover and Mergers and Share Repurchases, the Companies Ordinance, the Securities and Futures Ordinance and other applicable laws, rules and regulations etc.

All Directors are encouraged to propose and include items in the agenda of the Board/ committee meetings for full discussion and deliberation. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each Director/committee member for inclusion in the agenda.

Corporate Governance Report

The Board meets regularly and at least four Board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are convened when it considers necessary. During the year, 23 Board meetings were held, due notice of these meetings were given to or, depending on the circumstances, urgency and/or importance of the matters, agreed to be shortened or waived by all the directors. Even though Directors often stay/travel in different time zones, they make themselves available via teleconferencing mechanisms.

Minutes of Board/committee meetings are recorded in details for the matters considered by the participants of such meetings and decisions reached, including concerns raised by Directors and or dissenting views expressed. The meeting minutes are circulated to relevant Directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director. All Directors are entitled to have access to Board papers and related materials at least 3 days before the intended date of a Board or Board committee meeting unless there are restrictions on disclosure due to legal and regulatory requirements or other justifiable grounds.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on a timely basis. The Directors, to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

Whenever a member of the Board or member of a committee of the Board has cause to believe that a matter to be voted upon would involve him in a conflict or possible conflict of interest, he is required to disclose the conflict of interest and is not allowed to participate in the final deliberation or decision and will abstain from voting on such matter.

Corporate Governance Report

During the year ended 31 December 2008, the Board comprised the following members (who remained in office as at 31 December 2008 unless otherwise specified below):

Name

Executive Directors

Dr. Yeung Yung *(Chairman)*
Mr. Liu Quan *(Deputy Chairman)*
Mr. Wang Xiaolin *(Chief Executive Officer) (removed from office of director on 15 April 2009)*
Mr. Hui Wing Sang, Wilson
Dr. Zhu Shengliang *(appointed on 28 May 2008)*
Mr. Chen Peiquan *(resigned on 28 May 2008)*
Mr. Yury Royba *(resigned on 28 May 2008)*

Independent Non-Executive Directors

Mr. He Bangjie
Mr. Ting Kwok Kit, Johnny
Mr. Wong Lee Hing *(appointed on 24 October 2008)*
Mr. Li Zheng, Jack *(resigned on 11 August 2008)*
Mr. Ba Shusong *(appointed on 11 September, resigned on 24 October 2008)*

Under bye-law 87(1) of the Company's bye-laws, all Directors are subject to rotation and re-election at least once every three years and will subject himself to the free and absolute choice of the shareholders for re-election at the annual general meetings whereas under bye-law 86(2), any Director appointed by the Board to fill a casual vacancy should hold office until the next following general meeting of the Company.

Dr. Yeung Yung and Mr. Liu Quan, being Directors appointed by the Board pursuant to bye-law 87(1), and Mr. Wong Lee Hing, being Director appointed pursuant to bye-law 86(2), of the Company's bye-laws, will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The skills and expertise among the existing Directors are well-balanced with a mixture of core competencies in areas such as accounting and finance, legal, business and management, marketing strategies, business development, and scientific backgrounds.

The independent non-executive Directors (the "INEDs") meet the requirements of independence under the Listing Rules so that there is a sufficient element of independence in the Board to exercise independent judgments. The Board considers that all of the INEDs are independent and the confirmation of independence pursuant to Rule 3.13 of the Listing Rules has been obtained from each of them as required by the Listing Rules.

Corporate Governance Report

The INEDs have the same duties of care and skill and fiduciary duties as the executive Directors. The functions of INEDs include, but not limited to:

- Participating in Board meetings to bring an independent judgment to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- Taking the lead where potential conflicts of interests arise;
- Serving and active participating on committees, if invited;
- Attending general meetings of the Company and developing a balanced understanding of the views of shareholders; and
- Scrutinizing the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

Chairman, Deputy Chairman and CEO

During the year ended 31 December 2008, the Chairman of the Company was Dr. Yeung Yung, the Deputy Chairman was Mr. Liu Quan and the Chief Executive Officer ("CEO") was Mr. Wang Xiaolin. The positions of the Chairman, Deputy Chairman, and CEO were held by separate individuals with a view to maintain an effective segregation of duties between management of the Board and the day-to-day management of the Group's business.

The Chairman of the Company provides leadership to the Board so that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner.

The Deputy Chairman assists the Chairman of the Company to carry out above duties.

The CEO has executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

The Chairman of the Company also seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

Corporate Governance Report

Appointment, Re-election, Retirement and Removal

It is the Board's responsibility to select and appoint individuals with integrity, experience and calibre to act as directors of the Company. The Board reviews the profiles of the candidates and makes recommendations on the appointment, re-election, retirement and removal of directors.

All Directors are subject to rotation once in every three years as required by the Company's bye-laws. Each Director is briefed and updated to ensure that he has a proper understanding of the operations and business of the Group and that he acquaints himself with the common law duties and responsibilities of acting as a director for a listed company and familiarise himself with the applicable laws and regulations (including without limitation, the Listing Rules, the Companies Ordinance, the Securities and Futures Ordinance, and the governance policies of the Company).

Each of the INEDs is appointed for an initial term of not more than two years commencing from his date of appointment and is renewable successively for a term of one year until terminated by either party by giving not less than one month's prior written notice to the other and is subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with the Company's bye-laws. Every Director shall ensure that he can contribute sufficient time and effort to the corporate affairs of the Company once he accepts the appointment.

Committees

The Board has established Independent Committee, Audit Committee, Nomination and Remuneration Committee with terms of reference to enable such committees to discharge their functions properly.

Audit Committee

The Company established an Audit Committee with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The terms of the Audit Committee are consistent with the terms set up in the CG Code. The Audit Committee is responsible for reviewing financial statements and internal control system of the Group. It also provides advice on the financial and accounting policies of the Group.

The Audit Committee comprises all three independent non-executive Directors, and the chairman of the Audit Committee is Mr. Ting Kwok Kit, Johnny.

Corporate Governance Report

Two meetings were held during the year ended 31 December 2008. The individual attendance of each member is set out below:

Name of Member	Number of meetings attended
Mr. He Bangjie	2/2
Mr. Ting Kwok Kit, Johnny	2/2
Mr. Wong Lee Hing *(appointed on 24 October 2008)*	0/2
Mr. Li Zheng, Jack *(resigned on 11 August 2008)*	1/2
Mr. Ba Shusong *(appointed on 11 September 2008 and resigned on 24 October 2008)*	1/2

The Audit Committee met two times during the year 2008, and performed the following work:

- Reviewed and discussed with the management and the external auditors regarding the financial statements for the year ended 31 December 2008

- Reviewed with management the un-audited interim financial statement for the six months ended 30 June 2008

The Company Secretary keeps the minutes of Audit Committee. Draft and final versions have been sent to all members of the Audit Committee within a reasonable time after the meeting for their comments and records respectively. The term of reference of the Audit Committee is available from the Company Secretary on request.

Auditors' Remuneration

Grant Thornton have been appointed by the shareholders annually as the independent auditors of the Company. For the year ended 31 December 2008, the fee charged to audit services was approximately HK$930,000, and approximately HK$1,200,000 was charged to non-audit services for disposal of Ningbo Meili Group.

Corporate Governance Report

Remuneration Committee

The Company has set up the Remuneration Committee ensuring that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management. The Remuneration Committee is comprised of two Independent non- executive Directors, namely Mr. He Bangjie and Mr. Wong Lee Hing (appointed on 24 October 2008). The Chairman of the Remuneration Committee is Dr. Yeung Yung. Mr. Li Zheng, Jack (resigned on 11 August 2008) and Mr. Ba Shusong (appointed on 11 September 2008 and resigned on 24 October 2008) tendered their resignations as members of Remuneration Committee during the year.

During the year ended 31 December 2008, the Remuneration Committee had made recommendations to the Board regarding the Company's remuneration policy and for the formulation and review of the remuneration package of all Directors and senior management of the Company in view of the global economic downturn and considered and dealt with matters relating to appointment, retirement and re-election of Directors.

The terms of reference of the Remuneration Committee are consistent with the terms set out in the CG Code. No Director is involved in deciding his own remuneration.

Name of member	Number of meetings attended
Dr. Yeung Yung	1/1
Mr. He Bangjie	1/1
Mr. Wong Lee Hing *(appointed on 24 October 2008)*	1/1
Mr. Li Zheng, Jack *(resigned on 11 August 2008)*	0/1 (a)
Mr. Ba Shusong *(appointed on 11 September 2008 and resigned on 24 October 2008)*	0/1 (b)

(a) Mr. Li Zheng, Jack resigned on 11 August 2008 and was entitled to attend only one meeting.

(b) No meeting was held between 11 September 2008 and 24 October 2008 during the year.

Corporate Governance Report

Nomination Committee

The Company has a Nomination Committee to ensure that there are fair and transparent procedures for the appointment, re-election and removal of directors to the Board. The Nomination Committee is comprised of Mr. He Bangjie and Mr. Wong Lee Hing (appointed on 24 October 2008), both being independent non-executive Directors, and Dr. Yeung Yung, being the Chairman of the Nomination Committee. Mr. Li Zheng, Jack (resigned on 11 August 2008) and Mr. Ba Shusong (appointed on 11 September 2008 and resigned on 24 October 2008) tendered their resignations as members of Nomination Committee during the year.

Name of member	Number of meetings attended
Dr. Yeung Yung	3/3
Mr. He Bangjie	3/3
Mr. Wong Lee Hing *(appointed on 24 October 2008)*	0/3 (c)
Mr. Li Zheng, Jack *(resigned on 11 August 2008)*	1/3 (d)
Mr. Ba Shusong *(appointed on 11 September 2008 and resigned on 24 October 2008)*	0/3 (e)

(c) No meeting was held since 24 October 2008 during the year.

(d) Mr. Li Zheng, Jack resigned on 11 August 2008 and was entitled to attend only one meeting.

(e) No meeting was held between 11 September 2008 and 24 October 2008 during the year.

During the year ended 31 December 2008, the Nomination Committee carried out the process of selecting and recommending candidates for directorship with reference to the candidate's professional knowledge, industry experience, personal ethics, integrity and skills, evaluated the Board's composition and recommended the re-appointment of retiring Directors for shareholders' approval at the annual general meeting.

Corporate Governance Report

Board Meeting Attendance

Details of the attendance of individual Director at Board meetings during the year 2008 are set out below:

Name of Member	Number of meetings attended
Executive Directors	
Dr. Yeung Yung	16/23
Mr. Liu Quan	12/23
Mr. Hui Wing Sang, Wilson	23/23
Dr. Zhu Shengliang *(appointed on 28 May 2008)*	11/23 (f)
Mr. Wang Xiaolin *(removed from office of director on 15 April 2009)*	12/23 (g)
Mr. Chen Peiquan *(appointed on 15 January and resigned on 28 May 2008)*	0/23 (h)
Mr. Yury Royba *(appointed on 15 January and resigned on 28 May 2008)*	0/23 (h)
Independent non-executive Directors	
Mr. He Bangjie	15/23
Mr. Ting Kwok Kit, Johnny	21/23
Mr. Wong Lee Hing *(appointed on 24 October 2008)*	2/23 (i)
Mr. Li Zheng, Jack *(resigned on 11 August 2008)*	6/23 (j)
Mr. Ba Shusong *(appointed on 11 September 2008 and resigned on 24 October 2008)*	1/23 (k)

(f) Eleven meetings were held since Dr. Zhu Shengliang was appointed on 28 May 2008 during the year.

(g) Mr. Wang Xiaolin was removed from his executive directorship of the Company with effect from 15 April 2009.

(h) Mr. Chen Peiquan and Mr. Yury Royba both were appointed on 15 January 2008 and resigned on 28 May 2008 and were entitled to attend eight meetings.

(i) Three meetings were held since 24 October 2008 during the year.

(j) Mr. Li Zheng, Jack resigned on 11 August 2008 and was entitled to attend twelve meetings.

(k) Mr. Ba Shusong was appointed on 11 September 2008 and resigned on 24 October 2008. He was entitled to attend four meetings.

Corporate Governance Report

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, they have confirmed that they have fully complied with the required standards set out in the Model Code throughout the year ended 31 December 2008.

External and Independent Auditors

To enhance independent reporting, the Company engages external and independent auditors. The independent non-executive Directors are allowed to have access to and/or have meetings with the external and independent auditors without the presence or interference of the executive Directors. The nature and ratio of annual fees to the external and independent auditors for non-audit services and for audit services are subject to the scrutiny by the Audit Committee. On non-audit services by external auditors, the Audit Committee considers various factors, such as (i) whether there are clear efficiencies and value-added benefits to the Company from a particular work being undertaken by the external auditors, (ii) whether there is adverse effect on the independence of their audit work and (iii) the nature of non-audit services envisaged to be provided by the external auditors and (iv) the related fee levels individually and in aggregate relative to the audit fees.

Directors' acknowledgement

The Audit Committee and the Board have reviewed the Company's financial statements for the year ended 31 December 2008. The Directors acknowledge their responsibility for preparing the accounts and presenting a balanced, clear and comprehensive assessment for the Company's performance, position and prospect. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Internal control

The Board has conducted an annual review of the effectiveness of the internal control systems of the Group, covering all material controls, including but not limited to financial, operation, compliance controls and risk management functions.

Independent Auditors' Report

Grant Thornton
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Member of Grant Thornton International Ltd

To the shareholders of Far East Golden Resources Group Limited
(incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of Far East Golden Resources Group Limited (the "Company") set out on pages 38 to 130, 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 FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

Except for the limitations in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independent Auditors' Report

BASIS FOR DISCLAIMER OF OPINION

Disposal of subsidiaries

The consolidated income statement include a profit for the year from discontinued operations of HK$94,554,000, which comprised of the loss of discontinued operations of HK$19,342,000 and the gain on disposal of subsidiaries of HK$113,896,000. As detailed in note 42.3 to the financial statements, on 22 October 2008, the Group entered into a disposal agreement with an independent third party, to dispose of the entire equity interest in Ningbo Meili Assets Management Co., Limited and its subsidiaries (collectively "Ningbo Meili Group"). The disposal of Ningbo Meili Group was completed on 22 December 2008 (the "Disposal Date").

The books and records of Ningbo Meili Group were kept and maintained by the local management of Ningbo Meili Group, which were not made available to the Group's management subsequent to the Disposal Date. Under circumstances as explained above, we were not able to carry out procedures which we considered necessary on the books and records of Ningbo Meili Group, to satisfy ourselves as to the existence, completeness, accuracy and valuations of its assets of HK$331,428,000 and liabilities of HK$517,313,000 as at the Disposal Date and of its loss of HK$19,342,000 for the year up to the Disposal Date. Consequently, we were unable to satisfy ourselves as to whether the gain on disposal of HK$113,896,000 arising thereon was fairly stated.

Any adjustments found to be necessary to the above amounts would affect the amounts recorded in the consolidated income statement in respect of Ningbo Meili Group, with a corresponding effect on the gain on disposal of subsidiaries, and the related disclosure thereof in the consolidated financial statements.

