South China (China) Limited

Incorporated in the Cayman Islands with limited liability

Stock Code : 413

ANNUAL REPORT

2008

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Hung Sang (*Chairman*)
Ms. Cheung Choi Ngor (*Vice-Chairman and Chief Executive Officer*)
Mr. Richard Howard Gorges (*Vice-Chairman*)
Mr. Ng Yuk Fung, Peter

Non-Executive Director

Ms. Ng Yuk Mui, Jessica

Independent Non-Executive Directors

Ms. Li Yuen Yu, Alice
Mr. Chiu Sin Chun
Mrs. Tse Wong Siu Yin, Elizabeth

AUDIT COMMITTEE

Ms. Li Yuen Yu, Alice (*Committee Chairman*)
Mr. Chiu Sin Chun
Mrs. Tse Wong Siu Yin, Elizabeth

REMUNERATION COMMITTEE

Mrs. Tse Wong Siu Yin, Elizabeth (*Committee Chairman*)
Mr. Chiu Sin Chun
Ms. Li Yuen Yu, Alice

COMPANY SECRETARY

Mr. Cheng Man Kwong

AUDITORS

Ernst & Young
Certified Public Accountants

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited
Chong Hing Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
China Construction Bank Corporation
DBS Bank (Hong Kong) Limited
Nanyang Commercial Bank, Limited
Bank of Communications Co., Ltd.
Dah Sing Bank, Limited

REGISTERED OFFICE

Scotia Centre, 4th Floor
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

28th Floor, Bank of China Tower
1 Garden Road, Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

413

WEBSITE

http://www.sctrade.com

Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of South China (China) Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008.

FINANCIAL SUMMARY

The Group recorded turnover of HK$1.9 billion and profit attributable to the equity holders of the Company of HK$78.0 million for the year ended 31 December 2008, representing a decrease of 81% in profits over the results in 2007.

DIVIDEND

The Board proposes the payment of a final dividend of HK0.08 cents (2007: HK1.00 cents) per share, totaling approximately HK$2.12 million (2007: HK$26.5 million) in respect of the year ended 31 December 2008 to the shareholders whose names appear on the register of members of the Company on 9 June 2009.

Subject to the approval by the shareholders of the final dividend at the forthcoming annual general meeting of the Company, the final dividend will be paid on or about 8 July 2009.

BUSINESS REVIEW

Trading and Manufacturing

The segment recorded a 9% reduction in turnover to HK$1.88 billion and an operating profit of HK$53.7 million, a decrease of 29% as compared to HK$75.8 million in 2007.

The year 2008 was a very tough year for manufacturers. In the first half of last year, profit margins were eroding by the appreciation of Renminbi, high labour costs and spiraling commodity prices. In the later part of the year, the collapse of the giant financial institutions in the US spiked the downturn of the US consumer market. In face of the unpredictable adverse impacts on both costs and a weaker consumer market, our management team took a more conservative approach in bidding for new products to try to ensure a reasonable gross profit margin and that accounted for the substantial reduction in turnover from our toys segment. As compared to 2007, the turnover of our toys business reduced from HK$1.5 billion to HK$1.2 billion in 2008. Our shoe manufacturing operation, however, had a year-on-year increase in turnover by 14%.

Overall our manufacturing operations of toys, electronics and shoes made reasonable operating profits in spite of the severely adverse market conditions through a series of stringent overhead and material costs control measures during last year. The Group's other smaller size trading and manufacturing operations in Tianjin and Nanjing are focused on domestic sales and recorded minor losses.

Property Investment and Development

Investment properties

Early last year, our Group expanded its interests in the PRC by increasing our controlling stake in certain joint ventures that hold sizeable property sites within the central district in Nanjing. The value of net assets attributable to the Group acquired, including investment properties, prepaid land lease payments and leasehold buildings, all being at fair value, exceeds the consideration paid for the acquisition, giving rise to an excess over the cost of business combination of HK$172.8 million recognised.

The 25% rise in turnover from our investment properties was the effect of consolidating the rental income from those subsidiaries after our increase in controlling interests, together with an increase in rental on renewal of tenancies for our local properties. The investment property segment reported a HK$11.4 million rental profit and recognised a fair value gain of HK$31.9 million for the year.

Our share of profits of the Group's 30% owned principal associate that holds the Grade-A commercial building in Central, The Centrium, reflected a 32% increase in rental income as a result of the great demand for office space in a prime location. The fair value change on the property however was a net loss of HK$18.5 million on revaluation at the year-end (2007: a net gain of HK$193.5 million) which rendered the share of results of associates for the year 2008 to a net loss position.

Development properties

The Group's property development projects are mainly in China and held under South China Land Limited 南華置地有限公司, a subsidiary listed in the GEM Board. The development projects are all construction in progress at the present stage and have not contributed any turnover or profits to the Group yet.

Shenyang property project

Despite the cooling of the property market in China, the demand for commercial property in Shenyang remains strong, especially in the prime commercial area where we are located. Our major property development project, the building of the upscale 7-storey shopping complex, Fortuna Plaza (formerly known as South China Landmark Plaza), is well underway. The principal contractor was appointed during the third quarter of 2008 and at the end of 2008 construction up to the ground floor was partially completed. The construction of the upper levels is now progressing on schedule. We have commenced the marketing campaign for the project which looks promising on testing of the market interest so far.

Cangzhou/Hebei property projects

Since signing our first Hebei project in 2007 of 420,000 square metres site area in Zhongjie (中捷), we signed an additional three projects in the Tianjin-Bohai Coastal Economic Development Zone in the year 2008. Specifically, we have a further 866,000 square metres of site area for a high-class commercial/residential development project in Zhongjie, a framework agreement for a development project of 450,000 square metres of site area in the commercial district of Huanghua (黃驊市) and a development project in the commercial district of Nandagang (南大港) for 620,000 square metres of site area.

Our phase one pilot relocation and redevelopment project in Zhongjie performed within expectation last year. The 6,000 square metres of site area was successfully demolished and existing tenants relocated, with 89% of the available units were sold up to the end of December 2008. With the construction work expected to complete in April 2009, we are confident to continue this business model for the remaining areas of the project.

The relocation projects in the commercial district of Nandagang (南大港) have been put on hold as the negotiation with local government regarding the terms of the project is under review. However, we are open to any option to resume the projects if the forecasted return meets our expectation.

Chongqing Nanchuan (重慶南川) property project

During the year, we also signed a preliminary agreement with Chongqing Nanchuan Municipal Government in relation to a property development project that covers up to 13,334,000 square metres of suburban area in Chongqing. The project includes development and construction of new and modern agricultural estates, agricultural related tourism centre, country parks and hot springs holiday resorts. Details of the development plans are still under negotiation.

Agriculture and Woods

Our expansion into the forestry business last year has been re-focused on higher quality land that is closer to the populated areas of Chongqing as well as Wuhan and Xi'An. During the financial crisis in the second half of the year, many sizeable competitors for forestry land pulled out of the market, leaving us with a better selection of land available. We continue to face pressure of rising acquisition price as time goes on despite the financial crisis, and we expect the asking price to continue to increase in the foreseeable future.

Our agricultural business units reported an operating loss of HK$15.5 million for last year, before a fair value gain on revaluation of the biological assets of HK$5.9 million, as they are largely at investment stage. The loss for the year mainly attributable to the initial costs of the newly established Chongqing, Wuhan and Xi'An units. Our first crop in Hebei province of the winter dates plantation was realised in the year producing a minor gross profit margin for the year. Although this is only the first crop of the farm with the majority of the crops in the investment stage, it is a promising indicator for the outlook of the fruit plantation overall.

In view of the increasing demand and rising sales prices for agricultural produce in the Mainland, the segment will be a main growth direction in the foreseeable future as we continue to expand our current portfolio of farmlands and woodlands. Backed by the current government macro policies to transform massive rural area in realisation of its commercial market value in the Mainland, it is expected that our agricultural operations will bring new business opportunities to the Group. In Guangzhou, we are now in the process of negotiating with the local government on the usage conversion of our lychee farmland there. If it was materialised, those farmlands could be converted to development sites (建設用地) for commercial constructions and usage.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group had a current ratio of 1.2 and a gearing ratio of 14.8% (31 December 2007: 1.2 and 10.4% respectively). The gearing ratio is computed by comparing the Group's total long-term bank and other borrowings of HK$281.8 million to the Group's equity of HK$1,907.6 million. The Group's operations and investments continue to be financed by internal resources and bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2008, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

CAPITAL STRUCTURE

The Group had no debt securities or other capital instruments, except the outstanding warrants as at 31 December 2008 and up to the date of this Annual Report. As compared to the 2007 Annual Report, there was no material change in the Group's capital structure.

MATERIAL ACQUISITIONS AND DISPOSALS

In January 2008, the Group acquired the controlling stake in certain associates of the Group at a total cash consideration of RMB55.8 million through the acquisition of the entities set out below:

a) the entire interest in 南京第二壓縮機有限公司, which is engaged in property holding and manufacturing of compressor;

b) the entire interest in 南京電機有限公司, which is engaged in property holding and trading of flowers; and

c) 85% interest in 南京液壓件二廠有限公司, which is engaged in property holding and has a 49% owned associate engaged in manufacturing of hydraulic press.

The Group recognised a gain of HK$172.8 million on acquisition.

PLEDGES OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2008, a significant portion of the borrowings was for normal trading purposes with the level of borrowings depending on the level of trading and investing activities. Certain of the property, plant and equipment and investment properties of the Group are pledged to secure the banking facilities.

Details of the Group's contingent liabilities and pledges of assets are set out in notes 48 and 49 of the financial statements.

INVESTMENTS

For the year ended 31 December 2008, available-for-sale financial assets increased moderately from HK$38.1 million to HK$44.3 million and financial assets at fair value through profit or loss decreased from HK$54.5 million to HK$10.9 million.

EMPLOYEES

As at 31 December 2008, the total number of employees of the Group was approximately 18,100 (2007: 25,100). Employees' cost (including directors' emoluments) amounted to approximately HK$589.5 million for the year (2007: HK$579.2 million).

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidized training programmes are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. The Company adopted a share option scheme which came into effect on 18 June 2002.

PROSPECTS

Trading and Manufacturing

We expect the year 2009 is still a challenging year to the Group's manufacturing operations. The overall market demand worldwide will be weakened especially in the first half of the year due to poor spending sentiment amidst the lingering economic slump. High-priced products will move much slower as compared to those basic categories. Keener price competition among manufacturers on middle to low-end items may squeeze profit margins.

The Group is cautiously optimistic as to the ongoing performance of our two main manufacturing units Wah Shing Toys (WST) and Tianjin South China Shoes. WST has run an aggressive lean program to rationalise organisation structure and manufacturing activities in improving operational efficiency with the help of implementing the new enterprise resource planning (ERP) system. Late last year, it laid the foundation of original design manufacturing (ODM) business with a few new ventures successfully launched in the market. We hope to capitalise our strength in research and development on expanding our ODM capacity in the creation of new consumer products that will give us greater growth momentum in the coming years. Likewise, our shoe manufacturing unit in Tianjin is anticipated to keep up with its steady growth this year with its strong management team and tight long-term relationship with its customers, of which, one is the biggest consumer product retailer in the world.

Barring unforeseen circumstances, we expect this segment to record better results in 2009 than the previous year.

Property Investment and Development

The acquisition of an equity stake in our Nanjing's property portfolio is expected to bring further increase in rental income as well as high development value to the Group in the coming years. Given time for renovation and restructuring the tenant mix, it will bring greater returns to the Group in the foreseeable future.

We anticipate long-term growth in demand in the PRC consumer/retail market, especially in the second tier PRC cities, which will provide excellent investment opportunities to the Group. The demand for commercial properties remains strong and the expected return from the property market of PRC will be promising.

For the development of Fortuna Plaza in Shenyang, the construction progress of the shopping complex is satisfactory and is expected to be completed before the end of 2009. Pre-sale is expected to commence in the first half of 2009. With the continuous increase of spending power in the region, we expect our retail spaces will attract keen interest and the successful launch will provide strong support to the Group's cash flow in the near future.

In Hebei, our current relocation projects and land redevelopment projects have a total site area of around 1,286,000 square metres in Zhongjie. With the completion of the sales process and legal documentation of the first phase's property, we anticipate that the project will start to bring revenue contribution to the Group in 2009. Phase two of the relocation project in Zhongjie is expected to be launched in the first half of 2009, which would involve the re-development of a residential area covering 9,092 square metres.

For other development projects in Hebei, we are considering very carefully the expected return from relevant projects. Negotiation with the local government regarding the terms of the projects is undergoing. We, however, are confident that the economic growth of the area will bring considerable value to our investments.

Agriculture and Woods

The new focus for this year will be on expanding the quality agricultural land in Chongqing, Wuhan and Xi'An as during 2008 we have already identified and negotiated a number of sites suitable for development over the regions. We expect to finalise land acquisition within the year and initiate large-scale production during the later half of this year with a sizeable fruit production base.

Looking ahead, the future of agriculture and forestry is very promising for the Group. The segment is least affected by the global financial meltdown because of the hiking demand for basic commodities. Upon realisation of the macro policies in commercialising rural lands for constructive usage, our agricultural and forestry land bank portfolio in the Mainland will reflect its real and significant economic asset value in the market.

CLOSURE OF REGISTER FOR ENTITLEMENT TO FINAL DIVIDEND

The register of members of the Company will be closed from 4 June 2009 to 9 June 2009, both days inclusive, during which period no share transfers will be registered. To qualify for the final dividend, all transfers accompanied by the relevant share certificates of the Company, or in the case of warrantholders, all subscription forms accompanied by the relevant warrant certificates and exercise money, must be lodged for registration with the Company's Share Registrar, Union Registrars Limited of Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:00 p.m. on 3 June 2009.

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated services.

Ng Hung Sang
Chairman

Hong Kong, 21 April 2009

Directors' Biographical Details

EXECUTIVE DIRECTORS

Mr. Ng Hung Sang, aged 59, is an Executive Director and the Chairman of the Company. Mr. Ng is actively involved in the overall corporate policies, strategic planning and business development of the Group. Mr. Ng is also an executive director and the Chairman of South China Financial Holdings Limited ("SCF"), South China Holdings Limited ("SCH") and South China Land Limited 南華置地有限公司("SCL"). He holds a Master degree in marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. Mr. Ng was appointed as a Director of the Company on 24 June 1992. Mr. Ng is the father of Ms. Ng Yuk Mui, Jessica, a Non-Executive Director of the Company, and Mr. Ng Yuk Fung, Peter an Executive Director of the Company.