Existence and valuation of inventories

As at 31 December 2007, included in inventories of HK$113,774,000 in the consolidated balance sheet of the Group, were motor vehicles recovered from the legal proceedings as detailed in note 43 (3) to the financial statements with a total cost of HK$54,180,000 and aggregate impairment provision of HK$11,340,000 as at 31 December 2007 ("Motor Vehicles"). We had not been provided the access to these Motor Vehicles physically and there were no alternative audit procedures which we could adopt to ascertain the existence and conditions of these Motor Vehicles. Accordingly we had been unable to obtain all the audit evidence that we considered necessary for our audit purpose in relation to the existence and valuation of these Motor Vehicles. Any adjustments to the balance of the Motor Vehicles and the associated impairment provision would have a consequential effect on the net liabilities and loss of the Group as at 31 December 2007 and for the year then ended respectively.

The above limitation on our scope of work happened in our audit of the Group's consolidated financial statements for the year ended 31 December 2007, which becomes the comparatives to the consolidated financial statements for the year ended 31 December 2008.

Independent Auditors' Report

Books and records of Guangzhou Shenfei Automobile Sales and Services Company Limited and its subsidiaries (collectively "Guangzhou Shenfei")

As at 31 December 2007, the Group's consolidated financial statements included the assets and liabilities of Guangzhou Shenfei. Guangzhou Shenfei ceased operations in 2006. The books and records of Guangzhou Shenfei prior to its cessation of operations were kept and maintained by the local management of Guangzhou Shenfei ("Guangzhou Shenfei Local Management"). The Guangzhou Shenfei Local Management had left the Group following the cessation of the Guangzhou Shenfei operations and the books and records of Guangzhou Shenfei as made available to us by the Group's management were incomplete for our audit purposes. Under circumstances as explained above, we were not able to carry out audit procedures which we considered necessary on the books and records of Guangzhou Shenfei, to satisfy ourselves as to the existence, completeness, accuracy and valuations of the assets and liabilities of Guangzhou Shenfei as at 31 December 2007 for the purpose of our audit of the Group's financial statements. Guangzhou Shenfei's assets of HK$71,882,000 and liabilities of HK$152,339,000 have been included in the Group's consolidated balance sheet as at 31 December 2007. Any adjustments to the assets and liabilities of Guangzhou Shenfei as at 31 December 2007 may have consequential significant effects on the net liabilities and loss of the Group as at 31 December 2007 and for the year then ended respectively.

The above limitation on our scope of work happened in our audit of the Group's consolidated financial statements for the year ended 31 December 2007, which becomes the comparatives to the consolidated financial statements for the year ended 31 December 2008.

DISCLAIMER OF OPINION ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2008 and the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

23 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Continuing operations			
Revenue	5	1,015	582
Cost of sales		(238)	(89)
Gross profit		777	493
Other income	7	5,574	7,839
Distribution costs		(2)	(1)
General operating expenses		(70,000)	(26,627)
Impairment of available-for-sale financial asset	9	(2,178)	–
Impairment of goodwill	9	(570)	–
Impairment of property, plant and equipment	9	(2,742)	–
Operating loss		(69,141)	(18,296)
Finance costs	8	–	(2)
Loss before income tax	9	(69,141)	(18,298)
Income tax expense	10	(12)	(2)
Loss for the year from continuing operations		(69,153)	(18,300)
Discontinued operations			
Profit/(Loss) for the year from discontinued operations	11	94,554	(2,885)
Profit/(Loss) for the year		25,401	(21,185)
Attributable to:			
Equity holders of the Company	12	35,206	(30,687)
Minority interests		(9,805)	9,502
Profit/(Loss) for the year		25,401	(21,185)
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the year	14		
From continuing and discontinued operations			(restated)
Earnings/(Loss) per share – basic		HK0.67 cent	HK(1.07) cent
Earnings/(Loss) per share – diluted		N/A	N/A
From continuing operations			
Loss per share – basic		HK(1.31) cent	HK(0.63) cent
Loss per share – diluted		N/A	N/A

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	**26,454**	53,724
Land use rights	18	**–**	5,333
Interest in an associate	23	**–**	8,542
Available-for-sale financial asset	20	**–**	–
Goodwill	21	**–**	–
Intangible assets	22	**20,020**	–
Prepayments and deposits	24	**46,625**	466
		93,099	68,065
Current assets			
Inventories	25	**177**	113,774
Trade receivables	26	**–**	17,205
Prepayments, deposits and other receivables	27	**12,890**	51,915
Amount due from an associate	28	**–**	2,723
Amounts due from related parties	28	**–**	1,842
Pledged bank deposits	29	**805**	76,533
Cash and cash equivalents	29	**178,809**	77,337
		192,681	341,329
Current liabilities			
Trade payables	30	**–**	41,071
Accruals and other payables	31	**27,960**	208,505
Amounts due to related parties	28	**1,095**	47,367
Amount due to a director	28	**1,779**	–
Borrowings	33	**1,897**	54,318
Bills payable		**–**	124,423
Provisions	34	**–**	7,828
Tax payable		**–**	3,284
		32,731	486,796
Net current assets/(liabilities)		**159,950**	(145,467)
Net assets/(liabilities)		**253,049**	(77,402)
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	36	**548,305**	272,400
Reserves	38	**(317,588)**	(375,810)
		230,717	(103,410)
Minority interests		**22,332**	26,008
Total equity/(Capital deficiency)		**253,049**	(77,402)

Yeung Yung
Director

Hui Wing Sang, Wilson
Director

Balance Sheet

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	**505**	641
Interests in subsidiaries	19	**25,000**	–
Deposits		**–**	8
		25,505	649
Current assets			
Prepayments, deposits and other receivables	27	**492**	1,237
Amounts due from subsidiaries	19	**168,993**	–
Cash and cash equivalents		**9,419**	25,589
		178,904	26,826
Current liabilities			
Accruals and other payables		**11,432**	10,866
Amount due to a related party	28	**–**	9,270
Amounts due to subsidiaries	19	**112**	112
		11,544	20,248
Net current assets		**167,360**	6,578
Net assets		**192,865**	7,227
EQUITY			
Share capital	36	**548,305**	272,400
Reserves	38	**(355,440)**	(265,173)
Total equity		**192,865**	7,227

Yeung Yung
Director

Hui Wing Sang, Wilson
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Equity attributable to equity holders of the Company						Minority interests	(Capital deficiency)/ total equity
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Equity compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2007	244,424	270,761	(6,187)	7,576	(649,699)	(133,125)	17,033	(116,092)
Currency translation	–	–	(6,290)	–	–	(6,290)	(527)	(6,817)
Net loss recognised directly in equity	–	–	(6,290)	–	–	(6,290)	(527)	(6,817)
Loss for the year	–	–	–	–	(30,687)	(30,687)	9,502	(21,185)
Total recognised income and expense for the year	–	–	(6,290)	–	(30,687)	(36,977)	8,975	(28,002)
Issuance of new shares	24,186	38,214	–	–	–	62,400	–	62,400
Share issue expenses	–	(272)	–	–	–	(272)	–	(272)
Proceeds from shares issued under share options scheme	3,790	2,078	–	(1,304)	–	4,564	–	4,564
At 31 December 2007 and 1 January 2008	272,400	310,781	(12,477)	6,272	(680,386)	(103,410)	26,008	(77,402)
Currency translation	–	–	(7,681)	–	–	(7,681)	803	(6,878)
Transfer to income statement on disposal of subsidiaries (note 42.3)	–	–	21,613	–	–	21,613	–	21,613
Net income recognised directly in equity	–	–	13,932	–	–	13,932	803	14,735
Profit for the year	–	–	–	–	35,206	35,206	(9,805)	25,401
Total recognised income and expense for the year	–	–	13,932	–	35,206	49,138	(9,002)	40,136
Issuance of new shares	272,400	–	–	–	–	272,400	–	272,400
Share issue expenses	–	(5,446)	–	–	–	(5,446)	–	(5,446)
Arising from acquisition of subsidiaries (note 42.2)	–	–	–	–	–	–	23,730	23,730
Disposal of subsidiaries (note 42.3)	–	–	–	–	–	–	(18,404)	(18,404)
Recognition of equity settled share-based compensation	–	–	–	14,455	–	14,455	–	14,455
Proceeds from shares issued under share options scheme	3,505	1,482	–	(1,407)	–	3,580	–	3,580
At 31 December 2008	**548,305**	**306,817**	**1,455**	**19,320**	**(645,180)**	**230,717**	**22,332**	**253,049**

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from operating activities of continuing and discontinued operations			
Profit/(Loss) before income tax			
Continuing operations		**(69,141)**	(18,298)
Discontinued operations		**95,138**	6,244
Total		**25,997**	(12,054)
Adjustments for:			
Gain on disposal of subsidiaries	42.3, 42.4	**(113,896)**	(6,114)
Impairment of trade receivables		**316**	–
Impairment of other receivables		**14,718**	–
Reversal of impairment of receivables		**–**	(1,069)
Share-based compensation		**14,455**	–
Interest income		**(6,916)**	(2,544)
Imputed interest income on long-term interest-free deposits		**(313)**	–
Interest expenses		**3,030**	3,739
Discount on initial recognition of long-term interest-free deposits		**3,468**	–
Impairment of inventories		**5,508**	3,807
Depreciation of property, plant and equipment		**8,473**	7,822
Impairment of property, plant and equipment		**2,742**	–
Amortisation of intangible assets		**668**	–
Amortisation of land use rights		**80**	146
Impairment of goodwill		**570**	–
Gain on disposal of property, plant and equipment		**(57)**	(203)
Gain on disposal of a land use right		**–**	(10,835)
Operating loss before working capital changes		**(41,157)**	(17,305)
Increase in inventories		**(22,221)**	(7,371)
Decrease/(Increase) in trade receivables		**7,990**	(4,696)
Increase in other receivables, prepayments and deposits		**(45,346)**	(905)
Increase in amount due from an associate		**(697)**	(1,411)
Increase in amount due from related parties		**(9,417)**	(225)
Increase in trade payables		**9,692**	32,427
Increase in accruals and other payables		**7,660**	7,721
Decrease in bills payable		**(12,214)**	(42,558)
Cash used in operations		**(105,710)**	(34,323)
Interest paid		**(3,030)**	(3,739)
Income tax paid		**(3,519)**	(9,131)
Net cash used in operating activities		**(112,259)**	(47,193)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from investing activities of continuing and discontinued operations			
Purchase of property, plant and equipment		(30,206)	(13,112)
Net cash outflow from disposal of subsidiaries	42.3, 42.4	(17,838)	(2,719)
Net cash outflow from acquisition of subsidiaries	42.1, 42.2	(2,469)	–
Interest received		6,916	2,544
Proceeds from disposal of property, plant and equipment		912	2,883
Proceeds from disposal of a land use right		–	14,441
Purchase of land use rights		–	(757)
Net cash (used in)/generated from investing activities		(42,685)	3,280
Cash flows from financing activities of continuing and discontinued operations			
Proceeds from issuance of share capital		275,980	66,964
Decrease in pledged bank deposits		10,301	19,841
Repayment of borrowings		(11,264)	(5,962)
Share issue expenses		(5,446)	(272)
(Decrease)/Increase in amounts due to related parties		(7,176)	935
Increase in amount due to a director		1,779	–
Proceeds of borrowings		–	22,515
Net cash generated from financing activities		264,174	104,021
Net increase in cash and cash equivalents		109,230	60,108
Cash and cash equivalents at 1 January		77,337	25,950
Effect of exchange rate fluctuation		(7,758)	(8,721)
Cash and cash equivalents at 31 December		178,809	77,337
Analysis of balances of cash and cash equivalents			
Cash and bank balances		178,809	77,337

Notes to the Financial Statements

For the year ended 31 December 2008

1. GENERAL INFORMATION

Far East Golden Resources Group Limited (the "Company") is an exempted company with limited liability incorporated and domiciled in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and, its principal place of business is Suites 1407-8, 14th Floor, Great Eagle Centre, 23 Harbour Road, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company and its subsidiaries (together referred to as the "Group") were:

- environment products and related business;
- natural resources business;
- operation of indoor game centres; and
- manufacture and sale of automobile axles.

On 22 October 2008, the Group entered into a disposal agreement with an independent third party, to dispose of the entire equity interest in Ningbo Meili Assets Management Co., Limited and its subsidiaries (collectively "Ningbo Meili Group"), which principally engaged in sales and repair of motor vehicles and sales of properties. The disposal of Ningbo Meili Group was completed on 22 December 2008 and the Group has discontinued its operations in sales and repair of motor vehicles and sales of properties thereafter. Details of this transaction have been set out in the Company's circular dated on 27 November 2008.

As sales and repair of motor vehicles and sales of properties represent components of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represent separate major lines of businesses, the Group presented, in its financial statements, these operations as discontinued operations in accordance with HKFRS 5. Further details regarding the discontinued operations are set out in note 11.

Notes to the Financial Statements

For the year ended 31 December 2008

1. GENERAL INFORMATION *(Continued)*

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

The financial statements for the year ended 31 December 2008 were approved by the board of directors on 23 April 2009.

2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2008:

HK (IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HKAS 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets

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

Notes to the Financial Statements

For the year ended 31 December 2008

2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

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

HKAS 1 (Revised)	Presentation of Financial Statement[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statement[2]
HKAS 1, HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 (Amendment)	Eligible Hedged Items[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[2]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 7 (Amendment)	Improving Disclosure about Financial Instruments[1]
HKFRS 8	Operating Segments[1]
HK (IFRIC) – Int 2	Members' Shares in Co-operative Entities and Similar Instruments[1]
HK (IFRIC) – Int 9 (Amendment)	Reassessment of Embedded Derivatives[7]
HK (IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK (IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK (IFRIC) – Int 17	Distributions of Non-Cash Assets to Owners[2]
HK (IFRIC) – Int 18	Transfers of Assets from Customers[5]
Various	Annual Improvements to HKFRSs 2008[6]

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

The directors of the Company ("Directors") anticipate that all of the pronouncement will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement.

Notes to the Financial Statements

For the year ended 31 December 2008

2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

Among these new standards and interpretations, HKAS 1 (Revised) is expected to materially change the presentation of the Group's financial statements. The amendment affects the presentation of owner's changes in equity and introduces a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosures.

In addition, HKFRS 8 Operating Segments may result in new or amended disclosures. The Directors are in the process of identifying reportable operating segments as defined in HKFRS 8.

The Directors are currently assessing the impact of other new and amended HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's results and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

The financial statements have been prepared on the historical cost. The measurement bases are fully described in the accounting policies below.

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Basis of consolidation

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

3.3 Subsidiaries

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries *(Continued)*

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

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

3.4 Associates

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Associates *(Continued)*

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

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

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Foreign currency translation

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

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

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

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2006 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2006 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

Other exchange differences arising from the translation of the net investment in foreign entities, 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 income statement as part of the gain or loss on sale.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts and after eliminated sales within the Group. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

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

Services fees are recognised in the accounting period in which the services are rendered.

Revenue arising from the sale of properties held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits and instalments received.

Revenues from operation of indoor game centres are recognised upon the sales of tokens to customers.

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

3.7 Borrowing costs

All borrowing costs are expensed as incurred.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.8 Goodwill

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

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

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

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

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

3.9 Intangible assets (Other than goodwill)

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. The following useful lives are applied:

Technical know-how	5 years
Patents	5 years

Intangible assets with indefinite useful lives are carried at cost less any subsequent impairment losses. Intangible assets are tested for impairment as described in note 3.11. Amortisation commences when the intangible assets are available for use.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP") are stated at cost less accumulated depreciation and accumulated impairment losses.

Buildings held under capital leasing agreements are depreciated over their expected useful lives or over the term of lease, if shorter.

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

Buildings	Over the terms of the leases or estimated useful lives, ranging from 20 years to 40 years, whichever is shorter
Leasehold improvements, fixture and fittings	Over the terms of the leases or estimated useful lives, ranging from 5 years to 10 years, whichever is shorter
Furniture and equipment	20%
Game equipment	20%
Machinery	10% to 20%
Motor vehicles	10% to 25%

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

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

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

CIP, which mainly represents leasehold improvements on buildings, is stated at cost less accumulated impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on CIP. CIP is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Impairment of non-financial assets

Goodwill arising on acquisition of subsidiaries, property, plant and equipment, land use rights, interests in subsidiaries and associates, prepayments and intangible assets are subject to impairment testing.

Goodwill and intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Impairment of non-financial assets *(Continued)*

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

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

3.12 Leases

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges as the leasee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

Land use rights are up-front payments to acquire the land use rights. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial assets

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

Financial assets other than hedging instruments are classified into the following categories:

– Loans and receivables

– Available-for-sale financial assets

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

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus any directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of asset.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(ii) Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial assets *(Continued)*

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

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recycled to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

For available-for-sale investment in equity securities 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.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

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

(i) Loans and receivables

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

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

(ii) Available-for-sale financial assets carried at cost

The amount of impairment loss in measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

Impairment losses recognised in an interim period in respect of available for sale equity securities carried at cost are not reversed in a subsequent period.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Inventories

Completed properties for sale at the year end are valued at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to unsold properties. Net realisable value is determined by reference to the Directors' estimates based on prevailing market conditions.

Other inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and any applicable selling expenses.

3.15 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 Accounting for income taxes *(Continued)*

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

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

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

3.16 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.17 Share capital

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution Mandatory Provident Fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its eligible employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

According to the relevant rules and regulations in the People's Republic of China ("PRC"), the subsidiaries of the Company operating in the PRC are required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal governments in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the PRC RB Plan ("Employer contributions"). The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the Employer contributions. Contributions under the PRC RB Plan are charged to the consolidated income statement as they become payable in accordance with the rules of the PRC RB Plan.

Short-term employee benefits

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.19 Share-based employee compensation

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

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

For share options granted to service providers in exchange for services acquired, they are measured at the fair value of the services received. Their fair values of the services are recognised as expense immediately, unless the services qualify for recognition as assets. Corresponding adjustments have been made to equity.

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

At the time when the share options are exercised, the amount previously recognised in equity compensation reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in equity compensation reserve will continue to be held in equity compensation reserve.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.20 Financial liabilities

The Group's financial liabilities include bank and other loans, trade payables, bills payable, other payables, amounts due to related parties and amount due to a director.

Financial liabilities are recognised when the Group becomes a party to the contractual provision of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.21 Provisions, contingent liabilities and contingent assets

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

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

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

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.22 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.23 Segment reporting

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

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through purchases of subsidiaries.

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

3.24 Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that has been disposed of or is classified as held for sale, which represents a separate major line of business or geographical area of operations of the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises land use rights and the intangible assets (other than goodwill) in accordance with the accounting policies stated in notes 3.9, 3.10 and 3.12. The estimated useful lives reflect the Directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets.

Notes to the Financial Statements

For the year ended 31 December 2008

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Impairment of receivables

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the receivable balances, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than the estimated.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations required the use of estimates. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at cash reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

Share-based compensation

The fair value of share option granted was calculated using Binomial Option valuation model based on the Group's managements' significant inputs into calculation, including an estimated life of share option granted to be ten years, based on exercise restriction and behavioural consideration, the volatility of share price, weighted average share price of the share options granted. Furthermore, the calculation assumes no future dividends.

Notes to the Financial Statements

For the year ended 31 December 2008

5. REVENUE

Revenue, which is also the Group's turnover, represents total invoiced value of goods supplied and services rendered. Revenue recognised during the year is as follows:

	Continuing operations		Discontinued operations		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Sales of motor vehicles	**–**	–	**338,191**	856,319	**338,191**	856,319
Repair and maintenance of motor vehicles	**–**	–	**35,088**	59,537	**35,088**	59,537
Sales of properties held for sale	**–**	–	**511**	3,867	**511**	3,867
Revenues from operation of indoor games centres	**691**	582	**–**	–	**691**	582
Sales of bioorganic fertilizer	**324**	–	**–**	–	**324**	–
	1,015	582	**373,790**	919,723	**374,805**	920,305

6. SEGMENT INFORMATION

Primary reporting format – business segments

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

- environment products and related business;
- natural resources business;
- operation of indoor game centres; and
- manufacture and sale of automobile axles.

Notes to the Financial Statements

For the year ended 31 December 2008

6. SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

Sales and repair of motor vehicles and sales of properties as mentioned in note 1 have been classified as discontinued operations for the year (note 11).

2008	Continuing operations					Discontinued operations		
	Operation of indoor game centres HK$'000	Manufacture and sales of automobile axles HK$'000	Environment products and related business HK$'000	Natural resources business HK$'000	Total HK$'000	Sales and repair of motor vehicles HK$'000	Sales of properties HK$'000	Total HK$'000
Revenue								
Sales to external customers	691	–	324	–	1,015	373,279	511	373,790
Segment results	(570)	(308)	(1,130)	(5,366)	(7,374)	(2,619)	(13,109)	(15,728)
Unallocated income and expense, net					(56,847)			–
Gain on disposal of subsidiaries					–			113,896
Impairment of available-for-sale financial asset					(2,178)			–
Impairment of property, plant and equipment					(2,742)			–
Finance costs					–			(3,030)
(Loss)/profit before income tax					(69,141)			95,138
Income tax expense					(12)			(584)
(Loss)/profit for the year					(69,153)			94,554
Segment assets	189	194	43,155	22,773	66,311	–	–	–
Unallocated assets					219,469			–
Total assets					285,780			–
Segment liabilities	950	472	509	5,347	7,278	–	–	–
Unallocated liabilities					20,682			–
Borrowings					1,897			–
Amounts due to related parties					1,095			–
Amount due to a director					1,779			–
Total liabilities					32,731			–
Capital expenditure	3	–	24,346	2,617	26,966	5,615	–	5,615
Depreciation	–	–	203	170	373	2,947	215	3,162
Amortisation	–	–	668	–	668	80	–	80
Impairment of inventories	–	–	–	–	–	5,508	–	5,508
Impairment of receivables	–	–	–	–	–	1,757	11,837	13,594

Notes to the Financial Statements

For the year ended 31 December 2008

6. SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

2007	Continuing operations			Discontinued operations		
	Operation of indoor game centres HK$'000	Manufacture and sales of automobile axles HK$'000	Total HK$'000	Sales and repair of motor vehicles HK$'000	Sales of properties HK$'000	Total HK$'000
Revenue						
Sales to external customers	582	–	582	915,856	3,867	919,723
Segment results	(1,131)	(272)	(1,403)	(4,255)	14,236	9,981
Unallocated income and expense, net			(16,893)			–
Finance costs			(2)			(3,737)
Loss before income tax			(18,298)			6,244
Income tax expense			(2)			(9,129)
Loss for the year			(18,300)			(2,885)
Segment assets	264	156	420	312,937	24,537	337,474
Unallocated assets			58,393			–
Interest in an associate			–			8,542
Amount due from an associate			–			2,723
Amounts due from related parties			80			1,762
Total assets			58,893			350,501
Segment liabilities	588	432	1,020	334,079	23,270	357,349
Unallocated liabilities			23,458			–
Borrowings			–			54,318
Amounts due to related parties			21,806			25,561
Tax payable			–			3,284
Total liabilities			46,284			440,512
Capital expenditure	54	–	54	6,416	517	6,933
Depreciation	110	–	110	4,926	603	5,529
Amortisation	–	–	–	146	–	146
Impairment of inventories	–	–	–	3,807	–	3,807
Reversal of Impairment of receivables	–	–	–	–	(1,069)	(1,069)

Notes to the Financial Statements

For the year ended 31 December 2008

6. SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

Over 90% of the Group's revenues are derived in the PRC and over 90% of the segment assets are located in the PRC. In this regard, no separate analysis of segment information by geographical segments is presented.

7. OTHER INCOME

	Continuing operations		Discontinued operations		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Bank interest income	**5,213**	394	**1,703**	2,087	**6,916**	2,481
Other interest income	**–**	–	**–**	63	**–**	63
Imputed interest income on long-term interest-free deposits	**313**	–	**–**	–	**313**	–
Gain on disposal of a land use right	**–**	–	**–**	10,835	**–**	10,835
Gain on disposal of property, plant and equipment	**–**	97	**57**	106	**57**	203
Gain on disposal of a subsidiary	**–**	6,114	**–**	–	**–**	6,114
Subsidy income	**–**	–	**885**	1,033	**885**	1,033
Other service income	**1**	–	**529**	1,612	**530**	1,612
Miscellaneous	**47**	1,234	**2,665**	4,112	**2,712**	5,346
	5,574	7,839	**5,839**	19,848	**11,413**	27,687

8. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Interest on borrowings repayable within five years:						
Bank loans and overdrafts	**–**	–	**987**	2,174	**987**	2,174
Other loans	**–**	2	**2,043**	1,563	**2,043**	1,565
	–	2	**3,030**	3,737	**3,030**	3,739

Notes to the Financial Statements

For the year ended 31 December 2008

9. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Auditors' remuneration	**1,154**	1,133	**–**	326	**1,154**	1,459
Share-based compensation	**14,455**	–	**–**	–	**14,455**	–
Depreciation of property, plant and equipment	**5,311**	2,293	**3,162**	5,529	**8,473**	7,822
Amortisation of land use rights	**–**	–	**80**	146	**80**	146
Amortisation of intangible assets	**668**	–	**–**	–	**668**	–
Impairment of available-for-sale financial asset	**2,178**	–	**–**	–	**2,178**	–
Impairment of goodwill	**570**	–	**–**	–	**570**	–
Impairment of property, plant and equipment	**2,742**	–	**–**	–	**2,742**	–
Reversal of impairment of receivables	**–**	–	**–**	(1,069)	**–**	(1,069)
Impairment of trade receivables	**–**	–	**316**	–	**316**	–
Impairment of other receivables	**1,440**	–	**13,278**	–	**14,718**	–
Gain on disposal of subsidiaries (note 42.3, 42.4)	**–**	(6,114)	**(113,896)**	–	**(113,896)**	(6,114)
Discount on initial recognition of long-term interest-free deposits	**3,468**	–	**–**	–	**3,468**	–
Cost of inventories recognised as expenses*	**238**	89	**353,725**	880,398	**353,963**	880,487
Operating lease charges in respect of land and buildings	**2,562**	1,276	**1,246**	1,359	**3,808**	2,635

* Cost of inventories recognised as expenses included HK$5,508,000 (2007: HK$3,807,000) relating to impairment of inventories.

Notes to the Financial Statements

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10. INCOME TAX EXPENSE

For the year ended 31 December 2008, no provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any assessable profits for the year in Hong Kong. For the year ended 31 December 2007, Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for that year. Tax on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	Continuing operations		Discontinued operations		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Current tax						
– Hong Kong	**–**	2	**–**	–	**–**	2
– PRC	**12**	–	**1,322**	9,129	**1,334**	9,129
– Over-provision in prior years	**–**	–	**(738)**	–	**(738)**	–
Income tax expense	**12**	2	**584**	9,129	**596**	9,131

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

	2008 HK$'000	2007 HK$'000
Profit/(loss) before income tax		
Continuing operations	**(69,141)**	(18,298)
Discontinued operations	**95,138**	6,244
	25,997	(12,054)
Tax on profit/(loss) before tax, calculated at the rates applicable to losses in the tax jurisdictions concerned	**10,228**	(3,403)
Tax effect of non-deductible expenses	**19,497**	12,340
Tax effect of non-taxable income	**(29,171)**	(2,443)
Tax effect of tax losses not recognised as deferred tax asset	**780**	2,777
Tax effect of prior years' tax losses utilised this year	**–**	(140)
Over-provision in prior years	**(738)**	–
Income tax expense	**596**	9,131

Notes to the Financial Statements

For the year ended 31 December 2008

11. DISCONTINUED OPERATIONS

11.1 As described in note 1, on 22 October 2008, the Group entered into an agreement with an independent third party to dispose of the entire equity interest in Ningbo Meili Group, which principally engaged in sales and repair of motor vehicles and sales of properties. The disposal of Ningbo Meili Group was completed on 22 December 2008 and the Group has discontinued its operations in sales and repair of motor vehicles and sales of properties thereafter. Details of this transaction have been set out in the Company's circular dated on 27 November 2008.

As sales and repair of motor vehicles and sales of properties represent components of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represent separate major lines of businesses, the Group presented, in its financial statements, these operations as discontinued operations in accordance with HKFRS 5.

The profit/(loss) for the year from the discontinued operations is analysed as follows:

	2008 **HK$'000**	2007 HK$'000
Loss on discontinued operations (note 11.2)	**(19,342)**	(2,885)
Gain on disposal of subsidiaries (note 42.3)	**113,896**	–
Profits/(Loss) for the year from discontinued operations	**94,554**	(2,885)
Attributable to:		
Equity holders of the Company	**103,908**	(12,525)
Minority interests	**(9,354)**	9,640
	94,554	(2,885)

Notes to the Financial Statements

For the year ended 31 December 2008

11. DISCONTINUED OPERATIONS *(Continued)*

11.2 An analysis of the results of the discontinued operations for the year ended 31 December 2008, with the comparatives for illustrative purpose, is as follows:

	2008 HK$'000	2007 HK$'000
Revenue	**373,790**	919,723
Cost of sales	**(353,725)**	(880,398)
Gross profit	**20,065**	39,325
Other income	**5,839**	19,848
Distribution costs	**(7,322)**	(17,582)
General operating expenses	**(34,310)**	(31,610)
Operating (loss)/profits	**(15,728)**	9,981
Finance costs	**(3,030)**	(3,737)
(Loss)/profit before income tax	**(18,758)**	6,244
Income tax expense	**(584)**	(9,129)
Loss for the period/year	**(19,342)**	(2,885)
Cash flows from discontinued operations		
Net cash flow used in operating activities	**(24,681)**	(23,839)
Net cash flow (used in)/from investing activities	**(3,006)**	11,883
Net cash flow from financing activities	**18,203**	26,731
Net cash (outflow)/inflow	**(9,484)**	14,775

The carrying amounts of the assets and liabilities of Ningbo Meili Group at the date of disposal are disclosed in note 42.3.

Notes to the Financial Statements

For the year ended 31 December 2008

12. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit for the year of HK$35,206,000 (loss for the year 2007: HK$30,687,000), a loss of HK$99,351,000 (2007: HK$43,472,000) has been dealt with in the financial statements of the Company.

13. DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2008 (2007: Nil) and the Company did not declare any interim dividend during the year (2007: Nil).