Ms. Cheung Choi Ngor, aged 55, is an Executive Director and a Vice-Chairman and Chief Executive Officer of the Company, an executive director and a vice-chairman of SCF, an executive director of SCH and an executive director, the compliance officer and an Authorised Representative of SCL. She holds a Master degree in business administration from University of Illinois in the United States of America. Ms. Cheung is a member of the National Committee of the Chinese People's Political Consultative Conference. Ms. Cheung was appointed as a Director of the Company on 24 June 1992.

Mr. Richard Howard Gorges, aged 65, is an Executive Director and a Vice-Chairman of the Company and SCF. He is also an executive director of SCH and SCL. He holds a Master degree in law from University of Cambridge in the United Kingdom. Mr. Gorges was appointed as a Director of the Company on 24 June 1992.

Mr. Ng Yuk Fung, Peter, aged 29, is an Executive Director of the Company, SCH and SCL. Mr. Ng holds a Bachelor degree in law from King's College London, University of London in the United Kingdom. Mr. Ng is a son of Mr. Ng Hung Sang, the Chairman of the Company, and a brother of Ms. Ng Yuk Mui, Jessica, a Non-Executive Director of the Company. Mr. Ng was appointed as a Director of the Company on 17 June 2002.

NON-EXECUTIVE DIRECTOR

Ms. Ng Yuk Mui, Jessica aged 30, is a Non-Executive Director of the Company, SCH and SCL. Ms. Ng holds a Bachelor degree in law from King's College London, University of London in the United Kingdom, and was admitted to the Hong Kong Bar in 2006. Ms. Ng is an associate member of the Chartered Institute of Management Accountants and a member of the Tianjin Municpal Committee of the Chinese People's Political Consultative Conference. She is the daughter of Mr. Ng Hung Sang, the Chairman of the Company, and the sister of Mr. Ng Yuk Fung, Peter, Executive Director of the Company. Ms. Ng was appointed as an Executive Director of the Company on 17 June 2002 and redesignated as Non-Executive Director of the Company with effect from 1 July 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chiu Sin Chun, aged 61, has more than 30 years' experience in the newspaper and media industry. Mr. Chiu was appointed as an Independent Non-executive Director of the Company on 20 August 2001.

Ms. Li Yuen Yu, Alice, aged 39, is an Independent Non-executive Director of the Company, Director of Cheng & Cheng Limited, Certified Public Accountants in Hong Kong. Ms. Li is also an Independent Non-executive Director of Energy China Development Holdings Limited. She received her Accounting degree from Monash University, Australia in 1994 and was admitted as a Certified Public Accountant in Australia in 1997 and in Hong Kong in 1998. She is a fellow member of the Taxation Institute of Hong Kong. Ms. Li was appointed as an Independent Non-executive Director of the Company on 28 September 2004.

Mrs. Tse Wong Siu Yin, Elizabeth, aged 51, is an Independent Non-executive Director of the Company, SCH and SCF, the Chairman of the Hong Kong Flower Retailers Association, a committee member of Skills Upgrading Scheme (Gardening and Floristry) of Labour and Welfare Bureau and the Convenor of Youth Skills Competition in Floristry of Vocational Training Council. Mrs. Tse holds a Bachelor degree in Science from the University of Western Ontario in Canada. Mrs. Tse was appointed as an Independent Non-executive Director of the Company on 19 October 2004.

Directors' Report

The directors of the Company (the "Directors") have pleasure in presenting their report and the audited consolidated financial statements of the Company and its subsidiaries and associates (the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal subsidiaries engage in the trading and manufacturing of toys, shoes, electronics toys products, leather products, motors and capacitors, magazine publishing business, property investment and development and agriculture and woods.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2008 and state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 120 of this Annual Report.

The Board proposes the payment of a final dividend of HK0.08 cent (2007: HK1.00 cent) per share, totaling approximately HK$2.12 million (2007: HK$26.5 million) in respect of the year ended 31 December 2008 to the shareholders whose names appear on the register of members of the Company on 9 June 2009. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet. No Interim dividend was paid during the year ended 31 December 2008.

Subject to the approval by the shareholders of the final dividend at the forthcoming annual general meeting of the Company, the final dividend will be paid on or about 8 July 2009

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 121 of this Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 16 and 17 to the financial statements, respectively. Further details of the Group's investment properties and construction in progress are set out on pages 122 to 128 of this Annual Report.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the movement in share capital, share options and warrants of the Company during the year are set out in notes 42 and 43 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 44 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$668,803,000.

DIRECTORS

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

Executive Directors:

Mr. Ng Hung Sang (*Chairman*)
Ms. Cheung Choi Ngor (*Vice-chairman and Chief Executive Officer*)
Mr. Richard Howard Gorges (*Vice-chairman*)
Mr. Ng Yuk Fung, Peter

Non-executive Director:

Ms. Ng Yuk Mui, Jessica

Independent Non-executive Directors:

Mr. Chiu Sin Chun
Mrs. Tse Wong Siu Yin, Elizabeth
Ms. Li Yuen Yu, Alice

In accordance with article 116 of the articles of association of the Company, Mr. Richard Howard Gorges, Mr. Ng Yuk Fung, Peter and Mr. Chiu Sin Chun will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the Independent Non-executive Directors, namely Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin, Elizabeth and Ms. Li Yuen Yu, Alice for the year ended 31 December 2008 and as at the date of this report, the Company still considers the Independent Non-executive Directors to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on page 8 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2008, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(a) the Company

(i) Long positions in shares

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng Hung Sang ("Mr. Ng")	Interests of controlled corporations	1,983,206,785 (Note b)	74.78%

(ii) Long positions in underlying shares

(a) Warrants

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Ng	Interests of controlled corporations	396,641,357 (Note c)	14.96%

(b) Share options

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Ms. Cheung Choi Ngor ("Ms. Cheung")	Beneficial owner	26,000,000 (Note d)	0.98%
Mr. Ng Yuk Fung, Peter	Beneficial owner	26,000,000 (Note d)	0.98%

(b) Associated corporations

(i) Long positions in shares

(1) *South China Holdings Limited ("SCH")*

Name of Director	Capacity	Number of ordinary shares	Total number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Beneficial owner	71,652,200	1,344,181,812	73.72%
	Interests of controlled corporations	1,272,529,612 (Note a)		
Mr. Richard Howard Gorges ("Mr. Gorges")	Interests of controlled corporations	487,949,760 (Note a)	487,949,760	26.76%
Ms. Cheung	Interests of controlled corporations	487,949,760 (Note a)	487,949,760	26.76%

(2) *South China Land Limited ("SCL")*

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding capital
Mr. Ng	Interests of controlled corporations	353,914,203 (Note e)	69.87%

(3) *Prime Prospects Limited ("Prime Prospects")* (Note f)

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Interests of controlled corporations	30	30%

(ii) Long positions in underlying shares

(1) *SCH*

Share options

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	18,000,000 (Note g)	0.99%
Ms. Cheung	Beneficial owner	18,000,000 (Note g)	0.99%
Mr. Ng Yuk Fung, Peter	Beneficial owner	18,000,000 (Note g)	0.99%
Ms. Ng Yuk Mui, Jessica	Beneficial owner	18,000,000 (Note g)	0.99%

(2) **SCL**

(a) ***Convertible notes***

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporations	10,666,666,666 (Note h)	2,105.96%

(b) ***Share options***

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Ng Yuk Fung, Peter	Beneficial owner	5,000,000 (Note i)	0.99%

Notes:

(a) Mr. Ng, through controlled corporations, together with Ms. Cheung and Mr. Gorges, had interests in 487,949,760 shares of SCH. In addition, Mr. Ng personally owned 71,652,200 shares in SCH and through companies wholly-owned and controlled by him, beneficially owned 784,579,852 shares of SCH. Therefore, Mr. Ng was deemed to have interest in a total of 1,344,181,812 shares of SCH, representing approximately 73.72% in the issued share capital of SCH. SCH held approximately 74.78% interest indirectly in the Company. The Company held approximately 69.87% interest indirectly in SCL.

(b) By virtue of note (a) above, Mr. Ng was deemed to have interest in those shares of the Company held by certain wholly-owned subsidiaries of SCH.

(c) These were warrants of the Company which entitle the holders thereof to subscribe at any time during the period from 7 September 2007 to 6 September 2010 (both days inclusive) for fully paid shares of the Company at an initial subscription price of HK$0.40 per share (subject to adjustments). By virtue of note (a) above, Mr. Ng was deemed to have interest in these underlying shares held by certain wholly-owned subsidiaries of SCH.

(d) These share options were granted on 18 September 2007 at an exercise price of HK$1.50 per share of the Company with exercise periods as follows: (i) not more than 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of the tenth year from the date of grant; (ii) not more than 2/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the tenth year from the date of grant; and (iii) all of the share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the tenth year from the date of grant.

(e) By virtue of note (a), Mr. Ng was deemed to have interest in those shares of SCL held by a wholly-owned subsidiary of the Company.

(f) Prime Prospects was a 70% owned subsidiary of the Company.

(g) These share options were granted on 18 September 2007 at an exercise price of HK$2.00 per share of SCH with exercise periods as follows: (i) not more than 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of the tenth year from the date of grant; (ii) not more than 2/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the tenth year from the date of grant; and (iii) all of the share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the tenth year from the date of grant.

(h) Two convertible notes were issued to a wholly-owned subsidiary of the Company with the rights to convert into 5,440,000,000 and 5,226,666,666 underlying shares of SCL respectively at a conversion price of HK$0.075 per share. By virtue of note (a), Mr. Ng was deemed to have interest in those underlying shares in SCL.

(i) These share options were granted on 14 March 2007 at the exercise price of HK$0.2166 per share of SCL with exercise periods as follows: (i) 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of the third year from the date of grant; (ii) 1/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the fourth year from the date of grant; and (iii) 1/3 of the total share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the fifth year from the date of grant.

Save as disclosed above, none of the Directors or chief executives of the Company had registered, as at 31 December 2008, any interests or short positions 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) recorded in the register which was 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.

SHARE OPTION SCHEME

The Directors and employees of the Company and its subsidiaries are entitled to participate in the share option schemes of the Company and its subsidiary. Particulars of the share option schemes of the Company and the subsidiary together with the details of the options granted were set out in note 43 to the financial statements. Certain Directors are entitled to participate in the share option schemes of the Company, its holding company and its subsidiary. Details of the options granted by the Company, its holding company and its subsidiary to the Directors were set out under the section "Directors' and Chief Executives' Interests and Short Position in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" of this report.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section "Share Option Scheme", at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or the chief executives or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

PENSION SCHEME

Details of the pension scheme of the Group are set out in note 2.4 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and other companies in which a director of the Company has beneficial interest are set out in note 52 to the financial statements and the section "Connected and Continuing Connected Transactions" of this report.

Save as disclosed above, no contracts of significance in relation to the business of the Group to which the Company, or any of its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, the following persons, other than the Directors and chief executives of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

Long positions:

Name of shareholder	Capacity	Number of ordinary shares	Approximate percentage of shareholding	Number of underlying shares (note)	Approximate percentage of shareholding
SCH	Interest of controlled corporations	1,983,206,785	74.78%	396,641,357	14.96%

Note: These are warrants of the Company which entitle the holders thereof to subscribe at any time during the period from 7 September 2007 to 6 September 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK$0.40 per share (subject to adjustment).

Save as disclosed above, as at 31 December 2008, no person, other than the Directors or chief executives of the Company whose interests are set out in the section "Directors' and Chief Executives' interests and Short Position in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation", had registered any interests or short positions in the shares or underlying shares of the Company that was required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng is the controlling shareholder of South China Media Limited ("SC Media") and Jessica Publications (BVI) Limited ("Jessica") and a director of SC Media, and each of Ms. Ng Yuk Mui, Jessica and Mr. Ng Yuk Fung, Peter is a director of SC Media and Jessica. Both SC Media and Jessica are principally engaged in the publication business which are considered as competing businesses of the Group.

Accordingly, each of Mr. Ng, Ms. Ng Yuk Mui, Jessica and Mr. Ng Yuk Fung, Peter is regarded as interested in such competing businesses of the Group.

The Directors are of the view that the Company can carry on its business independently of and at arm's length from the business of SC Media and Jessica as the Group's relevant publication business has its own target reader market and contents which are different from those of SC Media and Jessica.

Save as disclosed above, as at 31 December 2008, none of the Directors or any of their respective associates had any interest in any business which causes or may cause any competition with the business of the Group or any conflicts with the interests of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules as at the date of this Report.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Details of the compliance by the Company with the Code on Corporate Governance Practices are set out on pages 19 to 22 of the Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

Details of the compliance by the Company with the Model Code for Securities Transactions are set out on page 20 of this Annual Report.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Details of the significant related party transactions undertaken by the Group during the year in the ordinary course of business are set out in note 52 to the financial statements.

During the year, the Group had the following continuing connected transactions, details of which were disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

(1) Six Tenancy Agreements dated 6 February 2008 entered between Copthorne Holdings Corp. as landlord, a wholly-owned subsidiary of the Company, and South China Media Management Limited ("SC Management") as tenant for the leasing of the premises at units A, B and D on 3rd Floor, A, B, C and D on 4th Floor, unit D on 10th Floor and units A, B, C and D on 12th Floor (with a total area of 59,017 sq. ft) together with car parking space nos. 12A, 12B, 13A and 13B of Wah Shing Centre, 5 Fung Yip Street, Chai Wan, Hong Kong at an aggregate monthly rental of HK$307,085 for a period from 6 February 2008 to 31 December 2009.

(2) A Tenancy Agreement dated 1 November 2007 entered between Power Sound Development Limited as landlord, a wholly-owned subsidiary of the Company, and South China Financial Credits Limited ("SCFC") as tenant for the leasing of the premises at Room 1002, Nan Fung Centre, 264-298 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong at a monthly rental of HK$13,712 for a period from 1 November 2007 to 31 October 2008.