14. EARNINGS/(LOSS) PER SHARE

	2008	2007
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the year		
From continuing and discontinued operations		(restated)
Earnings/(Loss) per share – basic	**HK0.67 cent**	HK(1.07) cent
Earnings/(Loss) per share – diluted	**N/A**	N/A
From continuing operations		
Loss per share – basic	**HK(1.31) cent**	HK(0.63) cent
Loss per share – diluted	**N/A**	N/A
From discontinued operations		
Earnings/(Loss) per share – basic	**HK1.98 cent**	HK(0.44) cent
Earnings/(Loss) per share – diluted	**N/A**	N/A

The calculations of the basic earnings/(loss) per share attributable to the equity holders of the Company is based on the following data:

	2008 HK$'000	2007 HK$'000
Profit/(Loss) attributable to the equity holders of the Company for the purpose of basic earnings per share		
Continuing operations	**(68,702)**	(18,162)
Discontinued operations	**103,908**	(12,525)
Total profit/(loss) from continuing and discontinued operations	**35,206**	(30,687)

Notes to the Financial Statements

For the year ended 31 December 2008

14. EARNINGS/(LOSS) PER SHARE *(Continued)*

	2008 Number of shares '000	2007 Number of shares '000 (restated)
Weighted average number of shares for the purpose of basic earnings/(loss) per share	**5,250,217**	2,875,175

Restatement for 2007 was related to the rights issue completed in the year ended 31 December 2008.

Diluted earnings/(loss) per share from continuing and discontinued operations for both years ended 31 December 2008 and 2007 were not presented because the impact of the exercise of the share options was anti-dilutive. Potential ordinary shares are dilutive when and only when their conversion into ordinary shares would reduce earnings per share or reduce loss per share from continuing operations attributable to the equity holders of the Company.

15. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Wages and salaries	**11,974**	11,767	**10,153**	16,104	**22,127**	27,871
Pension costs						
– defined contribution plans	**275**	204	**1,314**	2,430	**1,589**	2,634
Other benefits	**239**	604	**417**	1,719	**656**	2,323
Share-based payments	**14,455**	–	**–**	–	**14,455**	–
	26,943	12,575	**11,884**	20,253	**38,827**	32,828

Notes to the Financial Statements

For the year ended 31 December 2008

16. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS

For the year ended 31 December 2008

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Contribution to defined contribution plan HK$'000	Equity-settled share-based payment expenses HK$'000	Total HK$'000
Executive directors					
Dr. Yung Yeung	80	3,510	–	1,446	5,036
Mr. Quan Liu	80	1,170	–	1,445	2,695
Mr. Xiaolin Wang (removed from the office of director on 15 April 2009)	80	1,432	–	1,445	2,957
Mr. Wing Sang Hui, Wilson	80	1,326	12	1,445	2,863
Dr. Shengliang Zhu (appointed on 28 May 2008)	–	390	–	–	390
Mr. Yury Royba (appointed on 15 January 2008 and resigned on 28 May 2008)	–	–	–	268	268
Mr. Peiquan Chen (appointed on 15 January 2008 and resigned on 28 May 2008)	–	30	–	268	298
Independent non-executive directors					
Mr. Bangjie He	80	–	–	107	187
Mr. Zheng Li, Jack (resigned on 11 August 2008)	–	–	–	107	107
Mr. Kwok Kit Ting, Johnny	80	–	–	107	187
Mr. Shusong Ba (appointed on 11 September 2008 and resigned on 24 October 2008)	–	–	–	–	–
Mr. Lee Hing Wong (appointed on 24 October 2008)	15	–	–	–	15
	495	7,858	12	6,638	15,003

Notes to the Financial Statements

For the year ended 31 December 2008

16. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS

(Continued)

For the year ended 31 December 2007

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Contribution to defined contribution plan HK$'000	Total HK$'000
Executive directors				
Dr. Yung Yeung	390	3,506	–	3,896
Mr. Quan Liu (appointed on 24 October 2007)	–	585	–	585
Mr. Xiaolin Wang (appointed on 11 September 2007)	–	780	–	780
Mr. Wing Sang Hui, Wilson (appointed on 11 September 2007)	–	689	5	694
Mr. Chunhua Huang (resigned on 8 October 2007)	–	421	–	421
Mr. Jun Li (resigned on 30 October 2007)	–	1,167	10	1,177
Mr. Wing Tak Law, Jack (resigned on 28 February 2007)	–	67	2	69
Mr. Yuwen Sun (resigned on 8 October 2007)	–	–	–	–
Non-executive director				
Mrs. Chizuko Kubo (resigned on 8 October 2007)	–	–	–	–
Independent non-executive directors				
Mr. Bangjie He	80	80	–	160
Mr. Zheng Li, Jack (appointed on 4 June 2007)	46	80	–	126
Mr. Kwok Kit Ting, Johnny (appointed on 19 November 2007)	9	80	–	89
Mr. Wai Tak Cheung (appointed on 24 April 2007 and resigned on 16 November 2007)	45	–	–	45
Dr. Peisheng Hu (resigned on 4 June 2007)	–	–	–	–
Mr. Ho Yip Lee (resigned on 31 March 2007)	20	–	–	20
	590	7,455	17	8,062

Notes to the Financial Statements

For the year ended 31 December 2008

16. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS *(Continued)*

Five highest paid individuals

For the year ended 31 December 2008, the five highest paid individuals in the Group were all Directors whose emoluments are reflected in the analysis presented above.

For the year ended 31 December 2007, the five individuals whose emoluments were the highest in the Group included four Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual for the year ended 31 December 2007 are as follows:

	2007 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	852

The emoluments fell within the following bands:

	Number of individuals 2007
Emolument bands	
Nil – HK$1,000,000	1

Notes to the Financial Statements

For the year ended 31 December 2008

17. PROPERTY, PLANT AND EQUIPMENT

Group

The movements of property, plant and equipment of the Group are as follows:

	Buildings	Construction in progress	Leasehold improvements, fixture and fittings	Furniture and equipment	Game equipment	Machinery	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 January 2007								
Cost	73,964	–	18,929	7,995	60,393	14,955	21,122	197,358
Accumulated depreciation and impairment	(45,743)	–	(15,949)	(3,811)	(60,393)	(10,883)	(11,887)	(148,666)
Net book amount	28,221	–	2,980	4,184	–	4,072	9,235	48,692
Year ended 31 December 2007								
Opening net book value	28,221	–	2,980	4,184	–	4,072	9,235	48,692
Exchange differences	1,579	–	111	156	–	244	386	2,476
Additions	9	–	1,033	360	–	543	11,167	13,112
Transfer	–	–	–	41	–	(41)	–	–
Disposals	(75)	–	(302)	(20)	–	(1)	(2,282)	(2,680)
Disposal of a subsidiary (note 42.4)	–	–	(54)	–	–	–	–	(54)
Depreciation	(1,311)	–	(861)	(1,277)	–	(537)	(3,836)	(7,822)
Closing net book value	28,423	–	2,907	3,444	–	4,280	14,670	53,724
At 31 December 2007								
Cost	78,144	–	20,667	8,755	64,149	16,635	29,665	218,015
Accumulated depreciation and impairment	(49,721)	–	(17,760)	(5,311)	(64,149)	(12,355)	(14,995)	(164,291)
Net book amount	28,423	–	2,907	3,444	–	4,280	14,670	53,724
Year ended 31 December 2008								
Opening net book value	28,423	–	2,907	3,444	–	4,280	14,670	53,724
Acquisition of subsidiaries (note 42.2)	–	–	–	29	–	–	589	618
Exchange differences	2,021	8	142	180	–	496	446	3,293
Additions	581	449	1,201	1,139	3	693	26,140	30,206
Disposals	–	–	–	(11)	–	–	(844)	(855)
Disposal of subsidiaries (note 42.3)	(30,247)	(457)	(2,271)	(2,818)	–	(5,111)	(8,413)	(49,317)
Depreciation	(778)	–	(573)	(825)	–	(358)	(5,939)	(8,473)
Impairment	–	–	–	–	–	–	(2,742)	(2,742)
Closing net book value	–	–	1,406	1,138	3	–	23,907	26,454
At 31 December 2008								
Cost	–	–	19,200	4,556	68,688	11,349	43,995	147,788
Accumulated depreciation and impairment	–	–	(17,794)	(3,418)	(68,685)	(11,349)	(20,088)	(121,334)
Net book amount	**–**	**–**	**1,406**	**1,138**	**3**	**–**	**23,907**	**26,454**

Notes to the Financial Statements

For the year ended 31 December 2008

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

As at 31 December 2007, there were certain properties included in buildings held by the Group, the ownership of which are as follows:

i. There were no title ownership certificates for certain buildings with net book value of approximately HK$6,386,000 held by Shanghai Yitong Automobile Sales Co., Ltd., ("Shanghai Yitong Sales"), a subsidiary of the Group. According to a PRC legal opinion issued by Beijing Forever Law Firm（"北京市昌久律師事務所"）("the Beijing Lawyer"), Shanghai Yitong Sales was in the course of applying for the real estate ownership certificate ("Real Estate Certificate"). As Shanghai Yitong Sales had obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, based on the legal opinion issued by the Beijing Lawyer, the Directors considered that there was no obstacle to prevent Shanghai Yitong Sales to obtain the said real estate ownership certificate. Accordingly, the Directors considered that it was appropriate to recognise the buildings in the financial statements and no provision or write off of the buildings was necessary.

ii. There were no title ownership certificates for certain buildings with net book value of approximately HK$3,112,000 held by Shanghai Volkswagen Ningbo Sales & Service Co. Ltd. ("Shanghai Ningbo"), a subsidiary of the Group, which was on the land leased with a term of 17 years. According to the Beijing Lawyer, the terms and conditions of the lease agreement did not contravene the PRC Laws and regulations and Real Estate Certificate was under application. As Shanghai Ningbo had obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, the Beijing Lawyer considered that there was no obstacle for obtaining the Real Estate Certificate. Notwithstanding the legal owner of the properties was vested with the landlord, the Directors considered that Shanghai Ningbo had the right to use the properties during the lease period under the lease agreement, accordingly, it was appropriate to recognise the buildings in the financial statements and depreciate the buildings according to the lease term.

Notes to the Financial Statements

For the year ended 31 December 2008

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

iii. There were certain properties with net book value of approximately HK$8,753,000 constructed by Ningbo Shengfei Automobile Sales and Services Co. Ltd. ("Ningbo Shengfei"), a subsidiary of the Group, which was on the land leased with a term of 15 years. According to the Beijing Lawyer, the terms and conditions of the lease agreement did not contravene the PRC Laws and regulations and Real Estate Certificate was under application. As the landlord had obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, the Beijing Lawyer considered that there was no obstacle for obtaining the Real Estate Certificate. Notwithstanding the legal owner of the properties was vested with the landlord, the Directors considered that Ningbo Shengfei had the right to use the properties during the lease period under the lease agreement, accordingly, it was appropriate to recognise the buildings in the financial statements and depreciate the buildings according to the lease term.

iv. There were no title ownership certificates for certain buildings with net book value of approximately HK$2,688,000 held by Shanghai Volkswagen Taizhou Sales & Service Co., Ltd., ("Shanghai Taizhou"), a subsidiary of the Group. According to a PRC legal opinion issued by the Beijing Lawyer, Shanghai Taizhou was in the course of applying for the Real Estate Certificate. As Shanghai Yitong Sales had obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, based on the legal opinion issued by the Beijing Lawyer, the Directors considered that there was no obstacle to prevent Shanghai Taizhou to obtain the said real estate ownership certificate. Accordingly, the Directors considered that it was appropriate to recognise the buildings in the financial statements and no provision or write off of the buildings was necessary.

v. There were certain buildings of HK$42,982,000 (before impairment) developed by Guangzhou Shenfei Automobile Sales and Services Co. Ltd. ("Guangzhou Shenfei"), a subsidiary of the Group, on a parcel of land leased for a period of 21 years and 10 months commencing from 15 February 2003. According to the lease agreement, the ownership of the properties on the land belonged to the Lessor. However, Guangzhou Shenfei had the right to use the properties during the tenancy period in accordance with the lease agreement. According to the legal opinion by the Beijing Lawyer, the Lessor had the land use rights to lease the land and the terms and conditions of the lease agreement did not contravene the PRC laws and legislations, and the Lessor was in the course of applying for the real estate ownership certificates for the buildings. The Beijing Lawyer considered that there was no obstacle in obtaining the real estate ownership certificate, accordingly, the Directors considered that it was appropriate to recognise the buildings in the financial statements. As at 31 December 2007, the amount of these properties was fully impaired because of the significant loss incurred by Guangzhou Shenfei.

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For the year ended 31 December 2008

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Furniture and equipment HK$'000	Leasehold improvements, fixture and fittings HK$'000	Total HK$'000
At 31 January 2007			
Cost	75	364	439
Accumulated depreciation and impairment	(15)	(61)	(76)
Net book amount	60	303	363
Year ended 31 December 2007			
Opening net book value	60	303	363
Additions	48	602	650
Disposals	–	(302)	(302)
Depreciation	(19)	(51)	(70)
Closing net book amount	89	552	641
At 31 December 2007			
Cost	123	602	725
Accumulated depreciation and impairment	(34)	(50)	(84)
Net book amount	89	552	641
Year ended 31 December 2008			
Opening net book value	89	552	641
Additions	6	5	11
Depreciation	(26)	(121)	(147)
Closing net book amount	69	436	505
At 31 December 2008			
Cost	129	607	736
Accumulated depreciation and impairment	(60)	(171)	(231)
Net book amount	**69**	**436**	**505**

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18. LAND USE RIGHTS – GROUP

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

	2008 HK$'000	2007 HK$'000
Outside Hong Kong, held on leases between 10 to 50 years	–	5,333
Opening net carrying amount	5,333	7,919
Exchange differences	395	409
Addition	–	757
Disposal	–	(3,606)
Annual charges of prepaid operating lease payment	(80)	(146)
Disposal of subsidiaries (note 42.3)	(5,648)	–
Closing net carrying amount	–	5,333

19. INTERESTS IN SUBSIDIARIES – COMPANY

	2008 HK$'000	2007 HK$'000
Investments at cost		
Unlisted shares	252,220	227,000
Less: Impairment	(227,220)	(227,000)
	25,000	–
Amounts due from subsidiaries	459,486	228,493
Less: Impairment	(290,493)	(228,493)
	168,993	–
Amounts due to subsidiaries	112	112

The amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In view of poor financial performance of certain subsidiaries, the Directors considered that it was appropriate to provide impairment for the investment costs and amounts due from these subsidiaries.