(3) A Tenancy Agreement dated 29 February 2008 entered between Wisetime Development Limited as landlord, a wholly-owned subsidiary of the Company, and SCFC as tenant for the leasing of the premises at 4/F, Units A & B, McDonald's Building, 46-54 Yee Woo Street, Causeway Bay, Hong Kong at a monthly rental of HK$55,920 for a period from 1 January 2008 to 31 December 2008.

(4) A Tenancy Agreement dated 27 May 2008 entered between First City Limited as landlord, a wholly-owned subsidiary of the Company, and Hong Kong Four Seas Tours Limited ("Four Seas") as tenant for the leasing of the premises at 1/F, On Lok Yuen Building, 25-27 Des Voeux Road Central, Hong Kong at a monthly rental of HK$110,120 for a period from 1 June 2008 to 31 December 2009.

(5) A Tenancy Agreement dated 27 May 2008 entered between Glorious Dragon Investments Limited as landlord, a wholly-owned subsidiary of the Company, and Four Seas as tenant for the leasing of the premises at 2/F, On Lok Yuen Building, 25-27 Des Voeux Road Central, Hong Kong at a monthly rental of HK$101,460 for a period from 1 June 2008 to 31 December 2009.

(6) A Tenancy Agreement dated 27 May 2008 entered between Kingstep Limited as landlord, a wholly-owned subsidiary of the Company, and Four Seas as tenant for the leasing of the premises at Units B & C, 9/F., Century House, 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon, Hong Kong at a monthly rental of HK$32,982 for a period from 1 June 2008 to 31 December 2009.

(7) A Tenancy Agreement dated 27 May 2008 entered between Tamon Development Limited as landlord, a wholly-owned subsidiary of the Company, and Four Seas as tenant for the leasing of the premises at Room 201-203, 1/F, Four Seas Jade Centre, 530-536 Canton Road, Yau Ma Tei, Kowloon, Hong Kong at a monthly rental of HK$12,500 for a period from 1 June 2008 to 31 December 2009.

SC Management is 100% owned by the Chairman and the executive director, Mr. Ng and hence an associate of Mr. Ng. SCFC is a wholly owned subsidiary of South China Financial Holdings Limited, which is controlled by Mr. Ng as to 72.79% and 53.73% through interest in controlled corporations as at 2 December 2008 and 31 December 2008 respectively. Four Seas is a wholly owned subsidiary of SCH, the holding company of the Company and Mr. Ng through interest in controlled corporations owned as to 73.72% in SCH.

One of the principal activities of the Group is engaged in properties investment and the above rental agreements provided the Group with stable rental income.

The above continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:–

(1) in the ordinary and usual course of business of the Company;
(2) on normal commercial terms; and
(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

In addition, the Auditors have confirmed to the Board that the continuing connected transactions:–

(1) have received the approval of the Board;
(2) have been entered into in accordance with the relevant agreement governing the transactions; and
(3) have not exceeded the cap disclosed in the announcements dated 28 December 2007 and 27 May 2008.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The audit committee comprises of three Independent Non-executive Directors, namely, Ms. Li Yuen Yu, Alice (chairman of the audit committee), Mr. Chiu Sin Chun and Mrs. Tse Wong Siu Yin, Elizabeth.

The audit committee is satisfied with their review of the audit fees, the independence of the auditors and recommended to the Board their re-appointment in 2009 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and the adequate disclosure were made.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2008, the sales to the Group's five largest customers accounted for 78.5% of the total sales and sales to the largest customer included therein amounted to 42.5%. Purchases from the Group's five largest suppliers accounted for 15.9% of the total purchases and purchases from the largest supplier included therein accounted for 4.9% of the total purchases.

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

AUDITORS

Messrs. Ernst & Young will retire and, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On Behalf of the Board

NG HUNG SANG
Chairman
Hong Kong, 21 April 2009

Corporate Governance Report

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasizes accountability and transparency to the shareholders. Periodic review will be made to the corporate governance practices to comply with the regulatory requirements.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2008.

BOARD COMPOSITION AND BOARD PRACTICES

As at 31 December 2008, the board of directors of the Company (the "Board") composed of 8 directors, including the Chairman who is an Executive Director, 1 Vice-chairman and Chief Executive Officer who is an Executive Director, 1 Vice-chairman who is an Executive Director, 1 additional Executive Director, 1 Non-executive Director, and 3 Independent Non-executive Directors. One-third of the Board is Independent Non-executive Directors. Their biographies and relevant relationships amongst them are set out in the Directors' Biographical Details on page 8 of this Annual Report.

Review will be made regularly on the Board composition to ensure that it has a balance of skills and experience appropriate for the requirement of the business of the Company and its subsidiaries (the "Group"). Also, a balanced composition of Executive Directors and Non-executive Directors is maintained to ensure independence and effective management. The Company has satisfied the relevant provision of the Listing Rules in having one of the Independent Non-executive Directors with appropriate accounting qualifications and expertise to chair the Audit Committee.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Board has adopted a formal written procedure and policy for the appointment of new directors. When selecting potential candidates for directors, their skill, experience, expertise, devotion of time and conflicts of interests are the key factors for consideration. No nomination committee has been set up, and, hence, the nomination and selection process are performed by the Board. The Board meets at least once a year in discussing whether the composition, size and structure of the Board is adequate. The Board met once in 2008 with all Directors present.

All the Directors (including Non-executive Directors) of the Company (the "Directors") are subject to the retirement by rotation at least once every three years in accordance with the Company's Articles of Association.

The Board is collectively responsible for the formulation of the Group's strategy, overseeing the management of the business and affairs of the Group.

Daily operation and management of the business of the Group, inter alia, the implementation of strategies are delegated to the Executive Committee, comprising all Executive Directors. They report periodically to the Board their work and business decisions.

There are defined roles in relation to the responsibilities of the Chairman and the chief executive officer of the Company. Their roles are exercised by separate individuals with a view to reinforce their independence and accountability. Key and important decisions are fully discussed at the board meetings. All Directors have been fully consulted about any matters proposed for inclusion in the agenda of regular meetings. The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the assistance of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and have received adequate and reliable information in a timely manner.

The Board held five meetings in 2008.

	Attendance
Executive Directors	
Mr. Ng Hung Sang (*Chairman*)	2/5
Ms. Cheung Choi Ngor (*Vice Chairman & Chief Executive Officer*)	5/5
Mr. Richard Howard Gorges (*Vice-chairman*)	5/5
Mr. Ng Yuk Fung, Peter	3/5
Non-executive Director	
Ms. Ng Yuk Mui, Jessica	5/5
Independent Non-executive Directors	
Mr. Chiu Sin Chun	5/5
Mrs. Tse Wong Siu Yin, Elizabeth	5/5
Ms. Li Yuen Yu, Alice	5/5

Notices of at least fourteen days are given to the Directors for regular meetings, while Board papers are sent to the Directors not less than three days before the intended date of a board or board committee meeting. With respect to other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Articles of Association of the Company. The Company Secretary ensures that the procedures and all applicable rules and regulations are complied with. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and are available for inspection at any time on reasonable notice by any Directors.

Directors have full access to information on the Group and are able to obtain independent professional advice whenever they deemed necessary. Memos are issued to Directors from time to time to update them with legal and regulatory changes and matters of relevance to Directors in the discharge of their duties.

MODEL CODE FOR SECURITIES TRANSACTIONS

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. In addition, the Board has established similar guidelines for relevant employees who are likely in possession of unpublished price sensitive information in relation to the Group or its securities.

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standard of dealings and its code of conduct regarding securities transaction by directors throughout the year ended 31 December 2008.

INTERNAL CONTROL

Recognising that a well-designed and effective system of internal control is crucial to safeguard the assets of the Company and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirement of the Listing Rules, the Directors also acknowledge that they have overall responsibility for the Company's internal control, financial control and risk management and shall monitor its effectiveness from time to time. Therefore a team, comprising qualified accountants, has been organized to carry out the internal audit function of the Company ("IA Team").

Based on the assessment of risk exposure, the IA Team formulates audit plans quarterly and ensures the audit programs cover key internal control areas of key operating subsidiaries on a rotational basis for the review by the Audit Committee on a regular interval. The scopes and timing of audit review is usually determined according to risk assessment.

Special reviews may also be performed on areas of concern identified by management or the Audit Committee from time to time. Communication channel has been established between the IA Team and the Audit Committee members.

IA Team monitors the internal control procedures and systems of the Group, reports findings and makes recommendations, if any, to Audit Committee on a regular interval. During the year, certain internal control of the payment procedures covering the processes from expense initiation to payment and recording of the toys operations, and rental collection control were reviewed, and addressed in the internal control report which was presented by the IA Team to the Audit committee and the Board for review.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The Directors ensure the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on page 23 of this Annual Report.

AUDITORS' REMUNERATION

For the year ended 31 December 2008, the Auditors of the Company received approximately HK$2,170,000 for audit services. No non-audit services was provided by the Auditors in 2008.

REMUNERATION COMMITTEE

The Remuneration Committee was set up on 21 April 2005 and comprises all the Independent Non-executive Directors, Mrs. Tse Wong Siu Yin, Elizabeth (Chairman of the Remuneration Committee), Mr. Chiu Sin Chun and Ms. Li Yuen Yu, Alice.

The Remuneration Committee met once in November 2008 and was attended by all Committee members. The policies on the remuneration of Executive Directors were reviewed by the Remuneration Committee. Remuneration, including basic salaries, discretionary performance bonus and other emolument of the Executive Directors is based on skill, knowledge, involvement in the Company's affairs and performance of the individual Executive Directors with reference to the Company's performance and profitability, as well as industry practice. Granting share options is considered as one of the means for giving long-term incentive to and for retaining staff.

The directors' fees for all Directors are subject to shareholders' approval at general meeting. Remuneration packages of the Executive Directors are reviewed by the Remuneration Committee. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings.

AUDIT COMMITTEE

The Audit Committee comprises all Independent Non-executive Directors, Ms. Li Yuen Yu, Alice (Chairman of the Audit Committee), Mr. Chiu Sin Chun and Mrs. Tse Wong Siu Yin, Elizabeth. The principal duties of the Audit Committee in accordance with its terms of reference, are substantially the same as the CG Code, include the review of the Group's financial reporting system and internal control procedures, review of financial information of the Group and review of the relationship with the Auditors of the Group.

The Audit Committee Members held two meetings in 2008 in which representatives of the management were present to review the interim and final results, the interim report and annual report and other financial and internal control matters. The Group's Auditors were also present in one of the meetings.

	Attendance
Ms. Li Yuen Yu, Alice	2/2
Mr. Chiu Sin Chun	2/2
Mrs. Tse Wong Siu Yin, Elizabeth	2/2

The Audit Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board the re-appointment of the Auditors in 2009 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2008 were reviewed by the Audit Committee.

Independent Auditors' Report

Ernst & Young
安 永

To the shareholders of South China (China) Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of South China (China) Limited set out on pages 24 to 120, 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

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

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
21 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CONTINUING OPERATIONS			
TURNOVER	5	**1,934,033**	2,113,362
Cost of sales		**(1,667,552)**	(1,811,798)
Gross profit		**266,481**	301,564
Other income and gains	5	**12,915**	46,078
Gain on disposal of subsidiaries	46	**319**	65,956
Gain/(loss) on disposal of financial assets at fair value through profit or loss		**(2,264)**	25,007
Gain on disposal of available-for-sale financial assets		**–**	9,912
Gain on disposal of investment properties		**1,424**	–
Gain on disposal of items of property, plant and equipment		**294**	4,649
Excess over the cost of business combinations	45	**172,831**	–
Fair value gain on investment properties	17	**31,941**	103,603
Fair value gain on biological assets	15	**5,893**	6,217
Fair value loss on financial assets at fair value through profit or loss		**(27,771)**	(4,190)
Selling and distribution costs		**(33,329)**	(40,288)
Administrative expenses		**(272,928)**	(269,517)
Equity-settled share option expenses		**(21,533)**	(12,737)
		134,273	236,254
Finance costs	7	**(21,015)**	(24,560)
Share of profits and losses of associates		**(724)**	202,090
Impairment of advances to associates, net	6 & 22	**(28,306)**	(10,500)
PROFIT BEFORE TAX	6	**84,228**	403,284
Tax	10	**(17,910)**	2,857
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**66,318**	406,141
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	12	**–**	7,882
PROFIT FOR THE YEAR		**66,318**	414,023

	Notes	2008 HK$'000	2007 HK$'000
Attributable to:			
Equity holders of the Company		**78,004**	413,820
Minority interests		**(11,686)**	203
		66,318	414,023
DIVIDENDS			
Interim	13	**–**	26,517
Proposed final	13	**2,122**	26,519
		2,122	53,036
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	14		
Basic			
– For profit for the year		**HK2.9 cents**	HK15.6 cents
– For profit from continuing operations		**HK2.9 cents**	HK15.3 cents
Diluted			
– For profit for the year		**HK2.8 cents**	HK14.6 cents
– For profit from continuing operations		**HK2.8 cents**	HK14.3 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**258,263**	235,052
Investment properties	17	**1,619,673**	1,122,341
Prepaid land lease payments	18	**48,323**	20,027
Construction in progress	19	**27,279**	263,444
Interests in associates	22	**297,827**	303,617
Biological assets	15	**84,904**	71,000
Available-for-sale financial assets	23	**44,281**	38,169
Other non-current assets	24	**21,549**	16,666
Goodwill	20	**5,514**	3,384
Total non-current assets		**2,407,613**	2,073,700
CURRENT ASSETS			
Properties under development	25	**448,734**	–
Inventories	26	**296,979**	262,966
Trade receivables	27	**171,092**	135,711
Prepayments, deposits and other receivables	28	**79,216**	141,022
Financial assets at fair value through profit or loss	32	**10,945**	54,513
Due from a minority shareholder of a subsidiary	29	**25,845**	12,561
Due from affiliates	30	**–**	243,641
Tax recoverable		**5,015**	1,855
Cash and bank balances	33	**150,497**	162,235
Total current assets		**1,188,323**	1,014,504
CURRENT LIABILITIES			
Trade and bills payables	34	**271,624**	267,634
Other payables and accruals	35	**233,983**	174,433
Interest-bearing bank and other borrowings	36	**401,615**	352,550
Due to a minority shareholder of subsidiaries	29	**19,899**	2,128
Due to affiliates	31	**10,132**	30,226
Tax payable		**28,054**	21,545
Total current liabilities		**965,307**	848,516
NET CURRENT ASSETS		**223,016**	165,988
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,630,629**	2,239,688