Notes to the Financial Statements

For the year ended 31 December 2008

19. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

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

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital and registered capital	Percentage of issued share capital held by the Company %	Principal activities and place of operations
American Compass Inc.	USA, limited liability company	Ordinary US$17,000,000	100*	Investment holding, USA
Far East Golden Resources Investment Limited (遠東金源投資有限公司)	Hong Kong, limited liability company	Ordinary HK$25,000,000	100*	Investment holding, Hong Kong
Parkwell (Hong Kong) Limited (百宏(香港)有限公司)	Hong Kong, limited liability company	Ordinary HK$2	100*	Leasing, Hong Kong
Nara Profit Limited	British Virgin Islands limited liability company	Ordinary US$1	100	Investment holding, Hong Kong
American Phoenix Group, Inc	USA, limited liability company	Class A Ordinary US$16,792,529	100	Investment holding, USA
Star Western Holding, LLC	USA, limited liability company	Ordinary US$8,750,000	100	Investment holding, USA
寧波美立德咨詢有限公司 (note b) (Ningbo Meilide Consulting Co. Limited)	PRC, limited liability company	US$750,000	100	Investment holding, PRC
United Kam Wah Development Limited (中港金華發展有限公司)	Hong Kong, limited liability company	Ordinary HK$2	100	Investment holding, Hong Kong
Yaohan Whimsy Co., Limited	Hong Kong, limited liability company	Ordinary HK$1,000 Non-voting deferred HK$1,000 (note c)	100	Investment holding, Hong Kong

Notes to the Financial Statements

For the year ended 31 December 2008

19. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital and registered capital	Percentage of issued share capital held by the Company %	Principal activities and place of operations
河南歡樂天地兒童遊樂有限公司 (note b) (Henan Whimsy Amusement Company Limited)	PRC, limited liability company	US$2,000,000	97	Operation of indoor entertainment centre, PRC
沈陽遼華汽車車橋有限公司 (Shenyang Liao Hua Automobile Axles Co. Limited) (note a)	PRC, limited liability company	RMB30,000,000	51	Manufacture of automobile axles, PRC
吉林晟世礦業有限公司 (note b) (Jilin Shengshi Mining Limited)	PRC, limited liability company	RMB20,067,162	100	Exploration and mining of natural resources, PRC
延邊吉達建材經銷有限公司 (Yanbian Jida Construction Material Trading Limited)	PRC, limited liability company	RMB1,000,000	100	Exploration and mining of natural resources, PRC
北京世紀萬業源生物工程有限公司 (note a) (Beijing Century Wanyeyuan Bio-Engineering Co., Limited)	PRC, limited liability company	RMB60,000,000 (note d)	65	Development and sales of bioorganic fertilizer and environmental protected products, PRC
北京平安福生物技術研究所有限公司 (Beijing Green Grow Biotech Engineering Research Institution Limited) (note e)	PRC, limited liability company	RMB1,000,000	65	Development and sales of bioorganic fertilizer and environmental protected products, PRC

* Shares held directly by the Company.

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

Notes to the Financial Statements

For the year ended 31 December 2008

19. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Notes:

a. This subsidiary is a Sino-foreign equity joint venture.

b. This subsidiary is a wholly foreign owned enterprise.

c. The deferred shares, which are not held by the Group, practically carry no rights to dividends, to receive notice of, to attend or vote at any general meeting of the respective companies, and to participate in any distribution on winding up.

d. As at 31 December 2008, the paid-up capital of the subsidiary was RMB38,592,000.

e. On 31 December 2008, the name was changed from "北京世紀星伊埃姆生物技術研究所有限公司" to "北京平安福生物技術研究所有限公司".

20. AVAILABLE-FOR-SALE FINANCIAL ASSET – GROUP

	2008 **HK$'000**	2007 HK$'000
Available-for-sale financial asset		
Unlisted equity investment in PRC, at cost	**2,178**	–
Impairment	**(2,178)**	–
	–	–

The unlisted equity securities are measured at cost less impairment losses as they do not have quoted market prices in active markets and the range of reasonable fair value estimates is so significant.

In view of the poor financial performance of the investment, the Directors considered that it was appropriate to make full impairment for the investment cost of the available-for-sale financial asset.

Notes to the Financial Statements

For the year ended 31 December 2008

21. GOODWILL – GROUP

The amount of the goodwill capitalised as an asset recognised in the consolidated balance sheet, arising from business combinations, is as follows:

	HK$'000
At 1 January 2008	
Gross carrying amount	103,608
Accumulated impairment (note a)	(103,608)
Net carrying amount	–
For the year ended 31 December 2008	
Net carrying amount at beginning of year	–
Acquisition of subsidiaries (note 42.1)	570
Disposal of subsidiaries (note c)	–
Provision for impairment (note b)	(570)
Net carrying amount	–
At 31 December 2008	
Gross carrying amount	570
Accumulated impairment	(570)
Net carrying amount	**–**

The recoverable amounts for the cash-generating units as given above were determined based on value-in-use estimation of the cash generating units by the Directors. The key assumptions for the Group have been determined by the Directors based on past performance and its expectations for the industry development.

Notes to the Financial Statements

For the year ended 31 December 2008

21. GOODWILL – GROUP *(Continued)*

Notes:

(a) In view of the bankruptcy of the manufacturer of MG Rover in England and the poor financial performance of American Phoenix Group, Inc and its subsidiaries ("APG"), in 2005, the Directors considered that it was appropriate to provide full impairment for the goodwill generated from the acquisition of APG.

(b) In view of the unpredictable performance of the natural resources business, the Directors considered that it was appropriate to provide full impairment for the goodwill generated from the acquisition of Jilin Shengshi Mining Limited and its subsidiary during the year (note 42.1).

(c) In 2008, the Group has disposed of the entire equity interest in Ningbo Meili Group (note 42.3), which comprised most of the business acquired under APG in 2005 and the Directors considered that the goodwill arising from the acquisition of APG no longer existed as at 31 December 2008. In this regard, the gross carrying amount was derecognised and the accumulated impairment was reversed accordingly.

22. INTANGIBLE ASSETS – GROUP

	Technical know-how HK$'000	Patents HK$'000	Total HK$'000
At January 2008			
Cost	–	–	–
Amortisation	–	–	–
Net carrying amount	–	–	–
Year ended 31 December 2008			
Opening net carrying amount	–	–	–
Acquisition of subsidiaries (note 42.2)	16,566	3,978	20,544
Amortisation	(569)	(99)	(668)
Exchange realignment	111	33	144
Closing net carrying amount	16,108	3,912	20,020
At 31 December 2008			
Cost	16,684	4,012	20,696
Accumulated amortisation	(576)	(100)	(676)
Net carrying amount	**16,108**	**3,912**	**20,020**

Notes to the Financial Statements

For the year ended 31 December 2008

23. INTEREST IN AN ASSOCIATE – GROUP

	2008 HK$'000	2007 HK$'000
Balance at 1 January	8,542	8,076
Exchange realignment	578	466
Disposal of subsidiaries (note 42.3)	(9,120)	–
Balance at 31 December	–	8,542

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

Name	Place of incorporation and kind of legal entity	Particulars of registered capital	Assets	Liabilities	Revenue	Profit	Percentage of interest held by the Group %	Principal activities and place of operations
嘉興市實達投資有限公司 (Jiaxing Shida Investment Co., Limited)	PRC, limited liability company	RMB20,000,000	2007: RMB20,899,131	2007: RMB899,131	2007: Nil	2007: Nil	40%	Property development in the PRC

24. PREPAYMENTS AND DEPOSITS – GROUP

	2008 HK$'000	2007 HK$'000
Deposits for management agreements	16,625	–
Prepayment for research and development projects	30,000	–
Other prepayments	–	466
	46,625	466

The deposits for management agreements are interest-free, unsecured and repayable in 2011.

Notes to the Financial Statements

For the year ended 31 December 2008

25. INVENTORIES – GROUP

	2008 HK$'000	2007 HK$'000
Motor vehicles and auto parts	–	127,782
Completed properties held for sale	–	22,500
Plush toys	59	52
Spare parts and other consumables	–	135
Bioorganic fertilizer	118	–
	177	150,469
Less: provision	–	(36,695)
	177	113,774

As at 31 December 2008, no inventories were pledged.

As at 31 December 2007, inventories with aggregate carrying amount of approximately HK$3,954,000 were pledged to secure bank borrowings granted to the Group.

At 31 December 2007, the completed properties held for sale were situated on leasehold land in the PRC with lease term of 56 years.

26. TRADE RECEIVABLES – GROUP

	2008 HK$'000	2007 HK$'000
Trade receivables	–	42,572
Less: Impairment of receivables	–	(25,367)
Trade receivables – net	–	17,205

Notes to the Financial Statements

For the year ended 31 December 2008

26. TRADE RECEIVABLES – GROUP *(Continued)*

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

	2008 HK$'000	2007 HK$'000
At 1 January	**25,367**	25,107
Written off	**(339)**	–
Reversal of impairment loss to the income statement	**–**	(1,187)
Impairment loss recognised	**316**	–
Exchange realignment	**1,716**	1,447
Disposal of subsidiaries	**(27,060)**	–
At 31 December	**–**	25,367

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

The ageing analysis of the trade receivables of the Group as at 31 December 2008, based on the invoice date and net of impairment, is as follows:

	2008 HK$'000	2007 HK$'000
0 – 30 days	**–**	11,687
31 – 60 days	**–**	1,788
61 – 90 days	**–**	374
91 – 180 days	**–**	645
Over 180 days	**–**	2,711
	–	17,205

Notes to the Financial Statements

For the year ended 31 December 2008

26. TRADE RECEIVABLES – GROUP *(Continued)*

The ageing analysis of trade receivables that are not impaired is as follows:

	2008 HK$'000	2007 HK$'000
Neither past due nor impaired	–	13,849
1 – 30 days past due	–	645
31 – 60 days past due	–	466
Over 60 days past due	–	2,245
	–	3,356
	–	17,205

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

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

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2008 HK$'000	2007 HK$'000
Renminbi ("RMB")	–	15,503

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For the year ended 31 December 2008

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayment to suppliers	**69**	67,176	**–**	–
Other receivables	**13,551**	26,510	**247**	448
Other prepayments	**13,977**	12,221	**245**	1,041
	27,597	105,907	**492**	1,489
Less: Impairment	**(14,707)**	(53,992)	**–**	(252)
	12,890	51,915	**492**	1,237

28. AMOUNTS DUE FROM/TO RELATED PARTIES/AN ASSOCIATE/A DIRECTOR

Group

	2008	2007
	HK$'000	HK$'000
Amount due from an associate	**–**	2,723
Amounts due from related parties		
– minority shareholders of subsidiaries	**–**	1,842
Amounts due to related parties		
– minority shareholders of subsidiaries	**245**	25,561
– close family member of a director	**850**	11,687
– subsidiaries of the substantial shareholder	**–**	10,119
	1,095	47,367
Amount due to a director	**1,779**	–

Notes to the Financial Statements

For the year ended 31 December 2008

28. AMOUNTS DUE FROM/TO RELATED PARTIES/AN ASSOCIATE/A DIRECTOR *(Continued)*

Company

	2008 HK$'000	2007 HK$'000
Amounts due to a related party		
– Loan from a subsidiary of the substantial shareholder	**–**	9,270

The above balances with related parties, an associate and a director are unsecured, interest free and have no fixed repayment terms.

29. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

As at 31 December 2008, pledged deposits and cash and cash equivalents of the Group denominated in RMB amounted to nil (2007: HK$76,533,000) and HK$3,838,000 (2007: HK$34,555,000) respectively. RMB is not freely convertible into other currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2008, no bank balance was frozen. As at 31 December 2007, bank balances totalling HK$30,292,000, equivalent to RMB28,370,000 were frozen pursuant to litigations as detailed in note 43, included in pledged bank deposits in the consolidated balance sheet.

30. TRADE PAYABLES – GROUP

The ageing analysis of the trade payables of the Group as at 31 December 2008, based on the invoice date, is as follows:

	2008 HK$'000	2007 HK$'000
0 – 30 days	**–**	28,631
31 – 60 days	**–**	985
61 – 90 days	**–**	615
91 – 180 days	**–**	585
Over 180 days	**–**	10,255
	–	41,071

Notes to the Financial Statements

For the year ended 31 December 2008

30. TRADE PAYABLES – GROUP *(Continued)*

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2008 HK$'000	2007 HK$'000
RMB	**–**	40,781

31. ACCRUALS AND OTHER PAYABLES – GROUP

	2008 HK$'000	2007 HK$'000
Deposits received from customers	**56**	12,283
Construction cost payables	**–**	30,042
Accrued staff costs	**1,153**	7,367
Other payables	**13,290**	141,351
Other accrued expenses	**13,461**	17,462
	27,960	208,505

32. PENSION AND OTHER POST RETIREMENT OBLIGATIONS – GROUP

Included in other payables were current obligations to various retirement benefits schemes (defined contribution plans) for Hong Kong and PRC employees.

	2008 HK$'000	2007 HK$'000
Current obligations on:		
– pension – defined contribution plans	**301**	370

There were no forfeited contributions during the year.

The employees employed by the subsidiaries located in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes in the respective provinces to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under these schemes.

Notes to the Financial Statements

For the year ended 31 December 2008

32. PENSION AND OTHER POST RETIREMENT OBLIGATIONS – GROUP *(Continued)*

The Group's Hong Kong employees are covered by the mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly contributions to the scheme at 5% of the employees' cash income with the maximum contribution by each of the Group and the employees limited to HK$1,000 per month.

The retirement benefit scheme cost charged to the income statement represents contributions incurred by the Group. During the year ended 31 December 2008, the Group's contributions were approximately HK$1,589,000 (2007: HK$2,634,000). There was no (2007: NIL) forfeited contribution used to offset the Group's contribution during the relevant period and there was no material forfeited contribution available as at the balance sheet dates to reduce the Group's contribution payable in future periods.

33. BORROWINGS – GROUP

	2008	2007
	HK$'000	HK$'000
Bank loans overdue	**–**	27,388
Bank loans repayable within one year	**–**	20,608
Other loans repayable within one year	**1,897**	6,322
Total borrowings	**1,897**	54,318

Total borrowings include other loans of HK$1,897,000 (2007: other loans and secured bank loans of HK$50,665,000) denominated in RMB. Bank loans were interest bearing at interest rates ranging from 5.040% to 7.722% in 2007, per annum.

The carrying amounts of short-term borrowings approximate their fair value.

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34. PROVISIONS – GROUP

	Legal claims	
	2008	2007
	HK$'000	HK$'000
Balance at 1 January	**7,828**	7,828
Disposal of subsidiaries (note 42.3)	**(7,828)**	–
Balance at 31 December	**–**	7,828

35. DEFERRED TAX

Deferred taxation is calculated on temporary differences under the liability method using the taxation rates prevailing in the countries in which the Group operates. As at 31 December 2008, the Group had no material deferred tax asset/liabilities (2007: Nil).

As at 31 December 2008, the Group had unused tax losses of HK$9,709,000 (2007: HK$63,024,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

Unused tax losses of HK$3,738,000 (2007: HK$57,054,000) will expire at various dates up to and including 2013. Other tax losses have no expiry date.

According to the new tax law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to investors incorporated in Hong Kong, or at a rate of 10% for other foreign investors. The Group had no deferred withholding tax liabilities as the PRC subsidiaries did not derive any profits for the year ended 31 December 2008.

Notes to the Financial Statements

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36. SHARE CAPITAL

	2008 Number of shares	2008 Amount HK$'000	2007 Number of shares	2007 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**30,000,000,000**	**3,000,000**	30,000,000,000	3,000,000
Issued and fully paid:				
At 1 January	**2,724,003,232**	**272,400**	2,444,243,232	244,424
Placement of shares during the year (note i)	**–**	**–**	241,860,000	24,186
Issue of right shares (note ii)	**2,724,003,232**	**272,400**	–	–
Employee share options scheme – proceeds from share issued (note iii)	**35,048,000**	**3,505**	37,900,000	3,790
At 31 December	**5,483,054,464**	**548,305**	2,724,003,232	272,400

Notes:

(i) On 6 July 2007, the Company entered into a placing agreement in relation to a placing of an aggregate of 241,860,000 new shares of HK$0.10 at a placing price of HK$0.258 per share. The placing shares issued during the year have the same rights as other ordinary shares of the Company in issue.