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,630,629**	2,239,688
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	36	**281,845**	181,134
Advances from minority shareholders of subsidiaries	38	**29,119**	51,576
Other non-current liabilities	39	**85,419**	41,259
Promissory notes	40	**97,079**	95,959
Deferred tax liabilities	41	**229,580**	134,112
Total non-current liabilities		**723,042**	504,040
Net assets		**1,907,587**	1,735,648
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	42	**53,040**	53,038
Reserves	44(a)	**1,716,617**	1,562,238
Proposed final dividend	13	**2,122**	26,519
		1,771,779	1,641,795
Minority interests		**135,808**	93,853
Total equity		**1,907,587**	1,735,648

Cheung Choi Ngor
Director

Richard Howard Gorges
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Merger reserve HK$'000	Land and buildings revaluation reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	PRC statutory reserve HK$'000	Share option reserve HK$'000	Goodwill reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the Company															
Balance at 1 January 2007		53,033	193,410	–	223	206,579	34,257	4,039	6,759	–	(3,067)	11,757	766,925	29,699	1,303,614	93,992	1,397,606
Acquisition of SCL under merger accounting		–	–	4,091	–	(84,797)	–	–	–	–	–	–	(14,617)	–	(95,323)	322	(95,001)
Exchange realignment		–	–	–	–	–	–	–	–	–	–	25,585	–	–	25,585	16,042	41,627
Changes in fair value of available-for-sale financial assets		–	–	–	–	–	–	17,580	–	–	–	–	–	–	17,580	–	17,580
Surplus on revaluation		–	–	–	–	–	25,207	–	–	–	–	–	–	–	25,207	–	25,207
Total income and expense for the year recognised directly in equity		–	–	–	–	–	25,207	17,580	–	–	–	25,585	–	–	68,372	16,042	84,414
Profit for the year		–	–	–	–	–	–	–	–	–	–	–	413,820	–	413,820	203	414,023
Total income and expense for the year		–	–	–	–	–	25,207	17,580	–	–	–	25,585	413,820	–	482,192	16,245	498,437
Issue of share upon exercise of share warrants		5	78	–	–	–	–	–	–	–	–	–	–	–	83	–	83
Disposal of available-for-sale financial assets		–	–	–	–	–	–	(4,039)	–	–	–	–	(623)	–	(4,662)	–	(4,662)
Disposal of subsidiary	46	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(9,794)	(9,794)
Acquisition of subsidiaries	45	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(130)	(130)
Dividends paid to minority shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	–	–	(7,412)	(7,412)
Recognition of equity-settled share based compensation		–	–	–	–	–	–	–	–	12,107	–	–	–	–	12,107	630	12,737
Transfer from retained profits		–	–	–	–	–	–	–	1,292	–	–	–	(1,292)	–	–	–	–
Final dividend for 2006 paid		–	–	–	–	–	–	–	–	–	–	–	–	(29,699)	(29,699)	–	(29,699)
Interim dividend for 2007 paid	13	–	–	–	–	–	–	–	–	–	–	–	(26,517)	–	(26,517)	–	(26,517)
Final dividend for 2007 proposed	13	–	–	–	–	–	–	–	–	–	–	–	(26,519)	26,519	–	–	–
Balance at 31 December 2007		53,038	193,488*	4,091*	223*	121,782*	59,464*	17,580*	8,051*	12,107*	(3,067)*	37,342*	1,111,177*	26,519	1,641,795	93,853	1,735,648

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the Company															
	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Merger reserve HK$'000	Land and buildings revaluation reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	PRC statutory reserve HK$'000	Share option reserve HK$'000	Goodwill reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2008		53,038	193,488	4,091	223	121,782	59,464	17,580	8,051	12,107	(3,067)	37,342	1,111,177	26,519	1,641,795	93,853	1,735,648
Exchange realignment		–	–	–	–	–	–	–	–	–	–	50,449	–	–	50,449	17,313	67,762
Changes in fair value of available-for-sale financial assets		–	–	–	–	–	–	7,890	–	–	–	–	–	–	7,890	–	7,890
Total income and expense for the year recognised directly in equity		–	–	–	–	–	–	7,890	–	–	–	50,449	–	–	58,339	17,313	75,652
Profit for the year		–	–	–	–	–	–	–	–	–	–	–	78,004	–	78,004	(11,686)	66,318
Total income and expense for the year		–	–	–	–	–	–	7,890	–	–	–	50,449	78,004	–	136,343	5,627	141,970
Issue of shares upon exercise of share warrants		2	36	–	–	–	–	–	–	–	–	–	–	–	38	–	38
Acquisition of subsidiaries	45	–	–	–	–	–	–	–	–	–	–	–	–	–	–	11,460	11,460
Acquisition of minority interests		–	–	48	–	(989)	–	–	–	15	–	263	(335)	–	(998)	(304)	(1,302)
Capital contribution from a minority shareholder		–	–	–	–	–	–	–	–	–	–	–	–	–	–	24,808	24,808
Dividends paid to minority shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	–	–	(49)	(49)
Transfer to statutory reserves		–	–	–	–	–	–	–	926	–	–	–	(926)	–	–	–	–
Recognition of equity-settled share based compensation		–	–	–	–	–	–	–	–	21,120	–	–	–	–	21,120	413	21,533
Final dividend for 2007 paid	13	–	–	–	–	–	–	–	–	–	–	–	–	(26,519)	(26,519)	–	(26,519)
Final dividend for 2008 proposed	13	–	–	–	–	–	–	–	–	–	–	–	(2,122)	2,122	–	–	–
Balance at 31 December 2008		53,040	193,524*	4,139*	223*	120,793*	59,464*	25,470*	8,977*	33,242*	(3,067)*	88,054*	1,185,798*	2,122	1,771,779	135,808	1,907,587

Merger reserve arose from the group reorganisation in 1992 and the business combination under common control in respect of the acquisition of South China Land Limited 南華置地有限公司("SCL") and certain fellow subsidiaries in 2007 and the acquisition of additional interest in SCL from a substantial shareholder in 2008.

The retained profits and exchange fluctuation reserve of the Group include HK$282,476,000 (2007: HK$262,687,000) and HK$754,000 (2007: HK$862,000), respectively, retained by associates of the Group.

* These reserve accounts comprise the consolidated reserves of HK$1,716,617,000 (2007: HK$1,562,238,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**84,228**	403,284
From discontinued operations		**–**	12,380
Adjustments for:			
Finance costs	7	**21,015**	25,776
Share of profits and losses of associates		**724**	(202,220)
Gain on waiver of loans and accrued expenses		**–**	(24,444)
Interest income	5	**(965)**	(4,029)
Fair value gains on investment properties		**(31,941)**	(103,603)
Write-off of items of property, plant and equipment	6	**–**	918
Gains on disposal of items of property, plant and equipment		**(294)**	(4,649)
Gain on disposal of investment properties		**(1,424)**	–
Excess over the cost of business combinations		**(172,831)**	–
Gains on disposal of subsidiaries		**(319)**	(56,278)
Fair value gains on biological assets		**(5,893)**	(6,217)
Decrease in biological assets due to harvest	6	**895**	217
Dividend income from listed investments	5	**(430)**	(350)
Gain on disposal of available-for-sale financial assets		**–**	(9,912)
Loss/(gain) on disposal of financial assets at fair value through profit and loss		**2,264**	(25,007)
Equity-settled share option expense	6	**21,533**	12,737
Impairment of advances to associates, net	6	**28,306**	8,629
Reversal of impairment of trade receivables, net	6	**(580)**	(398)
Provision/(reversal of provision) against obsolete inventories	6	**(17,357)**	15,504
Depreciation	6	**43,466**	44,578
Write-back of impairment of items of property, plant and equipment		**–**	(2,569)
Impairment of construction in progress		**–**	1,752
Fair value loss on financial assets at fair value through profit or loss		**27,771**	4,190
Amortisation of prepaid land lease payments	6	**1,484**	608
		(348)	90,897
Increase in properties under development		**(182,164)**	–
Decrease/(increase) in inventories		**(6,549)**	34,297
Increase in trade receivables		**(27,058)**	(4,586)
Decrease in prepayments, deposits and other receivables		**7,709**	7,996
Decrease/(increase) in amounts due from minority shareholders of subsidiaries, net		**(1,612)**	1,618
Decrease/(increase) in amounts due from fellow subsidiaries, net		**(8,240)**	29,161
Decrease/(increase) in amount due from an intermediate holding company		**8,771**	(157)
Decrease in trade and bills payables		**(44,676)**	(121,101)
Decrease in other payables and accruals		**(11,366)**	(34,404)
Decrease/(increase) in amount due from associates		**1,846**	(11,096)
Decrease in amount due from related companies		**(2,674)**	(227)
Severance payment paid		**(623)**	(1,272)
Cash used in operations		**(266,984)**	(8,874)
Hong Kong profits tax paid		**(6,390)**	(6,654)
Mainland China tax paid		**(4,509)**	(5,144)
Net cash outflow from operating activities		**(277,883)**	(20,672)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	16	**(25,746)**	(44,072)
Additions to construction in progress	19	**(3,423)**	(40,794)
Additions to prepaid land lease payments	18	**(3,249)**	–
Purchases of financial assets at fair value through profit and loss		**(2,453)**	(226,647)
Dividends received from listed investments		**430**	350
Cash inflow/(outflow) in respect of acquisition of subsidiaries, net	45	**6,198**	(1,174)
Cash consideration for the acquisition of subsidiaries accounted for by merger accounting		**–**	(60,158)
Repayment from/(advances to) associates, net		**194,360**	(1,692)
Advances for purchase of subsidiaries		**–**	(60,000)
Increase in pledged bank deposits		**–**	(700)
Proceeds from disposal of available-for-sale financial assets		**–**	21,144
Proceeds from disposal of financial assets at fair value through profit and loss		**17,638**	242,499
Interest received		**965**	2,967
Proceeds from disposal of an investment property		**2,560**	–
Proceeds from disposal of subsidiaries		**3,098**	42,470
Proceeds from disposal of items of property, plant and equipment		**628**	5,875
Cash paid for acquisition of additional interest in a subsidiary		**(2,313)**	–
Dividends income from an associate		**2,557**	–
Net cash inflow/(outflow) from investing activities		**191,250**	(119,932)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(197,876)**	(315,959)
Increase/(decrease) in trust receipt loans		**(1,038)**	41,340
Advance to minority shareholders		**(11,993)**	(2,306)
Advance from/(repayment to) related parties		**(10,200)**	10,200
Interests paid		**(24,422)**	(25,776)
Dividends paid		**(26,519)**	(56,216)
Dividends paid to minority shareholders of subsidiaries		**(49)**	(7,412)
Capital element of finance lease payments		**(3,819)**	(7,046)
Issue of shares upon exercise of warrants		**38**	83
New bank loans		**366,390**	398,843
Financing fees paid for new bank loans		**(481)**	–
Net cash inflow from financing activities		**90,031**	35,751
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,398**	(104,853)
Cash and cash equivalents at beginning of year		**145,787**	249,203
Effect of foreign exchange rate changes, net		**440**	1,437
CASH AND CASH EQUIVALENTS AT END OF YEAR		**149,625**	145,787
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	33	**150,497**	162,235
Bank overdrafts	36	**(872)**	(16,448)
		149,625	145,787

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	21	**1,452,776**	1,028,255
CURRENT ASSETS			
Due from affiliates	30	–	650
Other receivables	28	**10,570**	10,750
Cash and bank balances	33	**142**	158
Total current assets		**10,712**	11,558
CURRENT LIABILITIES			
Other payables	35	**15,499**	742
Due to affiliates	31	**11,624**	–
Interest-bearing bank borrowings	36	–	16,116
Total current liabilities		**27,123**	16,858
NET CURRENT LIABILITIES		**(16,411)**	(5,300)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,436,365**	1,022,955
NON-CURRENT LIABILITIES			
Due to subsidiaries	21	**712,177**	496,006
Net assets		**724,188**	526,949
EQUITY			
Issued capital	42	**53,040**	53,038
Reserves	44(b)	**669,026**	447,392
Proposed final dividend	13	**2,122**	26,519
Total equity		**724,188**	526,949

Cheung Choi Ngor
Director

Richard Howard Gorges
Director

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted limited company. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, the Cayman Islands.

The Company is an investment holding company. The principal subsidiaries engage in the trading and manufacturing of toys, shoes, electronics toys products, leather products, motors and capacitors, magazine publishing business, property investment and development and agriculture and woods.

In the opinion of the directors, the parent and the ultimate holding company of the Group is South China Holdings Limited ("SCH"), a company incorporated in the Cayman Islands with its shares also listed on the Stock Exchange.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain leasehold land and buildings, available-for-sale financial assets, financial assets at fair value through profit or loss and biological assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Acquisitions of businesses under common control are accounted for using merger accounting in accordance with AG 5 issued by the HKICPA. The acquired assets are stated at carrying amounts as if the assets had been held by the Group from the beginning of the earliest period presented.

The acquisition of subsidiaries from third parties during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill or excess over the cost of business combination, whichever being appropriate.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

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

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements, there have been no significant changes to the accounting policies applied in these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 8	*Operating Segments* [1]
HKFRS 7 Amendment	*Improving Disclosures about Financial Instruments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	*Amendments to HKAS* 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
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	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfer of Assets from Customers* [2]

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

[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
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture; or

(b) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates

An associate is an entity, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill previously eliminated against the consolidated retained profits

Prior to the adoption of HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, inventories, biological assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

(b) the party is an associate;

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

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

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

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Certain land and buildings are stated in the balance sheet at amounts based on revaluations performed prior to 30 September 1995, less subsequent accumulated depreciation and amortisation and any impairment losses.