(ii) On 1 February 2008, the Company completed the rights issue of 2,724,003,232 right shares.

(iii) During the year, the issued share capital of the Company was increased due to the exercise of share options by the Directors and employees of the Company and other parties. Details of the share options exercised during the year are summarised in note 37. The shares issued during the year in relation to share options exercised have the same rights as other ordinary shares of the Company in issue.

Notes to the Financial Statements

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37. SHARE-BASED EMPLOYEE COMPENSATION

On 12 June 2003, the share option scheme adopted by the Company on 15 March 1995 was terminated and a new share option scheme (the "2003 Scheme") was adopted by the Company to comply with the new amendments to the Listing Rules in respect of share option schemes of a listed company.

The 2003 Scheme became effective on 12 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at the date of adoption of the 2003 Scheme. The offer of a grant may be accepted upon payment of HK$1 per acceptance. The exercise period of the share options granted is determinable by the board of directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options. The share options are vested at the date of grant and exercisable with 10 years from the date of grant. The exercise price will be determined by the board of directors, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; (ii) the average closing price of the Company's share as stated in the Stock Exchange's daily quotations sheets for trade in one or more board lots of shares for the five business days immediately preceding the date of the offer for grant which must be a business day; and (iii) the nominal value of the Company's shares. All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settled the options in cash.

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37. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

The particulars of the share option schemes of the Company are as follows:

For the year ended 31 December 2008

	Share option type	Number of share options						
		At 1 January 2008	Granted during the year	Reclassification during the year	Exercised during the year	Cancelled during the year	Adjustment due to rights issue	At 31 December 2008
Directors								
Dr. Yung Yeung	2000 (a)	10,000,000	–	–	–	–	1,140,000	11,140,000
	2000 (b)	21,570,000	–	–	–	–	2,458,980	24,028,980
	2005	10,000,000	–	–	–	–	1,140,000	11,140,000
	2008	–	27,000,000	–	–	–	–	27,000,000
Mr. Quan Liu	2008	–	27,000,000	–	–	–	–	27,000,000
Mr. Xiaolin Wang	2008	–	27,000,000	–	–	–	–	27,000,000
Mr. Wing Sang Hui, Wilson	2005	1,000,000	–	–	–	–	114,000	1,114,000
	2008	–	27,000,000	–	–	–	–	27,000,000
Dr. Shengliang Zhu	2005	–	–	16,710,000	–	–	–	16,710,000
Mr. Peiquan Chen	2008	–	5,000,000	–	–	(5,000,000)	–	–
Mr. Yury Royba	2008	–	5,000,000	–	–	(5,000,000)	–	–
Mr. Bangjie He	2008	–	2,000,000	–	–	–	–	2,000,000
Mr. Zheng Li, Jack	2008	–	2,000,000	–	–	(2,000,000)	–	–
Mr. Kwok Kit Ting, Johnny	2008	–	2,000,000	–	–	–	–	2,000,000
		42,570,000	124,000,000	16,710,000	–	(12,000,000)	4,852,980	176,132,980
Employees								
In aggregate	2000 (a)	4,800,000	–	–	–	(668,400)	547,200	4,678,800
	2000 (b)	9,400,000	–	–	–	(1,114,000)	1,071,600	9,357,600
	2004	18,472,000	–	–	–	(1,336,800)	2,105,808	19,241,008
	2005	61,500,000	–	(16,710,000)	(2,228,000)	–	7,011,000	49,573,000
	2008	–	111,000,000	–	(400,000)	(20,800,000)	–	89,800,000
		94,172,000	111,000,000	(16,710,000)	(2,628,000)	(23,919,200)	10,735,608	172,650,408
Other eligible persons								
In aggregate	2000 (b)	10,800,000	–	–	–	(12,031,200)	1,231,200	–
	2004	46,020,000	–	–	–	(51,266,280)	5,246,280	–
	2005	65,000,000	–	–	(32,420,000)	(16,710,000)	7,410,000	23,280,000
	2008	–	35,000,000	–	–	–	–	35,000,000
		121,820,000	35,000,000	–	(32,420,000)	(80,007,480)	13,887,480	58,280,000
TOTAL		**258,562,000**	**270,000,000**	**–**	**(35,048,000)**	**(115,926,680)**	**29,476,068**	**407,063,388**

Notes to the Financial Statements

For the year ended 31 December 2008

37. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

For the year ended 31 December 2007

	Share option type	Number of share options				
		At 1 January 2007	Exercised during the year	Reclassification during the year	Cancelled during the year	At 31 December 2007
Directors						
Dr. Yung Yeung	2000 (a)	10,000,000	–	–	–	10,000,000
	2000 (b)	21,570,000	–	–	–	21,570,000
	2005	10,000,000	–	–	–	10,000,000
Mr. Jun Li	2000 (b)	5,400,000	–	(5,400,000)	–	–
	2004	13,540,000	–	(13,540,000)	–	–
	2005	5,000,000	–	(5,000,000)	–	–
Mr. Chunhua Huang	2000 (b)	5,400,000	–	(5,400,000)	–	–
	2004	13,540,000	–	(13,540,000)	–	–
	2005	5,000,000	–	(5,000,000)	–	–
Mr. Yuwen Sun	2004	18,940,000	–	(18,940,000)	–	–
	2005	5,000,000	–	(5,000,000)	–	–
Mrs. Chizuko Kubo	2004	5,000,000	(5,000,000)	–	–	–
	2005	5,000,000	(5,000,000)	–	–	–
Mr. Wing Tak Law, Jack	2005	15,500,000	(4,500,000)	–	(11,000,000)	–
Mr. Ho Yip Lee	2005	5,000,000	(700,000)	–	(4,300,000)	–
Mr. Wing Sang Hui, Wilson	2005	–	–	1,000,000	–	1,000,000
		143,890,000	(15,200,000)	(70,820,000)	(15,300,000)	42,570,000
Employees						
In aggregate	2000 (a)	4,800,000	–	–	–	4,800,000
	2000 (b)	9,400,000	–	–	–	9,400,000
	2004	18,772,000	(300,000)	–	–	18,472,000
	2005	75,900,000	(12,400,000)	(1,000,000)	(1,000,000)	61,500,000
		108,872,000	(12,700,000)	(1,000,000)	(1,000,000)	94,172,000
Other eligible persons						
In aggregate	2000(b)	–	–	10,800,000	–	10,800,000
	2004	–	–	46,020,000	–	46,020,000
	2005	60,000,000	(10,000,000)	15,000,000	–	65,000,000
		60,000,000	(10,000,000)	71,820,000	–	121,820,000
TOTAL		312,762,000	(37,900,000)	–	(16,300,000)	258,562,000

Notes to the Financial Statements

For the year ended 31 December 2008

37. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Details of the share options are as follows:

Share option type	Date of grant	Exercisable period	Exercise price
2000 (a)	16 February 2000	16 February 2000 to 15 February 2010	HK$0.619*
2000 (b)	2 November 2000	2 November 2000 to 1 November 2010	HK$0.343*
2004	5 January 2004	26 January 2004 to 4 January 2014	HK$0.144*
2005	9 August 2005	29 August 2005 to 8 August 2015	HK$0.102*
2008	6 February 2008	6 February 2008 to 5 February 2018	HK$0.114

* Following the issue of right shares on 1 February 2008, the exercise prices of share options were adjusted from HK$0.690, HK$0.382, HK$0.160 and HK$0.114 to HK$0.619, HK$0.343, HK$0.144 and HK$0.102 respectively. The number of share option was also adjusted as a result of the issue of right shares.

Employee compensation expense of HK$14,455,000 (2007: Nil) has been included in the consolidated income statement for the year ended 31 December 2008. It gave rise to an equity compensation reserve. No liabilities were recognised due to equity-settled share-based payment transactions.

The fair value of the options granted during the year ended 31 December 2008 was determined using Binomial Option valuation model. Significant inputs into the model were as follows:

Share price	HK$0.112
Exercise price	HK$0.114
Expected volatility	117%
Expected option life (year)	10
Weighted average annual risk free interest rate	2.505%
Expected dividend yield	0%
Suboptimal exercise factor	1.5

The expected volatility represents the historical volatility of the price return of the ordinary shares of the Company.

Notes to the Financial Statements

For the year ended 31 December 2008

37. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Share options and weighted average exercise price for the years presented are as follows:

	2008		2007	
	Number	Weighted average exercise price HK$	Number	Weighted average exercise price HK$
Outstanding at 1 January	**258,562,000**	**0.202**	312,762,000	0.187
Granted	**270,000,000**	**0.114**	–	–
Exercised	**(35,048,000)**	**0.102**	(37,900,000)	0.120
Cancelled	**(115,926,680)**	**0.155**	(16,300,000)	0.114
Adjustment due to rights issue	**29,476,068**	**–**	–	–
Outstanding at 31 December	**407,063,388**	**0.151**	258,562,000	0.202

The share options exercised during the year resulted in an equal number of ordinary shares (see note 36) The weighted average share price of these shares at the date of exercise was HK$0.190 (2007: HK$0.320)

The share options outstanding at 31December 2008 had exercise price of HK$0.102 to HK$0.619 (2007: HK$0.114 to HK$0.690) and a weight average remaining contractual life of 7.4 years (2007: 6.1 years).

38. RESERVES

Group

	Share premium HK$'000	Translation reserve HK$'000	Equity compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 December 2008	**306,817**	**1,455**	**19,320**	**(645,180)**	**(317,588)**
At 31 December 2007	310,781	(12,477)	6,272	(680,386)	(375,810)

Notes to the Financial Statements

For the year ended 31 December 2008

38. RESERVES *(Continued)*

Company

	Share premium HK$'000	Contributed surplus HK$'000	Equity compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	270,761	94,601	7,576	(633,355)	(260,417)
Loss for the year	–	–	–	(43,472)	(43,472)
Issuance of new shares	38,214	–	–	–	38,214
Share issue expense	(272)	–	–	–	(272)
Proceeds from shares issued under share option scheme	2,078	–	(1,304)	–	774
At 31 December 2007 and 1 January 2008	310,781	94,601	6,272	(676,827)	(265,173)
Loss for the year	–	–	–	(99,351)	(99,351)
Issuance of new shares	–	–	–	–	–
Share issue expense	(5,446)	–	–	–	(5,446)
Recognition of equity settled share-based compensation	–	–	14,455	–	14,455
Proceeds from shares issued under share option scheme	1,482	–	(1,407)	–	75
At 31 December 2008	**306,817**	**94,601**	**19,320**	**(776,178)**	**(355,440)**

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

Notes to the Financial Statements

For the year ended 31 December 2008

38. RESERVES *(Continued)*

Under the applicable laws of Bermuda, the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium.

The translation reserve has been established and dealt with in accordance with the accounting policy adopted for foreign currency translation.

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

The equity compensation reserve was made in accordance to the adoption of HKFRS 2.

39. RELATED PARTY TRANSACTIONS

The executive directors represents the key management of the Group. During the year, the key management personnel compensations amounted to HK$14,507,000 (2007: HK$7,622,000). Further details of the remunerations to the executive directors are included in note 16 to the financial statements.

Save as disclosed above and elsewhere in the financial statement, the Group and the Company had no other related party transactions during the year (2007: Nil).

Notes to the Financial Statements

For the year ended 31 December 2008

40. COMMITMENTS

40.1 Capital commitments

As at 31 December 2008, the Group had the following commitments in respect of setting up a subsidiary in the PRC:

	2008 **HK$'000**	2007 HK$'000
Contracted but not provided for	**5,600**	Nil

40.2 Lease commitments

As at 31 December 2008, the total future minimum lease payments payable under non-cancellable operating leases in respect of rented premises of the Group are as follows:

	2008 **HK$'000**	2007 HK$'000
Within one year	**1,796**	8,124
After one year but within five years	**2,651**	23,742
Over five years	**–**	37,412
	4,447	69,278

As at 31 December 2008, the Group lease certain offices and factory premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years. None of the leases include contingent rentals.

For the year ended 31 December 2007, the operating lease commitments in respect of certain rented premises are subject to an additional premium based on a fixed percentage of the annual gross turnover and receipts in excess of a specific minimum rental amount that there is no fixed commitment for these leases.

The Company has no lease commitments as at 31 December 2008 (2007: Nil).

Notes to the Financial Statements

For the year ended 31 December 2008

41. BANKING FACILITIES

At 31 December 2008, the banking facilities of the Group were secured by bank deposit of HK$805,000.

At 31 December 2007, the banking facilities granted to the Group, were secured by the following:

(a) pledge of the Group's inventories of HK$3,594,000;

(b) pledge of the Group's bank deposit of HK$76,533,000; and

(c) joint corporate guarantees of HK$33,634,000 by a related party of minority shareholders and a subsidiary.

42. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES

42.1 On 23 May 2008, the Group entered into a share transfer agreement with an independent third party to acquire the entire equity interest in Jilin Shengshi Mining Limited and its subsidiary (collectively the "Jilin Shengshi Group"), at the consideration of RMB4,000,000 in cash. The acquisition of Jilin Shengshi Group was completed on 8 August 2008. Following the acquisition, the Group owned the entire equity interests in Jilin Shengshi Group and Jilin Shengshi Group became wholly owned subsidiaries of the Group.

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

	Fair values HK$'000	**Carrying amounts** HK$'000
Other receivables	5,494	5,494
Cash and cash equivalents	7	7
Other payables	(1,511)	(1,511)
	3,990	3,990
Net cash outflow arising on acquisition:		
Cash consideration paid		(4,560)
Cash and cash equivalents acquired		7
Net cash outflow from acquisition of subsidiaries		(4,553)

Notes to the Financial Statements

For the year ended 31 December 2008

42. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES *(Continued)*

42.1 *(Continued)*

Details of net assets acquired and goodwill are as follows:

	HK$'000
Total purchase consideration	4,560
Fair value of net assets acquired	3,990
Goodwill (note 21)	570

Jilin Shengshi Group did not contribute revenues but a net loss of HK$5,366,000 to the Group for the period from 8 August 2008 to 31 December 2008. If the acquisition of Jilin Shengshi Group had been completed on 1 January 2008, there was no impact to the Group's total revenue and the Group's profit for the year would have been HK$24,845,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

42.2 On 11 July 2008, the Group entered into a capital injection agreement with independent third parties to inject RMB39,000,000 (equivalent to HK$44,191,000) in cash to Beijing Century Wanyeyuan Bio-Engineering Company Limited and its subsidiary (collectively the "Beijing Century Group"). The capital injection in Beijing Century Group was completed on 18 September 2008 with an initial capital injection of HK$20,000,000. Following the capital injection, the Group owned 65% of the controlling interests in Beijing Century Group and Beijing Century Group become subsidiaries of the Group.

Notes to the Financial Statements

For the year ended 31 December 2008

42. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES *(Continued)*

42.2 *(Continued)*

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

	Fair values HK$'000	Carrying amounts HK$'000
Net assets acquired:		
Property, plant and equipment (note 17)	618	618
Intangible assets (note 22)	20,544	17,321
Inventories	203	203
Amount receivable from the Group	24,191	24,191
Other receivables	4,209	4,209
Cash and cash equivalents	22,084	22,084
Other payables	(3,928)	(3,928)
	67,921	64,698
Minority interests	(23,730)	
	44,191	
Net cash inflow arising on acquisition:		
Cash consideration paid		(20,000)
Cash and cash equivalents acquired		22,084
Net cash inflow from acquisition of subsidiaries		2,084

Details of net assets acquired and goodwill are as follows:

	HK$'000
Total purchase consideration	44,191
Fair value of net assets acquired	44,191
Goodwill	–

Beijing Century Group contributed revenues of HK$324,000 and a net loss of HK$1,130,000 to the Group for the period from 18 September 2008 to 31 December 2008. If the acquisition of Beijing Century Group had been completed on 1 January 2008, the Group's total revenue for the year would have been HK$380,238,000, and profit for the year would have been HK$24,484,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

Notes to the Financial Statements

For the year ended 31 December 2008

42. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES *(Continued)*

42.3 As mentioned in note 11, on 22 October 2008, the Group entered into a disposal agreement with an independent third party in respect of the disposal of the entire equity interests in Ningbo Meili Group at the consideration of RMB100. The disposal of Ningbo Meili Group was completed on 22 December 2008. The net liabilities of Ningbo Meili Group at the date of disposal were as follows:

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment (note 17)	49,317
Land use rights (note 18)	5,648
Interest in an associate (note 23)	9,120
Prepayments and deposits	406
Inventories	130,513
Trade receivables	8,899
Prepayments, deposits and other receivables	29,580
Amount due from an associate	3,420
Amounts due from related parties	11,259
Pledged deposits	65,427
Cash and cash equivalents	17,839
Trade payables	(50,763)
Accruals and other payables	(193,644)
Amounts due to related parties	(39,096)
Amount due to holding company	(68,781)
Borrowings	(44,631)
Bills payable	(112,209)
Provisions (note 34)	(7,828)
Tax payable	(361)
	(185,885)
Minority interests	(18,404)
	(204,289)
Write off of amounts due from Ningbo Meili Group	68,781
Release of translation reserve	21,613
Gain on disposal of subsidiaries (note 11.1)	113,896
Total consideration	1
Satisfied by	
Cash	1
Net cash outflow arising on disposal:	
Cash consideration	1
Cash and cash equivalents disposed of	(17,839)
Net cash outflow from disposal of subsidiaries	(17,838)

Notes to the Financial Statements

For the year ended 31 December 2008

42. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES *(Continued)*

42.3 *(Continued)*

Ningbo Meili Group contributed revenue of HK$373,790,000 and a net loss of HK$19,342,000 to the Group for the period from 1 January 2008 to 22 December 2008 (being the effective date of disposal).

42.4 For the year ended 31 December 2007, the Group disposed of its entire equity interest in Hygeia Land International Limited. Particulars of the disposal transaction were as follows:

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment (note 17)	54
Inventories	814
Trade receivables	121
Prepayment	10
Cash and cash equivalents	2,720
Trade payables	(1,702)
Accruals and other payables	(130)
Borrowings	(8,000)
	(6,113)
Gain on disposal of a subsidiary	6,114
Total consideration	1
Satisfied by	
Cash	1

Notes to the Financial Statements

For the year ended 31 December 2008

42. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES *(Continued)*

42.4 *(Continued)*

An analysis of net outflow of cash and cash equivalents in respect of the disposal of a subsidiary was as follows:

	HK$'000
Cash consideration	1
Cash and cash equivalents disposed of	(2,720)
Net cash outflow from disposal of a subsidiary	(2,719)

43. LEGAL PROCEEDINGS

The Group had no outstanding legal proceeding as at 31 December 2008.

As at 31 December 2007, the Group had the following outstanding legal proceedings:

(1) On 1 December 2003, the PRC joint venture partner ("Shanghai Partner") of Shanghai Whimsy Amusement Co., Ltd. ("Shanghai JV"), commenced proceedings against Shanghai JV alleging claims for guaranteed profits of approximately HK$454,000 (the "Guaranteed Profits"). A provision had been made in the financial statements in the year ended 31 December 2004 in respect of the Guaranteed Profits. According to the judgement delivered by the Shanghai No. 2 Intermediate People's Court ("Shanghai Court") in favour of the Shanghai Partner, the Shanghai Court ordered the freezing of the bank accounts of Shanghai JV for the payment of the Guaranteed Profit.

(2) On 4 November 2004, the PRC joint venture partner ("Wuxi Partner") of Wuxi Whimsy Amusement Co. ("Wuxi JV") commenced proceedings against Wuxi JV alleging claims of legal fee of approximately HK$94,000, together with the cancellation of the JV agreement and the liquidation of Wuxi JV. The proceedings were discontinued by the Wuxi Partner in 2006.

Notes to the Financial Statements

For the year ended 31 December 2008

43. LEGAL PROCEEDINGS *(Continued)*

(3) In 2005, Zhong Shi Television Purchasing Limited（中視電視購物有限公司）("Zhong Shi" or the "Plaintiff"), a customer of Ningbo Phoenix Automobile Distribution and Services Company Limited（寧波鳳凰汽車銷售服務有限公司）, a wholly owned subsidiary of the Company ("Ningbo Phoenix"), commenced legal proceedings against Ningbo Phoenix in Beijing No. 1 Intermediate People's Court (the "Beijing Court"). The Plaintiff alleged that Ningbo Phoenix was in breach of its obligations under a cooperation agreement and a supply agreement, both were entered into between the Plaintiff and Defendant on 5 July 2004 (collectively, the "2004 Agreements"). According to the 2004 Agreements, Ningbo Phoenix would supply MG Rover motor vehicles to the Plaintiff for three years, in the event that there were any material changes in the circumstances during the said period, the 2004 Agreements would be terminated and Ningbo Phoenix would repurchase the unsold motor vehicles from the Plaintiff and pay for the interests that should have been accrued on the sums intended for the purchase of the unsold motor vehicles. In May 2005, the manufacturer of MG Rover in England declared bankruptcy and the sales of MG Rover in the PRC were seriously affected accordingly. The Plaintiff considered that there was a material change in the circumstances and requested Ningbo Phoenix to terminate the 2004 Agreements and repurchase the unsold motor vehicles together with payment for the interests in accordance with the terms of the 2004 Agreements. Ningbo Phoenix refused such request and the Plaintiff commenced legal proceedings against Ningbo Phoenix and applied for the freezing of cash in the sum of RMB13,370,000 and other assets of Ningbo Phoenix, and sought the following orders from the Beijing Court:

1. the termination of the 2004 Agreements;

2. Ningbo Phoenix to repurchase 24 MG Rover motor vehicles at the price of RMB10,320,000;

3. Ningbo Phoenix to compensate the Plaintiff interests accrued in the sum of RMB3,050,000 arising from the funding of the purchase of 118 MG Rover motor vehicles; and

4. Ningbo Phoenix to be held liable for the expenses incurred in relation to this claim.

Notes to the Financial Statements

For the year ended 31 December 2008

43. LEGAL PROCEEDINGS *(Continued)*

(3) *(Continued)*

Zhong Shi also commenced another legal proceedings against Guangzhou Shenfei Automobile Sales and Services Company Limited（廣州申飛汽車銷售服務有限公司）("Guangzhou Shenfei"), a subsidiary of the Company (together with Ningbo Phoenix, the "Defendants") in the Beijing Court alleging that the Defendants were in breach of their obligations under a motor vehicles sales agreement and a sales services agreement both dated 11 January 2005 (the "2005 Sales Agreements"). According to the 2005 Sales Agreements, Guangzhou Shenfei agreed to repurchase 94 MG Rover motor vehicles during the period between 11 January 2005 and 28 February 2005 (the "Repurchase"), otherwise, Guangzhou Shenfei would be liable for liquidated damages of RMB7,520,000 (the "Liquidated Damages"). On the same date, Ningbo Phoenix also entered into a guarantee agreement (the "2005 Guarantee Agreement") in favour of the Plaintiff to guarantee the performance of Guangzhou Shenfei's obligations under the Repurchase and the payment of the Liquidated Damages. The Plaintiff alleged that the Defendants failed to perform the 2005 Sales Agreements and the 2005 Guarantee Agreement and applied for the freezing of the Defendants' bank accounts and assets including: two bank accounts of Ningbo Phoenix and one bank account of Guangzhou Shenfei; 51% interest in Shanghai Yitong Automobile Sales Co., Ltd（上海怡通汽車銷售有限公司）.; 51% interest in Shanghai Yitong Automobile Services Co., Ltd.（上海怡通汽車服務有限公司）; 51% interest in Shanghai Jiaoyun-Shengfei Automobile Sales and Service Co., Ltd.（上海交運聖飛汽車銷售有限公司）; 51% interest in Guangzhou Shenfei Automobile Sales and Services Co. Ltd.（廣州申飛汽車銷售有限公司）; 51% interest in Shanghai Huanya Zhongjin International Trade Co., Ltd.（上海環亞中進國際貿易有限公司）and 50% interest in Ningbo Huadu Real Estate Company Limited（寧波華都房地產有限公司）all of which were held by Ningbo Phoenix, and also sought for the following orders from the Beijing Court:

1. the performance of the 2005 Sales Agreements and the 2005 Guarantee Agreement;

2. Guangzhou Shenfei to purchase from the Plaintiff 94 MG Rover motor vehicles at the price of RMB40,420,000;

3. Guangzhou Shenfei to pay to the Plaintiff the Liquidated Damages of RMB7,520,000;

4. Ningbo Phoenix be held liable for the orders sought above; and

5. the Defendants be held liable for the expenses incurred in relation to this claim.

Notes to the Financial Statements

For the year ended 31 December 2008

43. LEGAL PROCEEDINGS *(Continued)*

(3) *(Continued)*

In December 2005, the Beijing Court delivered judgement in favour of the Plaintiff on the above cases and the Defendants appealed on the said judgement. In relation to the case involving the 2004 Agreements, the Beijing Superior People's Court（北京市高級人民法院）dismissed the appeal on 1 June 2006, upheld the judgement of the Beijing Court and ordered:

1. the discharge of the 2004 Agreements;

2. Ningbo Phoenix to repurchase 24 MG Rover 75 Model motor vehicles at the consideration of RMB10,320,000; and

3. Ningbo Phoenix to pay the interest accrued from 28 July 2005 up to the payment date to the Plaintiff.

In relation to the case involving the 2005 Agreements, the Beijing Superior People's Court（北京市高級人民法院）dismissed the appeal on 1 June 2006, upheld the judgement of the Beijing Court and ordered:

1. the performance of the 2005 Sales Agreements;

2. Guangzhou Shenfei to purchase 94 MG Rover 75 Model motor vehicles at the consideration of RMB40,420,000;

3. Guangzhou Shenfei to pay the Liquidated Damages of RMB7,520,000 to the Plaintiff;

4. Ningbo Phoenix be liable for the obligations of Guangzhou Shenfei regarding payment of purchase price of the 94 MG Rover motor vehicles and the Liquidated Damages; and

5. the costs of RMB249,710 and the assets preservation fees of RMB240,220 be paid by Guangzhou Shenfei and Ningbo Phoenix in equal shares.

Notes to the Financial Statements

For the year ended 31 December 2008

43. LEGAL PROCEEDINGS *(Continued)*

(4) On 7 March 2006, Ningbo Phoenix commenced legal proceedings against Zhong Shi at Shanghai No. 1 Intermediate People's Court (上海市第一中級人民法院) ("Shanghai Court"). Ningbo Phoenix alleged that Zhong Shi was in breach of its obligations under the cooperation agreement dated 5 July 2004 entered into between Ningbo Phoenix and Zhong Shi and claimed for compensation of loss from Zhong Shi in the sum of RMB17,564,080. In response to Ningbo Phoenix's application for preservation of assets of Zhong Shi pending appeal, the Shanghai Court granted a civil award to freeze the cash and assets held by Zhong Shi, including 41 MG Rover 75 model motor vehicles. On 19 April 2006, the Shanghai Court ruled in favour of Zhong Shi in relation to its opposition based on the ground of inappropriate jurisdiction and transferred the case to the Beijing Court for handling. On 23 August 2006, the appeal by Ningbo Phoenix on the ruling of Shanghai Court in relation to inappropriate jurisdiction was dismissed by Shanghai City Superior People's Court (上海市高級人民法院).

On 17 April 2007, the Beijing Court opened a court session for the case for Ningbo Phoenix as the Plaintiff, commenced legal proceedings against Zhong Shi in Beijing Court that Ningbo Phoenix alleged that Zhong Shi was in breach of its obligations under the 2004 Agreements and claimed for compensation of loss from Zhong Shi in the sum of RMB17,564,000. In August 2007, the Beijing Court delivered judgement in favour of Zhong Shi and the allegation of Ningbo Phoenix was overridden. The Beijing Court has ordered Ningbo Phoenix to pay court costs of RMB97,000 and asset preservation fees of RMB88,000.

(5) On 7 December 2005, Shenzhen Shin Dai Dong Air-Conditioning Limited (深圳市新大東空調有限公司) commenced arbitration proceedings against Guangzhou Shenfei for payment of purchase price for goods amounting to RMB279,242 and liquidated damages of RMB13,962 at the Guangzhou Arbitration Commission ("GAC"). The hearing was held on 13 March 2006 and an award was made in favour of Shenzhen Shin Dai Dong Air-Conditioning Limited and Guangzhou Shenfei was ordered to pay the said purchase price and liquidated damages. On 22 December 2006, the Guangzhou City Liwen District People's Court (廣州市荔灣區人民法院) granted a civil award to freeze, attach and seize assets of Guangzhou Shenfei in the amount of RMB293,204.

Notes to the Financial Statements

For the year ended 31 December 2008

43. LEGAL PROCEEDINGS *(Continued)*

(6) On 21 November 2005, Xin Xing Construction Company (新興建築工程公司) commenced arbitration proceedings against Guangzhou Shenfei for payment of a fee of RMB4,156,299 pursuant to a construction agreement at the GAC. The hearing was held on 9 May 2006 and award has been made in favour of the plaintiff of RMB3,030,769.

(7) On 17 January 2006, Shanghai Mei Shu Design Co. (上海美術設計公司), commenced legal proceedings against Guangzhou Shenfei for payment of project fee of RMB3,948,269. Judgement in favour of Shanghai Mei Shu Design Co. was delivered on 9 April 2006. Guangzhou Shenfei appealed to the Court of Second Instance and the hearing was held on 14 July 2006. Final judgement was delivered on 18 August 2006 to uphold pervious judgement.

(8) On 17 January 2006, Shanghai Long Bok Construction Development Co., Ltd. (上海龍博建設發展有限公司), commenced legal proceedings against Guangzhou Shenfei for payment of project fee of RMB1,130,056. On 14 April 2006, judgement in favour of Shanghai Long Bok Construction Development Co., Ltd. in the amount of RMB812,000 was delivered. Guangzhou Shenfei appealed to the Court of Second Instance and the hearing was held on 14 July 2006. Final judgement was delivered on 18 August 2006 to uphold previous judgement.

(9) On 6 March 2006, Industrial Bank, Guangzhou Branch (興業銀行廣州分行) (the "Bank"), commenced two legal proceedings against Guangzhou Shenfei and six guarantors in relation to Guangzhou Shenfei's failure to repay a loan in the sum of RMB15,000,000. The Bank sought for an order that:

1. Guangzhou Shenfei to repay the loan in the sum of RMB15,000,000 together with interests accrued thereon;

2. the six guarantors (including Ningbo Phoenix) be liable for the obligations of Guangzhou Shenfei under the loan arrangement; and

3. Guangzhou Shenfei and the six guarantors be liable for all costs and expenses incurred in relation to the proceedings and the assets preservation fee.