In accordance with the transitional provisions of paragraph 80A of HKAS 16 "Property, plant and equipment", the Group's land and buildings which carried at revalued amounts in financial statements relating to periods ended before 30 September 1995 are not required to make regular revaluations. Accordingly, no revaluation of land and buildings is carried out subsequent to 30 September 1995. In previous years, the revaluation increase arising on the revaluation of these assets was credited to the land and buildings revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	over the shorter of the lease terms and 2% to 5%
Furniture and leasehold improvements	over the shorter of the lease terms, where applicable and 20%
Machinery and equipment	10% to 25%
Moulds and tools	20% to 25%
Motor vehicles and vessels	20% to 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents mainly resettlement costs incurred for a piece of land, which is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement for the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with as a movement in the land and building revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. On disposal of a revalued asset, the relevant portion of the land and building revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Properties under development

Properties under development represents properties developed for sale or to earn rental income, and are stated at cost less any impairment losses. Cost comprises the prepaid land lease payments, building costs and any other direct costs attributable to the development of the properties. Borrowing costs, professional fees, and other related expenses incurred during the construction or development phase of the property are capitalised as part of the costs of that property.

Properties under development which have been pre-sold or one expected to be completed within one year from the balance sheet date are classified under current asset. On completion, the properties are transferred to properties held for sale or investment properties.

Once the constructions or developments of these properties are completed, these properties are reclassified to the appropriate asset categories.

Biological assets

Biological assets are fruit trees and are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs. The fair value of fruit trees is determined based on the present value of expected net cash flows from the fruit trees discounted at a current market-determined pre-tax rate. Fruit trees are perennial plants which have growth cycles of more than one year.

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in the income statement for the period in which it arises.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Agricultural produce

Agricultural produce comprises winter date, lychee and longan fruits of fruit trees.

Winter date, lychee and longan fruits harvested from fruit trees are measured at their fair value less estimated point-of-sale costs at the time of harvest. The fair value of winter date, lychee and longan fruits is determined based on market prices in the local area. Such measurement is the cost at that date when applying HKAS 2 "Inventories".

A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs shall be included in the income statement for the period in which it arises.

Fair value represents the estimated purchase cost that the Group has to procure such inventories in the market on an arm's length basis.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as financial guarantee contracts. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted investments that are designated as available for sale or are not classified in any of the other two categories (financial assets at fair value through profit or loss and loans and receivables). After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale financial assets revaluation reserve.

When the fair value of unlisted available-for-sale financial assets cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a 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 by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale financial assets is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale financial assets when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available-for-sale financial assets are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities, including trade and other payables, an amount due to an intermediate holding company, an amount due to a minority shareholder of a subsidiary and interest-bearing loans and borrowings, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

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

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure recognised to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

The Group carries a provision for severance payment in accordance with the relevant regulations in Mainland China. Compensation payable to employees upon termination of the employment contracts therewith are charged to the provision when incurred.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) service income and management fee income, when services are rendered;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Pension schemes

The Group operates a defined contribution staff retirement scheme registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") for its employees (including certain directors), the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the ORSO Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The Group also operates another defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions to the MPF Scheme 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.

Employees who joined the Group before 1 December 2000 had the option to join either one of the schemes. Employees who joined the Group on or after 1 December 2000 are only eligible to join the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a trinomial model, further details of which are given in note 43 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("Market Conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a Market Condition, which are treated as vesting irrespective of whether or not the Market Condition is satisfied, provided that all other performance conditions are satisfied.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions (Continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimation of recoverable amounts of properties under development

The best evidence of fair value is current prices in an active market for similar lease terms and other contracts. In the absence of such information, the Group considers information from a variety of sources, including (i) by reference to independent valuations; (ii) current prices in an active market for properties of a different nature, condition and location (or subject to different leases or other contracts), adjusted to reflect those differences; (iii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

Estimation of total budgeted costs and costs to completion for properties under development

Total budgeted costs for properties under development comprise (i) prepaid land lease payments, (ii) building costs, and (iii) any other direct costs attributable to the development of the properties. In estimating the total budgeted costs for properties under development, management makes reference to information such as (i) current offers from contractors and suppliers, (ii) recent offers agreed with contractors and suppliers, and (iii) professional estimation on construction and material costs.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each 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 must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale financial assets and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2008, no impairment losses have been recognised for available-for-sale financial assets (2007: Nil).

Income taxes

Significant management judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. There was no deferred tax asset in respect of tax losses at 31 December 2008 (2007: nil). The amount of unrecognised tax losses at 31 December 2008 was HK$494,000,000 (2007: HK$365,362,000).

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

(a) the trading and manufacturing segment engages in trading and manufacturing of merchandises including toys, shoes and footwear products, leather products, motors, capacitors and compressors;

(b) the property investment and development segment is engaged in property investment and development;

(c) the agriculture and woods segment is engaged in the cultivation of fruit trees, rearing of livestocks and aquatic products, forestation and sale of relevant agricultural products;

(d) the investment holding segment comprises, principally, the Group's investment holding related management functions; and

(e) the travel business segment, which was discontinued during the year ended 31 December 2007, is engaged in the sales of travel-related products and services; and

(f) the information technology segment, which was discontinued during the year ended 31 December 2007, is engaged in information technology related business.

In determining the Group's geographical segments, turnover are attributed to the segments based on the destination to which goods and services are delivered, and assets are attributed to the segments based on the location of the assets.

4. SEGMENT INFORMATION *(Continued)*

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present turnover, profit and certain assets, liabilities and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Group

		Continuing operations								Discontinued operations					
		Trading and manufacturing		Property investment and development		Agriculture and woods		Investment holding		Travel business		Information technology		Consolidated	
	Notes	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Segment turnover:															
External sales		**1,880,796**	2,072,032	**49,814**	39,931	**3,423**	1,399	**–**	–	**–**	1,481,589	**–**	40,683	**1,934,033**	3,635,634
Segment results before gain/(loss) on disposal of discontinued operations		**53,731**	75,761	**43,328**	142,400	**(9,617)**	125	**46,831**	17,968	**–**	25,177	**–**	(2,033)	**134,273**	259,398
Gain/(loss) on disposal of discontinued operations		**–**	–	**–**	–	**–**	–	**–**	–	**–**	(22,148)		12,470	**–**	(9,678)
Profit/(loss) from operations		**53,731**	75,761	**43,328**	142,400	**(9,617)**	125	**46,831**	17,968	**–**	3,029	**–**	10,437	**134,273**	249,720
Finance costs														**(21,015)**	(25,776)
Share of profits and losses of associates		**(5,934)**	(12,895)	**5,210**	214,985	**–**	–	**–**	–	**–**	–	**–**	130	**(724)**	202,220
Impairment of advances to associates	6 & 22	**(28,306)**	(10,500)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(28,306)**	(10,500)
Profit before tax														**84,228**	415,664
Tax														**(17,910)**	(1,641)
Profit for the year														**66,318**	414,023

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group *(Continued)*

	Continuing operations								Discontinued operations					
	Trading and manufacturing		Property investment and development		Agriculture and woods		Investment holding		Travel business		Information technology		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Segments assets	**879,689**	798,515	**2,203,452**	1,472,636	**110,605**	83,948	**99,348**	193,588	**–**	–	**–**	–	**3,293,094**	2,548,687
Interests in associates	**(4,079)**	6,920	**301,906**	296,697	**–**	–	**–**	–	**–**	–	**–**	–	**297,827**	303,617
Due from associates	**–**	21,192	**–**	212,853	**–**	–	**–**	–	**–**	–	**–**	–	**–**	234,045
Unallocated corporate assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**5,015**	1,855
Total assets	**875,610**	826,627	**2,505,358**	1,982,186	**110,605**	83,948	**99,348**	193,588	**–**	–	**–**	–	**3,595,936**	3,088,204
Segments liabilities	**760,899**	630,143	**351,973**	223,174	**4,014**	1,983	**313,829**	341,599	**–**	–	**–**	–	**1,430,715**	1,196,899
Unallocated corporate liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**257,634**	155,657
Total liabilities	**760,899**	630,143	**351,973**	223,174	**4,014**	1,983	**313,829**	341,599	**–**	–	**–**	–	**1,688,349**	1,352,556
Other segment Information:														
Capital expenditures	**21,278**	39,918	**2,415**	41,840	**8,684**	2,041	**41**	–	**–**	577	**–**	491	**32,418**	84,867
Depreciation and amortisation	**41,854**	40,276	**1,466**	2,287	**1,450**	374	**180**	371	**–**	804	**–**	1,074	**44,950**	45,186
Provision/(reversal of provision) against obsolete inventories	**(17,357)**	15,504	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(17,357)**	15,504
Impairment losses of property, plant and equipment	**–**	918	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	918
Impairment losses of construction in progress	**–**	–	**–**	1,752	**–**	–	**–**	–	**–**	–	**–**	–	**–**	1,752
Impairment losses in respect of land and buildings reversed in the income statement	**–**	(2,393)	**–**	(176)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(2,569)

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table provides an analysis of the Group's turnover and results by geographical market, irrespective of the origins of goods and services:

	Segment turnover		Segment results	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
CONTINUING OPERATIONS				
The PRC including Hong Kong and Macau	**195,040**	185,120	**87,860**	145,554
The United States of America	**1,144,591**	1,260,659	**39,616**	61,215
Europe	**372,747**	457,341	**3,169**	20,201
Japan	**15,983**	11,898	**121**	539
Others	**205,672**	198,344	**3,507**	8,745
	1,934,033	2,113,362	**134,273**	236,254
DISCONTINUED OPERATIONS				
The PRC including Hong Kong and Macau	**–**	1,522,272	**–**	13,466
	1,934,033	3,635,634	**134,273**	249,720

The following is an analysis of the Group's segment assets and capital expenditures by geographical area in which the relevant assets are located:

	Segment assets		Capital expenditures	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**858,145**	902,185	**6,426**	6,165
Other regions in Mainland China	**2,409,562**	1,620,389	**25,992**	78,702
Macau	**–**	13	**–**	–
Others	**25,387**	26,100	**–**	–
	3,293,094	2,548,687	**32,418**	84,867

5. TURNOVER, OTHER INCOME AND GAINS

The Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and gross rental income received and receivable from investment properties during the year.

An analysis of turnover, other income and gains is as follows:

	Notes	2008 HK$'000	2007 HK$'000
Turnover			
Sale of merchandise from manufacturing and trading businesses		**1,880,796**	2,072,032
Rental income		**49,814**	39,931
Sale of agricultural produce		**3,423**	1,399
Turnover attributable to continuing operations		**1,934,033**	2,113,362
Sale of travel-related products		**–**	1,481,589
Sale of computer products and service income from related businesses		**–**	40,683
Turnover attributable to discontinued operations	12	**–**	1,522,272
		1,934,033	3,635,634
Other income			
Bank interest income		**925**	2,244
Interest income from associates		**40**	1,062
Dividend income from listed investments		**430**	350
Service fee		**2,372**	3,079
Others		**1,977**	917
		5,744	7,652
Gains			
Reversal of impairment of trade receivables	27	**1,063**	–
Write-back of impairment of advance to associates		**–**	1,871
Write-back of impairment of items of property, plant and equipment		**–**	2,569
Gain on waiver of loans and accrued interest		**–**	24,444
Others		**6,108**	9,542
		7,171	38,426
Other income and gains attributed to continuing operations		**12,915**	46,078
Other income and gains attributed to discontinued operations	12	**–**	2,736
		12,915	48,814

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2008 HK$'000	2007 HK$'000
Cost of inventories sold	**1,667,552**	1,811,798
Depreciation	**43,477**	44,578
Less: Depreciation capitalised in properties under development	**(11)**	–
Depreciation charged to income statement	**43,466**	44,578
Auditors' remuneration	**2,620**	3,214
Employee benefits expense (including directors' remuneration (note 8)):		
Wages and salaries		
Attributable to discontinued operations	**–**	25,735
Attributable to continuing operations reported in the consolidated income statement	**550,837**	529,150
Less: Wages and salaries capitalised in properties under development/construction in progress	**(1,179)**	–
Wages and salaries charged to income statement	**549,658**	529,150
Equity-settled share option expense	**21,533**	12,737
	571,191	567,622
Pension scheme contributions		
Attributable to discontinued operations	**–**	1,344
Attributable to continuing operations reported in the consolidated income statement	**17,374**	10,398
Less: Forfeited contributions	**(249)**	(134)
Net pension scheme contributions*	**17,125**	11,608
Employee benefits expense attributed to:		
Discontinued operations	**–**	27,079
Continuing operations	**589,495**	552,151
Less: Wages and salaries capitalised in properties under development/construction in progress	**(1,179)**	–
	588,316	579,230
Decrease in biological assets due to harvest	**895**	217
Minimum lease payments under operating leases in respect of land and buildings		
Attributable to discontinued operations	**–**	1,682
Attributable to continuing operations reported in the consolidated income statement	**14,774**	14,402
	14,774	16,084

6. PROFIT BEFORE TAX *(Continued)*

	Notes	2008 HK$'000	2007 HK$'000
Gross rental income		**(49,814)**	(39,931)
Less: Direct operating expenses arising on rental-earning investment properties		**4,127**	3,078
Net rental income		**(45,687)**	(36,853)
Impairment of construction in progress	19	**–**	1,752
Reversal of impairment of trade receivables, net of impairment loss recognised	27	**(580)**	(398)
Amortisation of prepaid land lease payments	18	**1,484**	608
Provision against/(reversal of provision) obsolete inventories, net (included in cost of sales)**		**(17,357)**	15,504
Write-off of items of property, plant and equipment		**–**	918
Impairment of advances to an associate	22	**14,236**	10,500
Write-back of advances to associates written off in prior years		**(630)**	–
Provision for financial guarantee in respect of the banking facilities of an associate	22	**14,700**	–
	4	**28,306**	10,500
Exchange losses, net		**4,446**	834

* At 31 December 2008 and 2007, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

** The amount represents a write-down or reversal of the same to state the inventories at their estimated net realisable values.