The Guangdong Province Guangzhou City Intermediate People's Court (廣東省廣州市中級人民法院) granted a civil award on 31 March 2006 to freeze the bank accounts and assets of Guangzhou Shenfei and the six guarantors, each in an amount of RMB15,000,000 and also attached and seized their assets of an equivalent value.

Notes to the Financial Statements

For the year ended 31 December 2008

43. LEGAL PROCEEDINGS *(Continued)*

(9) *(Continued)*

The two proceedings were heard together on 31 July 2006. Judgements in favour of the Bank were delivered on 22 August 2006 (the "Judgement"), details as follows:

1. Guangzhou Shenfei to repay the loan in the sum of RMB15,000,000 together with interest accrued thereon;

2. The six guarantors (including Ningbo Phoenix) be liable for the obligations of Guangzhou Shenfei under the loan arrangement; and

3. Guangzhou Shenfei and the six guarantors be liable for all costs and expenses incurred in relation to the proceedings and the assets preservation fee.

On 12 December 2007, the Guangdong Province Superior People's Court (廣東省高級人民法院) issued a designated execution order (指定執行決定書) and authorized Yang Jiang City Jiang Cheng District People's Court (陽江市江城區人民法院) to execute the Judgements of the Guangdong Province Guangzhou City Intermediate People's Court.

On the 18 February 2008, the Yang Jiang City Jiang Cheng District People's Court ordered Guangzhou Shenfei and the six guarantors to:

1. report their current financial position; and

2. to fulfill their obligations in connection with the Judgements.

Guangzhou Shenfei and the six guarantors have reported their financial information and no further action has been taken by to Yang Jiang City Jiang Cheng District People's Court up to the date of this report.

Notes to the Financial Statements

For the year ended 31 December 2008

43. LEGAL PROCEEDINGS *(Continued)*

(10) On 14 March 2006, Guangzhou City Liwen District Shareholding Economic Association（廣州市荔灣區中南街海南股份經濟聯合社）as plaintiff, commenced legal proceedings against Guangzhou Shenfei in relation to a tenancy agreement at the Guangzhou City Liwan District People's Court（廣州市荔灣區人民法院）. On 28 March 2006, the court granted a civil award that the assets of Guangzhou Shenfei in the sum of RMB2,500,000 be attached, seized and frozen. The court also handed down judgement in favour of the plaintiff on 6 June 2006 and ordered:

1. the discharge of the tenancy agreement made between the parties;

2. Guangzhou Shenfei to deliver vacant possession of the land in dispute to the plaintiff;

3. possession of the buildings erected on the land in dispute be delivered to the plaintiff;

4. Guangzhou Shenfei to pay (i) the outstanding rent for the period from 15 September 2005 to the date of delivery of possession (at the rate of RMB216,512 per month); (ii) damages on the outstanding rent (from 15 September 2005 to the date of full repayment at 1% of the outstanding rent per day, subject to a maximum amount equivalent to the outstanding rent); and (iii) the court costs in the sum of RMB30,608 and claim preservation fees in the sum of RMB13,020.

Guangzhou Shenfei appealed to the Guangzhou Intermediate People's Court（廣州中級人民法院）and the hearing was held on 13 September 2006. Final judgement was made on 8 October 2007 as follows:

1. Discharge of the tenancy agreement made between the parties;

2. Guangzhou Shenfei to pay the outstanding rent for the period from 15 September 2006 to the date of delivery of possession (at the rate of RMB216,512 per month);

3. Guangzhou Shenfei to pay the damages on the outstanding rent (from 15 September 2006 to the date of full repayment at 1% of the outstanding rent per day, subject to a maximum amount equivalent to the outstanding rent);

4. Guangzhou Shenfei to deliver vacant possession of the land in dispute to the plaintiff;

5. Guangzhou Shenfei to pay the claim preservation fees in the sum of RMB39,506.

Notes to the Financial Statements

For the year ended 31 December 2008

43. LEGAL PROCEEDINGS *(Continued)*

(11) On 14 April 2005, Zhenjiang Dong Lian Storage Company Limited（鎮江東聯倉儲設備有限公司）as plaintiff, commenced legal proceedings against Guangzhou Shenfei for payment of a sum of RMB132,540 being fees for services rendered and RMB9,100 of overdue interests in relation to a services agreement at Jiangsu Province Zhenjiang City Jingkou District People's Court（江蘇省鎮江市京口區人民法院）. The court ruled in favour of the plaintiff and assets in the sum of RMB148,000 of Guangzhou Shenfei have been attached, seized and frozen.

(12) On 21 February 2006, Shandong Yantai Da Cheng Company（山東煙台大成公司）, commenced legal proceedings against Guangzhou Shenfei for payment of a sum of RMB1,000,000 and overdue penalties of RMB76,650 in relation to a sale and purchase of motor vehicles. On 27 February 2006, Shandong Province Yantai Zhifu District People's Court（山東省煙台市芝罘區人民法院）ordered that the deposit of RMB1,000,000 in the bank account of Guangzhou Shenfei be frozen or other assets of equivalent value be attached, seized and frozen pending hearing.

The obligations and the expected outflows of economic benefits in respect of the above legal proceedings have been provided for in the financial statements for the year ended 31 December 2007.

44. POST BALANCE SHEET EVENTS

44.1 Proposed acquisition of 80% equity interest in Alabama Center for Foreign Investment, LLC ("ACFI")

Subsequent to balance sheet date, the Group and independent third parties entered into an equity swap agreement, as supplemented by a supplemental agreement entered into by the same parties on 25 March 2009, whereby the Group agreed to purchase 80% of the equity interest in ACFI on 24 March 2009 (the "Acquisition").

ACFI is a limited liability company established in the Sate of Alabama in the United States of America (the "U.S."). It is principally engaged in the provision of management consulting services for foreign investors relating to investments in qualified projects in the State of Alabama and ACFI has been designated by the U.S. Citizenship and Immigration Services of the US Department of Homeland Security as regional center for the State of Alabama to participate in the Immigration Investor Pilot Programme.

Notes to the Financial Statements

For the year ended 31 December 2008

44. POST BALANCE SHEET EVENTS *(Continued)*

44.1 Proposed acquisition of 80% equity interest in Alabama Center for Foreign Investment, LLC ("ACFI") *(Continued)*

The consideration of the Acquisition was HK$7,800,000. It will be satisfied by the issue and allotment of 78,000,000 consideration shares by the Company at the issue price of HK$0.1. It is pursuant to the existing general mandate which was granted by the shareholders of the Company at an annual general meeting on 28 May 2008. Details of the proposed investment in ACFI have been set out in the Company's announcement dated 30 March 2009. As at the date of this report, the acquisition of ACFI was still conditional and not yet completed.

44.2 Set up of Hybrid Kinetic Motors Corporation

Subsequent to balance sheet date, the Group intends to explore business opportunities in the automobile industry in the U.S. through the setting up of a wholly-owned subsidiary, namely Hybrid Kinetic Motors Corporation in the State of Delaware, the U.S.. Details of the potential investment in Hybrid Kinetic Motors Corporation have been set out in the Company's announcement dated 31 March 2009.

44.3 Removal of a director

Subsequent to balance sheet date, Mr. Xiaolin Wang ("Mr. Wang"), a director during the year, ceased to be the chief executive officer and the authorised representative of the Company with effect from 23 March 2009 and all positions held by Mr. Wang with the Group were co-terminated on the same day.

On 8 April 2009, the Company received an e-mail from Mr. Wang about notice of resignation and cited certain allegations (the "Allegations") which allegedly led to his decision to resign. The Group has commenced civil litigation against Mr. Wang and is pending in the United States District Court for the Northern District of Mississippi. An independent committee is established and authorised to take all steps which it considers necessary to investigate each of the Allegations.

Notes to the Financial Statements

For the year ended 31 December 2008

44. POST BALANCE SHEET EVENTS *(Continued)*

44.3 Removal of a director *(Continued)*

On 15 April 2009, a resolution, regarding the removal of Mr. Wang from the office of executive directorship with effect from 15 April 2009, was duly passed by the shareholders at a special general meeting by way of poll.

Details of the removal of Mr. Wang have been set out in the Company's announcements dated 15 March 2009, 23 March 2009, 9 April 2009 and 15 April 2009 and the Company's circular dated 27 March 2009.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimizing the exposure to financial markets. Long term financial investments are managed to generate lasting returns. The most significant financial risks to which the Group is exposed to are described below.

(a) Interest rate risk

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's floating interest rates borrowings and bank balances. The Group does not actively engage in derivative financial instruments to hedge its interest rate risk.

At 31 December 2008, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax by approximately HK$889,000 (2007: increase/decrease loss after tax by HK$124,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence for the whole year. The 50 basis points increase or decrease represents management's assessment of reasonably possible change in interest rates over the period until the next annual balance sheet date. The same basis of analysis also performed at 31 December 2007.

Notes to the Financial Statements

For the year ended 31 December 2008

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Credit risk on cash and cash equivalents is mitigated as bank balances were deposited in banks of high credit ratings.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

(c) Foreign currency risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to RMB. Foreign exchange risk arises from commercial transactions and recognised assets and liabilities. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Substantial portion of the Group's revenue and costs are denominated in RMB. Thus, when RMB strengthens in value against the HK$, as has occurred in 2008 and 2007, the Group's operating margins were positively impacted. The Group currently does not have a foreign currency hedging policy.

Notes to the Financial Statements

For the year ended 31 December 2008

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Foreign currency risk *(Continued)*

A 5% strengthening/weakening of HK$ against RMB as at the respective balance sheet dates would increase/(decrease) profit/(loss) after income tax (due to changes in the fair value of monetary assets and liabilities) by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2008 HK$'000	2007 HK$'000
Effect on profit/(loss) for the year:	Increase	Decrease
5% strengthening in HK$	184	(4,464)
	Decrease	Increase
5% weakening in HK$	(184)	4,464

(d) Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified monthly.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

Notes to the Financial Statements

For the year ended 31 December 2008

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Liquidity risk *(Continued)*

As at 31 December 2008 and 31 December 2007, the Group's financial liabilities have contractual maturities which are summarised below:

	Overdue HK$000	Repayable on demand HK$000	1 – 3 months HK$000	4 – 6 months HK$000	7 – 12 months HK$000	Total HK$000
At 31 December 2008						
Other payables	**–**	**13,290**	**–**	**–**	**–**	**13,290**
Amounts due to related parties	**–**	**1,095**	**–**	**–**	**–**	**1,095**
Amount due to a director	**–**	**1,779**	**–**	**–**	**–**	**1,779**
Borrowings	**–**	**–**	**1,897**	**–**	**–**	**1,897**
	–	**16,164**	**1,897**	**–**	**–**	**18,061**
At 31 December 2007						
Trade payables	–	–	30,231	585	10,255	41,071
Other payables	–	141,351	–	–	–	141,351
Amounts due to related parties	–	47,367	–	–	–	47,367
Borrowings	27,388	–	–	9,526	17,404	54,318
Bills payable	1,228	–	102,907	10,678	9,610	124,423
	28,616	188,718	133,138	20,789	37,269	408,530

The Group's policy is to regularly monitor current and expected liquidity requirement to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer terms.

Notes to the Financial Statements

For the year ended 31 December 2008

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Liquidity risk *(Continued)*

As at 31 December 2007, the Group had net current liabilities of HK$145,467,000 and capital deficiency of HK$77,402,000. The liquidity of the Group was primarily dependent on:

(i) its ability to maintain adequate cash inflow from operations to meet its debt obligations,

(ii) the fund raising activities of the Group. During the year ended 31 December 2008, the Group had completed a placement of new shares and a rights issue. Please refer to note 36 for the particulars of the fund raising activities.

(e) Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at 31 December 2008 and 2007 may be categorised as follows. See notes 3.13 and 3.20 for explanations about how the category of financial instruments affects their subsequent measurement.

(i) Financial assets

	2008 HK$'000	2007 HK$'000
Loans and receivables:		
Trade receivables	**–**	17,205
Other receivables	**10,224**	25,535
Amount due from an associate	**–**	2,723
Amounts due from related parties	**–**	1,842
Cash and cash equivalents	**178,809**	77,337
Pledged bank deposits	**805**	76,533
	189,838	201,175

Notes to the Financial Statements

For the year ended 31 December 2008

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(e) Summary of financial assets and liabilities by category *(Continued)*

(ii) Financial liabilities

	2008 HK$'000	2007 HK$'000
Financial liabilities at amortised cost:		
Trade payables	**–**	41,071
Other payables	**13,290**	141,351
Amounts due to related parties	**1,095**	47,367
Amount due to a director	**1,779**	–
Borrowings	**1,897**	54,318
Bills payable	**–**	124,423
	18,061	408,530

46. CAPITAL MANAGEMENT

The Group's capital management objectives are:

(i) to ensure the Group's ability to continue as a going concern; and

(ii) to provide an adequate return to shareholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount dividends paid to shareholders, return capital to shareholders and issue new shares to reduce debt level.

For capital management purpose, the management regard the total equity presented in the face of balance sheet as capital.

Financial summary

For the year ended 31 December 2008

The consolidated results and assets and liabilities of the Group for the past five years are as follows:

Results

	Year ended 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Revenue					
Continuing operations	6,758	1,046	1,208	582	**1,015**
Discontinued operations	–	315,039	862,952	919,723	**373,790**
	6,758	316,085	864,160	920,305	**374,805**
Operating profit/(loss) before taxation					
Continuing operations	(44,357)	(148,437)	(45,033)	(18,298)	**(69,141)**
Discontinued operations	–	(79,586)	(70,802)	6,244	**95,138**
	(44,357)	(228,023)	(115,835)	(12,054)	**25,997**
Income tax expense					
Continuing operations	–	(6)	(2)	(2)	**(12)**
Discontinued operations	–	3,530	(363)	(9,129)	**(584)**
	–	3,524	(365)	(9,131)	**(596)**
Profit/(loss) for the year					
Continuing operations	(44,357)	(148,443)	(45,035)	(18,300)	**(69,153)**
Discontinued operations	–	(76,056)	(71,165)	(2,885)	**94,554**
	(44,357)	(224,499)	(116,200)	(21,185)	**25,401**
Profit/(Loss) attribute to equity holders of the Company	(40,915)	(218,223)	(88,163)	(30,687)	**35,206**
Minority interests	(3,442)	(6,276)	(28,037)	9,502	**(9,805)**
	(44,357)	(224,499)	(116,200)	(21,185)	**25,401**

Financial summary

For the year ended 31 December 2008

Assets and liabilities

	Year ended 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Total assets	133,024	365,581	365,458	409,394	**285,780**
Total liabilities	14,508	358,256	481,550	486,796	**32,731**
	118,516	7,325	(116,092)	(77,402)	**253,049**
Equity attribute to equity holders of the Company	106,457	(41,031)	(133,125)	(103,410)	**230,717**
Minority interests	12,059	48,356	17,033	26,008	**22,332**
	118,516	7,325	(116,092)	(77,402)	**253,049**