7. FINANCE COSTS

	Group	
	2008	2007
	HK$'000	HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable:		
Within five years	**22,014**	21,379
Over five years	**2,261**	1,582
Interest on finance leases	**147**	551
Interest on the amount due to a fellow subsidiary	**–**	1,460
Interest on the amount due to an intermediate holding company	**–**	730
Interest on promissory notes	**1,941**	74
	26,363	25,776
Less: Interest capitalised in properties under development/ construction in progress	**(5,348)**	–
	21,015	25,776
Attributable to discontinued operations (note 12)	**–**	1,216
Attributable to continuing operations	**26,363**	24,560
	26,363	25,776
Less: Interest capitalised in properties under development/ construction in progress (note 25)	**(5,348)**	–
	21,015	25,776

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Fees	**250**	240
Other emoluments:		
Salaries, allowances and benefits in kind	**2,777**	3,021
Discretionary bonuses	**–**	500
Equity-settled share option	**14,677**	4,328
Pension scheme contributions	**116**	120
	17,570	7,969
	17,820	8,209

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2008 HK$'000	2007 HK$'000
Mr. Chiu Sin Chun	50	50
Mrs. Tse Wong Siu Yin, Elizabeth	50	50
Ms. Li Yuen Yu, Alice	50	50
	150	150

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Share option benefits HK$'000
2008				
Executive directors:				
Mr. Ng Hung Sang	10	699	34	–
Ms. Cheung Choi Ngor	10	703	34	7,172
Mr. Richard Howard Gorges	10	785	36	–
Mr. Ng Yuk Fung, Peter	10	590	12	7,505
	40	2,777	116	14,677
Non-executive director:				
Ms. Ng Yuk Mui, Jessica	60	–	–	–
	100	2,777	116	14,677

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and a non-executive director *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Share option benefits HK$'000
2007					
Executive directors:					
Mr. Ng Hung Sang	10	720	–	36	–
Ms. Cheung Choi Ngor	10	720	–	36	1,893
Mr. Richard Howard Gorges	10	977	–	36	–
Mr. Ng Yuk Fung, Peter	10	604	500	12	2,435
	40	3,021	500	120	4,328
Non-executive director:					
Ms. Ng Yuk Mui, Jessica	50	–	–	–	–
	90	3,021	500	120	4,328

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

9. FIVE HIGHEST PAID EMPLOYEES

Of the five highest paid employees of the Group, two (2007: two) were directors of the Company whose emoluments are included in note 8 above. Details of the remuneration of the remaining three (2007: three) non-director, highest paid employees for the year are as follows:

	2008 HK$'000	2007 HK$'000
Salaries, allowances and benefits in kind	**4,402**	5,741
Pension scheme contributions	**175**	120
Discretionary bonuses	**897**	1,329
Equity-settled share option expenses	**7,505**	2,511
	12,979	9,701

9. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2008	2007
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	1
HK$3,500,001 to HK$4,000,000	**–**	1
HK$8,000,001 to HK$8,500,000	**1**	–
	3	3

10. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate becomes effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the respective countries/jurisdictions in which the Group operates, based on current legislation, interpretations and practices in respect thereof.

	Group	
	2008	2007
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**4,899**	1,498
Over-provision in prior years	**(1,357)**	(140)
Current – Mainland China		
Charge for the year	**4,313**	3,602
Over-provision in prior years	**(6)**	(433)
Deferred tax (note 41)	**10,061**	(2,886)
Tax charge for the year	**17,910**	1,641

10. TAX *(Continued)*

A reconciliation of the tax expense on the Group's profit before tax (including profit from discontinued operations) using the Hong Kong profits tax rate to the tax expense at the effective tax rate is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Profit before tax	**84,228**	415,664
Tax at the Hong Kong profits tax rate of 16.5% (2007: 17.5%)	**13,898**	72,741
Effect of reduction in Hong Kong profits tax rate on opening deferred tax liability	**(948)**	–
Effect of different tax rates of subsidiaries operating in Mainland China and Taiwan	**10,588**	(24,286)
Profits and losses attributable to associates	**77**	(35,388)
Expenses not deductible for tax	**26,172**	30,741
Income not subject to tax	**(39,468)**	(40,777)
Adjustments for current tax in respect of prior year provision	**(1,363)**	(573)
Tax losses utilised from previous periods	**(3,609)**	(5,804)
Tax losses not recognised	**12,563**	4,987
Tax charge for the year	**17,910**	1,641

	2008	2007
	HK$'000	HK$'000
Represented by:		
Tax charge attributable to discontinued operations (note 12)	**–**	4,498
Tax charge/(credit) attributable to continuing operations reported in the consolidated income statement	**17,910**	(2,857)
	17,910	1,641

The share of tax credit attributable to associates amounting to HK$4,743,000 (2007: share of tax charge of HK$46,514,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a profit of HK$203,501,000 (2007: HK$40,920,000) which has been dealt with in the financial statements of the Company (note 44 (b)).

12. DISCONTINUED OPERATIONS

On 25 July 2007, the Company announced the decision of its board to dispose of the entire interest in Four Seas Travel (BVI) Limited ("FS Travel"), and Southchinanet.com (BVI) Limited ("SCN"), both being indirectly wholly-owned subsidiaries of the Company at that time to SCH's subsidiaries. FS Travel and SCN engage in travel business and information technology business, respectively, and, constituted the travel and information technology business segments with operations in Mainland China and Hong Kong.

The Group ceased the information technology business and travel business because such restructuring would allow the Group to concentrate and foster its resources and expertise in the property investment and development, trading and manufacturing and agriculture and woods operations. The disposal of SCN and FS Travel was completed on 23 August 2007.

The results of FS Travel and SCN for the period up to the date of disposal are presented below:

		2007	
	FS Travel	SCN	Total
	HK$'000	HK$'000	HK$'000
Turnover (note 5)	1,481,589	40,683	1,522,272
Other income and gains (note 5)	1,892	844	2,736
Cost and expenses, net	(1,458,304)	(43,560)	(1,501,864)
Finance costs (note 7)	(721)	(495)	(1,216)
Share of profits and losses of associates	–	130	130
Profit before tax from the discontinued operations	24,456	(2,398)	22,058
Tax (note 10)	(4,480)	(18)	(4,498)
	19,976	(2,416)	17,560
Loss on disposal of subsidiaries (note 46)			(9,678)
Profit for the year from the discontinued operations			7,882

The assets and liabilities of FS Travel and SCN were disposed of during the year ended 31 December 2007.

12. DISCONTINUED OPERATIONS *(Continued)*

The net cash flows incurred by FS Travel and SCN are as follows:

	2007		
	FS Travel HK$'000	SCN HK$'000	Total HK$'000
Operating activities	(46,200)	(4,417)	(50,617)
Investing activities	(555)	(98)	(653)
Financing activities	(817)	4,013	3,196
Net cash outflow	(47,572)	(502)	(48,074)

	2007
Earnings per share:	
Basic, from the discontinued operations	HK0.3 cents
Diluted, from the discontinued operations	HK0.3 cents

The calculations of basic and diluted earnings per share from the discontinued operations are based on:

	2007
Profit attributable to ordinary equity holders of the parent from the discontinued operations	HK$8,324,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,651,734,214
Weighted average number of ordinary shares used in the diluted earnings per share calculation	2,828,451,957

13. DIVIDENDS

	2008 HK$'000	2007 HK$'000
Interim – Nil (2007: HK1.00 cent) per ordinary share	**–**	26,517
Proposed final – HK0.08 cent (2007: HK1.00 cent) per ordinary share	**2,122**	26,519
	2,122	53,036

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK$78,004,000 (2007: HK$413,820,000), and the weighted average number of 2,651,951,000 (2007: 2,651,734,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares deemed to have been issued at no consideration on the assumption of the exercise or conversion in full of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2008	2007
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation:		
From continuing operations	**78,004**	405,496
From discontinued operations	**–**	8,324
	78,004	413,820

	Number of shares	
	2008	2007
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,651,951**	2,651,734
Effect of dilution – weighted average number of ordinary shares:		
Warrants	**87,474**	176,718
	2,739,425	2,828,452

The Company's share options have no dilution effect for the years ended 31 December 2008 and 2007 because the exercise prices of the Company's share options were higher than the average market prices of the shares for both years.

15. BIOLOGICAL ASSETS

	Group	
	2008	2007
	HK$'000	HK$'000
Lychee fruit trees:		
Carrying amount at 1 January	**53,563**	44,645
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	**(7,231)**	4,698
Decrease due to harvest	**(819)**	(172)
Exchange realignment	**4,437**	4,392
Carrying amount at 31 December	**49,950**	53,563
Longan fruit trees:		
Carrying amount at 1 January	**17,437**	14,575
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	**(2,354)**	1,519
Decrease due to harvest	**(76)**	(45)
Exchange realignment	**1,445**	1,388
Carrying amount at 31 December	**16,452**	17,437
Winter date fruit trees:		
Carrying amount at 1 January	**–**	–
Transferred from construction in progress (note 19)	**110**	–
Reclassified from inventories	**2,544**	–
Gain arising from changes in fair value less estimated point-of-sale costs	**15,478**	–
Exchange realignment	**370**	–
Carrying amount at 31 December	**18,502**	–
Total carrying amount at 31 December	**84,904**	71,000

Quantities of fruit trees:

	Number of trees '000	Number of trees '000
Lychee fruit trees	**333**	333
Longan fruit trees	**108**	108
Winter date fruit trees	**481**	–
	922	441

15. BIOLOGICAL ASSETS *(Continued)*

Fair value and saleable output of lychee, longan and winter date fruits at the point of harvest are analysed as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Fair value less estimated point-of-sale costs:		
Lychee fruits	**819**	172
Longan fruits	**76**	45
Winter date fruits	**–**	–
	895	217
	Tons	Tons
Saleable output:		
Lychee fruits	**163**	81
Longan fruits	**33**	14
Winter date fruits	**–**	–
	196	95

Significant assumptions made in determining the fair value of the biological assets are as follows:

(a) the fruit trees will continue to be competently managed and remain free from irremediable diseases in their remaining estimated useful lives;

(b) the expected prices of lychee, longan and winter date fruits are based on the past actual average district prices; and

(c) the future cash flows have been discounted at the target rate of return on equity of the agriculture and woods segment.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Furniture and leasehold improvements HK$'000	Machinery and equipment HK$'000	Moulds and tools HK$'000	Motor vehicles and vessels HK$'000	Total HK$'000
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
Cost or valuation	199,265	202,702	236,855	10,852	21,797	671,471
Accumulated depreciation and impairment	(57,342)	(173,076)	(181,222)	(8,540)	(16,239)	(436,419)
Net carrying amount	141,923	29,626	55,633	2,312	5,558	235,052
At 1 January 2008, net of accumulated depreciation and impairment	141,923	29,626	55,633	2,312	5,558	235,052
Additions	59	13,613	7,344	1,662	3,068	25,746
Acquisition of subsidiaries (note 45)	37,745	–	532	–	961	39,238
Disposals/write-offs	–	(33)	(40)	–	(261)	(334)
Reclassification	–	(71)	(147)	–	218	–
Transfer from construction in progress (note 19)	–	547	–	–	–	547
Transfer to investment properties, net (note 17)	(4,466)	–	–	–	–	(4,466)
Depreciation provided during the year (note 6)	(10,875)	(13,515)	(15,929)	(1,132)	(2,026)	(43,477)
Exchange realignment	3,458	96	2,216	–	187	5,957
At 31 December 2008, net of accumulated depreciation and impairment	167,844	30,263	49,609	2,842	7,705	258,263
At 31 December 2008:						
Cost or valuation	237,081	216,607	246,851	10,547	25,733	736,819
Accumulated depreciation and impairment	(69,237)	(186,344)	(197,242)	(7,705)	(18,028)	(478,556)
Net carrying amount	167,844	30,263	49,609	2,842	7,705	258,263
Analysis of cost or valuation:						
At cost	189,572	216,607	246,851	10,547	25,733	689,310
At 31 December 1988 valuation	31,112	–	–	–	–	31,112
At 31 December 1989 valuation	5,220	–	–	–	–	5,220
At 31 December 1992 valuation	204	–	–	–	–	204
At 31 December 1994 valuation	10,973	–	–	–	–	10,973
	237,081	216,607	246,851	10,547	25,733	736,819

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

Group *(Continued)*

	Leasehold land and buildings HK$'000	Furniture and leasehold improvements HK$'000	Machinery and equipment HK$'000	Moulds and tools HK$'000	Motor vehicles and vessels HK$'000	Total HK$'000
31 December 2007						
At 31 December 2006 and at 1 January 2007:						
Cost or valuation	220,032	205,000	235,207	20,084	22,038	702,361
Accumulated depreciation and impairment	(31,947)	(170,338)	(165,353)	(11,459)	(17,588)	(396,685)
Net carrying amount	188,085	34,662	69,854	8,625	4,450	305,676
At 1 January 2007, net of accumulated depreciation and impairment	188,085	34,662	69,854	8,625	4,450	305,676
Adjusted for the acquisition of a subsidiary under merger accounting	–	68	649	–	–	717
Additions	10,369	12,441	16,284	868	4,110	44,072
Acquisition of subsidiaries	4,244	–	738	–	74	5,056
Assets included in discontinued operations	(10,694)	(1,168)	(4,047)	–	(361)	(16,270)
Disposal of a subsidiary (note 46)	(2,116)	(1,998)	(10,306)	(6,070)	(75)	(20,565)
Disposals/write-offs	(465)	(21)	(1,314)	(1)	(344)	(2,145)
Reclassification	–	(504)	504	–	–	–
Write-back of impairment loss	2,569	–	–	–	–	2,569
Transfer to investment properties, net (note 17)	(70,924)	–	–	–	–	(70,924)
Depreciation provided during the year (note 6)	(8,922)	(13,918)	(18,222)	(1,110)	(2,406)	(44,578)
Exchange realignment	1,670	64	1,493	–	110	3,337
Fair value adjustment	28,107	–	–	–	–	28,107
At 31 December 2007, net of accumulated depreciation and impairment	141,923	29,626	55,633	2,312	5,558	235,052
At 31 December 2007:						
Cost or valuation	199,265	202,702	236,855	10,852	21,797	671,471
Accumulated depreciation and impairment	(57,342)	(173,076)	(181,222)	(8,540)	(16,239)	(436,419)
Net carrying amount	141,923	29,626	55,633	2,312	5,558	235,052
Analysis of cost or valuation:						
At cost	151,756	202,702	236,855	10,852	21,797	623,962
At 31 December 1988 valuation	31,112	–	–	–	–	31,112
At 31 December 1989 valuation	5,220	–	–	–	–	5,220
At 31 December 1992 valuation	204	–	–	–	–	204
At 31 December 1994 valuation	10,973	–	–	–	–	10,973
	199,265	202,702	236,855	10,852	21,797	671,471

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

The Group's land and buildings are situated in Hong Kong and Mainland China and are held under the following lease terms:

	Group	
	2008	2007
	HK$'000	HK$'000
Hong Kong:		
Medium term leases	**41,657**	47,812
Mainland China:		
Medium term land use rights	**54,614**	59,586
In the process of applying land use rights	**71,573**	34,525
	167,844	141,923

The Group was in the process of applying the land use right certificates in respect of the Group's certain leasehold properties amounting to approximately HK$71,573,000 as at 31 December 2008, (2007: HK$34,525,000). The directors do not expect any legal obstacle for the Group in obtaining the relevant title certificates.

During the year, the Group has transferred certain leasehold land and buildings of HK$4,466,000 at fair value, to investment properties (2007: HK$70,924,000).

The net book values of the items of property, plant and equipment held under finance leases and hire purchase contracts are summarised below:

	2008	2007
	HK$'000	HK$'000
Furniture and leasehold improvements	**23**	32
Machinery and equipment	**3,169**	10,344
	3,192	10,376

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

Certain of the Group's land and buildings were revalued on and before 31 December 1994. The land and buildings were revalued at open market value, based on their existing use. Since 1995, no further revaluations of the Group's land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions in paragraph 80A of HKAS 16, from the requirement to carry out future revaluations of its property, plant and equipment which were stated at valuation at that time.

Had land and buildings been carried at cost less accumulated depreciation and impairment losses, the net book value of the Group's land and buildings at 31 December 2008 would have been approximately HK$108,380,000 (2007: HK$82,459,000).

At 31 December 2008, certain of the Group's leasehold land and buildings and machinery and equipment with a net book value of approximately HK$65,087,000 (2007: HK$33,255,000) and HK$3,169,000 (2007: HK$8,997,000) respectively, were pledged to secure banking facilities granted to the Group (note 36).

17. INVESTMENT PROPERTIES

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**1,122,341**	819,146
Transfer from land and buildings, net (note 16)	**4,466**	70,924
Transfer from non-current assets classified as held for sale	**–**	53,300
Transfer from prepaid land lease payments (note 18)	**–**	8,223
Acquisition of subsidiaries (note 45)	**404,128**	35,270
Disposals	**(1,135)**	–
Net profit from fair value adjustment	**31,941**	103,603
Exchange realignment	**57,932**	31,875
Carrying amount at 31 December	**1,619,673**	1,122,341

17. INVESTMENT PROPERTIES *(Continued)*

The Group's investment properties are situated in Hong Kong, Taiwan and Mainland China, and are held under the following lease terms:

	Group	
	2008	2007
	HK$'000	HK$'000
Hong Kong:		
Long term lease	**280,337**	269,427
Medium term leases	**197,900**	182,300
	478,237	451,727
Taiwan:		
Freehold	**25,387**	26,100
Mainland China:		
Short term lease	**–**	2,385
Medium term leases	**1,116,049**	642,129
	1,116,049	644,514
	1,619,673	1,122,341

The Group's investment properties were revalued on 31 December 2008 by BMI Appraisals Limited, independent professionally qualified valuers, at HK$1,619,673,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases. Further summary details of the investment properties are included in note 50(a) to the financial statements.

At 31 December 2008, the Group's investment properties with a value of HK$478,237,000 (2007: HK$453,719,000) were pledged and mortgaged to secure general banking facilities and bank loans granted to the Group (note 36).

The Group was in the process of applying the land use rights certificates in respect of the Group's certain investment properties located in Mainland China amounting to approximately HK$1,010,727,000 at 31 December 2008 (2007: HK$547,032,000). The directors do not expect any legal obstacle for the Group in obtaining the relevant title certificates.

Further particulars of the Group's investment properties are included on page 122 to 127.

18. PREPAID LAND LEASE PAYMENTS

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**20,513**	31,973
Exchange realignment	**1,269**	161
Additions	**3,249**	–
Acquisition of subsidiaries (note 45)	**26,261**	329
Disposal of subsidiaries (note 46)	**–**	(3,119)
Recognised during the year (note 6)	**(1,484)**	(608)
Transfer to investment properties (note 17)	**–**	(8,223)
Carrying amount at 31 December	**49,808**	20,513
Current portion included in prepayments, deposits and other receivables	**(1,485)**	(486)
Non-current portion	**48,323**	20,027

The leasehold lands are held under medium term leases and are situated in Mainland China.

19. CONSTRUCTION IN PROGRESS

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**263,444**	208,737
Exchange realignment	**1,226**	15,664
Acquisition of subsidiaries (note 45)	**1,352**	–
Additions	**3,423**	40,795
Transferred to properties under developments (note 25)	**(241,509)**	–
Transferred to property, plant and equipment (note 16)	**(547)**	–
Transferred to biological assets (note 15)	**(110)**	–
Impairment loss (note 6)	**–**	(1,752)
Carrying amount at 31 December	**27,279**	263,444

20. GOODWILL

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January:		
Cost	**3,384**	22,070
Accumulated impairment	**–**	(625)
Net carrying amount	**3,384**	21,445
Carrying amount at 1 January	**3,384**	21,445
Acquisition of subsidiaries	**–**	2,010
Disposal of subsidiaries (note 46)	**–**	(20,071)
Acquisition of minority interests in a subsidiary	**2,130**	–
At 31 December	**5,514**	3,384
At 31 December:		
Cost	**5,514**	3,384
Accumulated impairment	**–**	–
Net carrying amount	**5,514**	3,384

The amount of goodwill remaining in the consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001 was HK$3,067,000 (2007: HK$3,067,000) as at 31 December 2008.

Impairment testing of goodwill

Goodwill acquired through business combinations have been allocated to the following cash generating units, which are reportable segments, for impairment testing:

- Property investment and development cash generating unit; and
- Toy manufacturing cash-generating unit.

Property investment and development cash-generating unit

The recoverable amount of the property investment and development cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 10% (2007: 16%) and cash flows beyond the five-year period are extrapolated using a growth rate of 5% (2007: 5%) which are the same as the long term average growth rate of the property investment and development industry.

20. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Toy manufacturing cash-generating unit

The recoverable amount of the toy manufacturing cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 17% (2007: 16%) and cash flows beyond the five-year period are extrapolated using a growth rate of 2% (2007: 7%) which are the same as the long term average growth rate of the toy and footwear products industry.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2008	2007
	HK$'000	HK$'000
Cash-generating unit:		
Property investment and development	**4,140**	2,010
Toy manufacturing	**1,374**	1,374
	5,514	3,384

Key assumptions were used in the value-in-use calculation of the property investment and development and toy manufacturing cash-generating units for 31 December 2008 and 31 December 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

21. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**234,018**	234,018
Due from subsidiaries	**1,218,758**	794,237
	1,452,776	1,028,255

The amounts due from subsidiaries are unsecured, interest-free and are not repayable within twelve months from the balance sheet date. The carrying amounts of these amounts due from subsidiaries are approximate to their fair values.

The amounts due to subsidiaries included in the Company's non-current liabilities of HK$712,177,000 (2007: HK$496,006,000) are unsecured, interest-free and are not repayable within twelve months from the balance sheet date. The carrying amounts of these amounts due to subsidiaries are approximate to their fair values.

Details of the Company's principal subsidiaries are set out in note 56 to the financial statements.

22. INTERESTS IN ASSOCIATES

		Group	
		2008	2007
	Note	**HK$'000**	HK$'000
Share of net assets:			
Unlisted associates		**296,215**	291,562
Advances to associates		**41,748**	23,255
Provision for impairment#		**(25,436)**	(11,200)
		16,312	12,055
Provision for financial guarantee in respect of banking facilities of an associate	6	**(14,700)**	–
		297,827	303,617

An impairment was recognised for the advances to an associate as the associate has incurred recurring losses in prior years and its future profit stream is uncertain.

22. INTERESTS IN ASSOCIATES *(Continued)*

The Group has given a guarantee in an amount of HK$396,000,000 (2007: HK$210,000,000) to secure banking facilities granted to Firm Wise Investment Limited ("FWIL") of which HK$379,800,000 was utilised as at 31 December 2008 (2007: HK$191,850,000). The banking facilities are due to be mature in November 2012. The guarantees given were used on refinancing an investment property in Hong Kong.

The Group has given a guarantee in an amount of HK$20,000,000 (2007: HK$20,000,000) to secure banking facilities granted to Nority Limited ("Nority") of which HK$14,700,000 was utilised as at 31 December 2008 (2007: HK$11,714,000). The banking facilities are due on demand. The advances to Nority were used and the banking facilities were utilised to finance its trading and manufacturing operation. In the opinion of the directors, Nority's financial ability to repay the loans drawn under the banking facilities was uncertain. As such, a provision of HK$14,700,000 was made for the Group's and Company's liability under the abovementioned guarantee.

The movement in the provision for impairment of advances to associates is as follows:

		Group	
	Note	**2008**	2007
		HK$'000	HK$'000
At 1 January		**11,200**	700
Impairment losses recognised	6	**14,236**	10,500
At 31 December		**25,436**	11,200

Except for the amount due from an associate of HK$212,853,000 as at 31 December 2007 which carries interest at 0.5% per annum, the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, advances to associates of HK$41,748,000 (2007: HK$23,255,000) are not repayable within twelve months from the balance sheet date and are classified in the balance sheet as non-current accordingly. The carrying amounts of the balances with associates are approximate to their fair values.

During the year, the Group completed the following acquisitions:

(a) acquired an additional 41.7% interest in Nanjing South China Santa Machinery Co., Ltd ("SC Santa"), a then 51%-owned associate of the Group, indirectly through the acquisition of an 85% interest in 南京液壓件二廠有限公司 ("Nanjing Hydraulic Press"). Subsequent to the acquisition, SC Santa becomes an indirectly-owned subsidiary of the Company;

(b) acquired an additional 49% interest in Nanjing South China Hua Guan Compressor Ltd. ("SC Hua Guan"), a then 51%-owned associate of the Group, indirectly through the acquisition of the entire interest in 南京第二壓縮機有限公司 ("Nanjing Compressor"). Subsequent to the acquisition, SC Hua Guan becomes an indirectly-owned subsidiary of the Company; and

(c) acquired an additional 49% interest in Nanjing South China Sanda Motor Co., Ltd ("SC Sanda"), a then 51%-owned associate of the Group, indirectly through the acquisition of the entire interest in 南京電機有限公司 ("Nanjing Power Machinery"). Subsequent to the acquisition, SC Sanda becomes an indirectly-owned subsidiary of the Company.

Further details of the acquisition are included in note 45 to the financial statements.

22. INTERESTS IN ASSOCIATES *(Continued)*

The following table illustrates the summarised financial information of FWIL, extracted from its management accounts as adjusted for the fair value of the investment property based on the valuation performed by BMI Appraisals Limited.

	2008	2007
	HK$'000	HK$'000
Assets	**2,551,759**	2,617,367
Liabilities	**1,545,404**	1,628,377
Turnover	**137,220**	113,002
Profit	**5,209**	705,187

The following table illustrates the summarised financial information of the Group's other associates extracted from their management accounts.

Other associates

	2008	2007
	HK$'000	HK$'000
Assets	**89,809**	112,047
Liabilities	**82,158**	123,035
Turnover	**163,313**	86,324
Loss	**(16,816)**	(35,105)

Details of the principal associates are set out in note 57 to the financial statements.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2008	2007
	HK$'000	HK$'000
Club debentures, at fair value	**43,755**	35,865
Unlisted equity investments, at cost	**526**	2,304
	44,281	38,169

During the year, the fair value gain of the Group's club debentures recognised directly in equity amounts to HK$7,890,000 (2007: HK$17,580,000) and no impairment in respect of the Group's debentures was recognised in the consolidated income statement (2007: Nil).

The above investments consist of the investments in unlisted equity securities and club debentures which were designated as available-for-sale financial assets.

The directors consider that the fair value of the unlisted equity investments cannot be measured reliably given the absence of market information for companies of similar nature and scale and the probabilities of the various estimates to be used in estimating fair value cannot be reasonably assessed. As such, the unlisted equity investments are carried at cost.

24. OTHER NON-CURRENT ASSETS

	Group	
	2008	2007
	HK$'000	HK$'000
Berths, at costs	**16,666**	16,666
Others	**4,883**	–
	21,549	16,666

25. PROPERTIES UNDER DEVELOPMENT

	Notes	Group 2008 HK$'000	2007 HK$'000
Carrying amount at 1 January		–	–
Additions		**182,175**	–
Interest capitalised in properties under development	7	**5,348**	–
Transferred from construction in progress	19	**241,509**	–
Exchange realignment		**19,702**	–
Carrying amount at 31 December		**448,734**	–
Portion classified as current assets		**(448,734)**	–
Non-current portion		**–**	–

All properties under development are situated in Mainland China. An analysis by lease term of the carrying value of the properties under development is as follows:

	Group 2008 HK$'000	2007 HK$'000
Medium term leases	**448,734**	–

At 31 December 2008, certain properties under development with an aggregate carrying value of HK$154,632,000 (2007: Nil) were pledged to banks to secure banking facilities granted to the Group as further set out in note 36 to the financial statements.

At 31 December 2008, leasehold interests in land located in the PRC with net carrying amount of approximately HK$3,134,000 (2007: Nil) is in the process of applying for the land use rights certificate up to the approval date of these financial statements. The directors do not expect any legal obstacle for the Group in obtaining the relevant title certificate.

Further particulars of the Group's properties under development are included on page 128.

26. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**165,257**	168,036
Work in progress	**89,539**	95,348
Finished goods	**95,950**	75,119
	350,746	338,503
Provision against obsolete inventories	**(53,767)**	(75,537)
	296,979	262,966

At 31 December 2008, the Group's inventories with a value of HK$142,989,000 (2007: HK$144,027,000) were pledged to secure general banking facilities granted to the Group (notes 36 & 49).

27. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**227,961**	197,194
Impairment	**(56,869)**	(61,483)
	171,092	135,711

The Group's trading terms with its customers are on credit with credit periods ranging from period of one to three months depending on a number of factors including trade practices, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

The carrying amount of the trade receivables is approximate to its fair value.

27. TRADE RECEIVABLES *(Continued)*

An ageing analysis of trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within 90 days	**151,416**	115,373
91 to 180 days	**10,877**	15,654
181 to 365 days	**3,521**	2,288
Over 365 days	**5,278**	2,396
	171,092	135,711

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

	2008	2007
	HK$'000	HK$'000
At 1 January	**61,483**	65,078
Exchange realignment	**(22)**	222
Impairment loss recognised (note 6)	**483**	914
Impairment loss reversed (note 6)	**(1,063)**	(1,312)
Amount written off as uncollectible	**(50)**	–
Disposal of subsidiaries	**(3,962)**	(3,419)
At 31 December	**56,869**	61,483

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivable of HK$56,869,000 (2007: HK$61,483,000) with a carrying amount of HK$56,869,000 (2007: HK$61,483,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

27. TRADE RECEIVABLES *(Continued)*

The aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2008 HK$'000	2007 HK$'000
Within 90 days	**151,416**	115,373
91 to 180 days	**10,877**	15,654
181 to 365 days	**3,521**	2,288
Over 365 days	**5,278**	2,396
	171,092	135,711

Receivables not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

At 31 December 2008, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The carrying amounts of the Group's and Company's other receivables, prepayments and deposits are approximate to their fair values.

29. DUE FROM/(TO) A MINORITY SHAREHOLDER OF SUBSIDIARIES

The amount due from/(to) a minority shareholder of subsidiaries is unsecured, interest-free and repayable on demand. The carrying value of the amount due from/(to) a minority shareholder of subsidiaries is approximate to its fair value.

30. DUE FROM AFFILIATES

		Group		Company	
	Note	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Due from fellow subsidiaries		**–**	8,887	**–**	–
Due from an intermediate holding company		**–**	709	**–**	650
Due from associates	22	**–**	234,045	**–**	–
		–	243,641	**–**	650

Except for the amounts due from associates (refer to note 22 for details), the amounts due from affiliates are unsecured, interest-free and have no fixed terms of repayment. The carrying values of the amounts due from affiliates are approximate to their fair values.

31. DUE TO AFFILIATES

		Group		Company	
	Note	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Due to an associate	22	**1,846**	–	**–**	–
Due to fellow subsidiaries		**–**	17,128	**–**	–
Due to an intermediate holding company		**8,062**	–	**11,624**	–
Due to related parties#		**224**	13,098	**–**	–
		10,132	30,226	**11,624**	–

Certain related parties or the directors of the related companies are also the directors of the Company.

As at 31 December 2008, the amounts due to affiliates are unsecured, interest-free and have no fixed terms of repayment. The carrying values of the amounts due to affiliates are approximate to their fair values.

As at 31 December 2007, except for the amount due to a fellow subsidiary of HK$15,859,000 that carried interest at 4% over the Hong Kong dollar prime rate, the amounts due to affiliates were unsecured, interest-free and had no fixed terms of repayment.

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2008	2007
	HK$'000	HK$'000
Equity investments at market value listed in:		
Hong Kong	**10,246**	54,513
Mainland China	**699**	–
	10,945	54,513

The above equity investments at 31 December 2008 were classified as held for trading. The market value of the Group's short term investments at the date of approval of these financial statements was approximately HK$13,506,000.

33. CASH AND BANK BALANCES

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$66,912,000 (2007: HK$42,969,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

34. TRADE AND BILLS PAYABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade payables	**268,108**	263,857
Bills payable	**3,516**	3,777
	271,624	267,634

An ageing analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within 90 days	**191,942**	223,491
91 to 180 days	**22,298**	24,507
181 to 365 days	**2,925**	5,199
Over 365 days	**50,943**	10,660
	268,108	263,857

The trade payables are non-interest-bearing and normally settled on 90-day terms. The carrying amounts of the trade and bills payables are approximate to their fair values.

35. OTHER PAYABLES AND ACCRUALS

Other payables are non-interest-bearing and have an average term of three months. The Group's and the Company's other payables are approximate to their fair values.

36. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2008 HK$'000	Group 2007 HK$'000	Company 2008 HK$'000	Company 2007 HK$'000
Current						
Finance lease payables (note 37)	1.75-5.25	2009	**1,439**	3,809	–	–
Bank overdrafts – secured	5.25-6.25	On demand	**872**	16,448	–	–
Bank loans – unsecured	5.67-9.63	2009	**8,371**	4,793	–	–
Bank loans – secured	1.05-7.65	2009	**247,944**	183,473	–	16,116
Trust receipt loans – secured	1.85-5.70	2009	**142,989**	144,027	–	–
			401,615	352,550	–	16,116
Non-current						
Finance lease payables (note 37)			–	1,449	–	–
Bank loans – secured	1.05-7.65	2010-2017	**281,845**	179,685	–	–
			281,845	181,134	–	–
			683,460	533,684	–	16,116
Analysed into:						
Bank loans and overdrafts repayable:						
Within one year or on demand			**400,176**	348,741	–	16,116
In the second year			**141,822**	76,889	–	–
In the third to fifth years, inclusive			**104,107**	40,957	–	–
Over five years			**35,916**	61,839	–	–
			682,021	528,426	–	16,116
Finance leases repayable:						
Within one year or on demand			**1,439**	3,809	–	–
In the second year			–	1,449	–	–
			1,439	5,258	–	–
			683,460	533,684	–	16,116

Notes:

(a) At the balance sheet date, the Group's bank and other borrowings of approximately HK$675,089,000 (2007: HK$528,891,000) are secured by:

(i) pledges and mortgages over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$478,237,000 (2007: HK$453,719,000) (note 17);

(ii) pledges and mortgages over the Group's leasehold land and buildings, which had an aggregate carrying value at the balance sheet date of approximately HK$65,087,000 (2007: HK$33,255,000) (note 16);

36. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

(iii) pledges over the Group's properties under development with carrying amount of approximately HK$154,632,000 (2007: Nil) (note 25);

(iv) pledges over the Group's inventories which had an aggregate carrying value at the balance sheet date of approximately HK$142,989,000 (2007: HK$144,027,000) (note 26);

(v) charges over the Group's machinery and equipment, which had an aggregate carrying value at the balance sheet date of approximately HK$3,169,000 (2007: HK$8,997,000) (note 16);

(b) Except for secured bank loans with an aggregate amount of HK$45,413,000 (2007: HK$1,883,000) and HK$16,116,000 as at 31 December 2007, which are denominated in Renminbi and United States dollars, respectively, and unsecured bank loans of HK$8,371,000 (2007: HK$4,793,000) which are denominated in Renminbi, all other borrowings are in Hong Kong dollars.

The carrying amounts of the Group's and the Company's borrowings are approximate to their fair values. The fair values of borrowings are estimated to be the present values of future cash flows, discounted at prevailing interest rates at 31 December 2008.

37. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery and motor vehicle for its manufacturing businesses. These leases are classified as finance leases and have remaining lease terms within one year.

At 31 December 2008, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payment		**Present value of minimum lease payments**	
Group	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Amounts payable:				
Within one year	**1,459**	3,990	**1,439**	3,809
In the second year	**–**	1,483	**–**	1,449
Total minimum finance lease payments	**1,459**	5,473	**1,439**	5,258
Future finance charges	**(20)**	(215)		
Total net finance lease payables	**1,439**	5,258		
Portion classified as current liabilities (note 36)	**(1,439)**	(3,809)		
Non-current portion (note 36)	**–**	1,449		

38. ADVANCES FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

The advances from minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore presented in the balance sheet as non-current. The carrying amounts of the advances from minority shareholders of subsidiaries are approximate to their fair values.

39. OTHER NON-CURRENT LIABILITIES

	Group	
	2008	2007
	HK$'000	HK$'000
Provision for severance payments	76,866	41,259
Others	8,553	–
	85,419	41,259

The movement in the provision for severance payments is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**41,259**	32,601
Exchange realignment	**4,374**	2,431
Acquisition of subsidiaries (note 45)	**31,856**	7,500
Amounts utilised during the year	**(623)**	(1,273)
At 31 December	**76,866**	41,259
Portion classified as current liabilities	**–**	–
Non-current portion	**76,866**	41,259

The provision for severance payments arose from the acquisition of certain PRC subsidiaries under the relevant regulations in Mainland China.

40. PROMISSORY NOTES

		Group	
	Effective interest rate (%)	**2008 HK$'000**	2007 HK$'000
Issued to a substantial shareholder	2.00	**97,079**	95,959

During the year, the Group issued an additional promissory note with a principal amount of HK$1,120,000 (2007: HK$95,959,000) to a substantial shareholder of the Group in respect of the acquisition of an additional 0.79% (2007: 67.66%) equity interest in a subsidiary. The promissory notes are unsecured, bear interest at 2% per annum and are wholly repayable on 17 June 2010 and 8 July 2010. The carrying amounts of the promissory notes are approximate to their fair values.

41. DEFERRED TAX

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

Deferred tax liabilities

Group

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2007	6,507	137,491	(11,922)	132,076
Exchange realignment	(196)	6,699	–	6,503
Deferred tax charged/(credited) to the income statement (note 10)	6,899	(11,772)	(2,494)	(7,367)
Deferred tax charged to land and buildings revaluation reserve	2,900	–	–	2,900
At 31 December 2007	16,110	132,418	(14,416)	134,112
At 1 January 2008	16,110	132,418	(14,416)	134,112
Exchange realignment	(450)	10,910	–	10,460
Deferred tax charged/(credited) to the income statement (note 10)	(3,362)	2,890	10,533	10,061
Acquisition of subsidiaries (note 45)	–	74,947	–	74,947
At 31 December 2008	12,298	221,165	(3,883)	229,580

Deferred tax assets

Group

	Loss available for offsetting against future taxable profits HK$'000
At 1 January 2007	(6,989)
Deferred tax credited to the income statement	4,481
Disposal of a subsidiary (note 46)	2,508
Deferred tax assets at 31 December 2007 and 31 December 2008	–

41. DEFERRED TAX *(Continued)*

Deferred tax assets *(Continued)*

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**393,453**	279,562	**26,436**	26,436

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$100,547,000 (2007: HK$85,800,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2008, no deferred tax has been recognised for withholding dividend taxes that would be payable on the unremitted earnings, that are subject to withholding dividend taxes of the Group's subsidiaries, established in the Mainland China. Up to the date of this report, the Group's subsidiaries operating in the Mainland China have not declared any dividends in respect of their earnings incurred after 1 January 2008. The aggregate amount of temporary differences arising from the above unremitted earnings of the subsidiaries in the Mainland China for which deferred tax liabilities have not been recognised as deferred tax liability is considered to be insignificant as at 31 December 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

42. SHARE CAPITAL

Shares

	Number of shares	Amount HK$'000
Authorised:		
Share of HK$0.02 each at 1 January 2008 and 31 December 2008	5,000,000,000	100,000

	Number of shares	Amount HK$'000
Issued and fully paid:		
Share of HK$0.02 each at 1 January 2008	2,651,880,726	53,038
Warrants exercised (note a)	94,700	2
Share of HK$0.02 each at 31 December 2008	2,651,975,426	53,040

Notes:

(a) 94,700 shares (2007: 207,016 shares) of HK$0.02 each were issued for cash at a subscription price of HK$0.4 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK$38,000 (2007: HK$83,000).

(b) On 21 August 2007, ordinary resolutions were passed to approve the subdivision of each of the existing issued and unissued shares of HK$0.1 each in the share capital of the Company into five shares of HK$0.02 each (the "Subdivided Shares"). Immediately after the share subdivision, the authorised share capital of the Company comprised 2,651,673,710 issued Subdivided Shares and 2,348,326,290 unissued Subdivided Shares of HK$0.02 each.

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2007	530,334,742	53,033	193,410	246,443
Share subdivision	2,121,338,968	–	–	–
Warrants exercised	207,016	5	78	83
At 31 December 2007 and at 1 January 2008	2,651,880,726	53,038	193,488	246,526
Warrants exercised	94,700	2	36	38
At 31 December 2008	2,651,975,426	53,040	193,524	246,564

42. SHARE CAPITAL *(Continued)*

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 43 to the financial statements.

Warrants

At 1 January 2008, the Company had 530,127,726 outstanding warrants which entitled the holders to subscribe in cash for fully paid ordinary shares of HK$0.02 each in the Company at a subscription price of HK$0.40 per share, payable in cash and subject to adjustment, on or before 6 September 2010. During the year, 94,700 warrants were exercised. At the balance sheet date, the Company had 530,033,026 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 530,033,026 additional shares of HK$0.02 each.

43. SHARE OPTION SCHEMES

The directors and employees of the Company and its subsidiaries are entitled to participate in share option schemes operated by the Group (the "Share Option Schemes"). Details of these schemes are as follows:

(a) Purpose of the Share Option Schemes

In order to provide a flexible means of giving incentives or reward to the participants for their contribution to the Group and enable the Group to attract and retain employees of appropriate qualifications and with necessary experience to work for the Group and for any entity in which any member of the Group holds equity interests (the "Invested Entity"), the shareholders of each of the Company and SCL (together the "Companies") approved the adoption of the Share Option Scheme at the annual general meeting held on 31 May 2002 and 24 June 2002 respectively.

(b) Participants of the Share Option Schemes

(1) *For the share option scheme of the Company*

(i) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group or any Invested Entity or substantial shareholder;

(ii) any non-executive director (including any independent non-executive director) of any member of the Group or any Invested Entity or substantial shareholder;

(iii) any individual for the time being seconded to work for any member of the Group or any Invested Entity or substantial shareholder;

(iv) any shareholder of any member of the Group or any Invested Entity or substantial shareholder or any holder of any securities issued by any member of the Group or any Invested Entity or substantial shareholder;

(v) any business partner, consultant or contractor or representative of any member of the Group or any Invested Entity or substantial shareholder;

(vi) any supplier of goods or services to any member of the Group or any Invested Entity or substantial shareholder;

(vii) any customer of any member of the Group or any Invested Entity or substantial shareholder;

43. SHARE OPTION SCHEMES *(Continued)*

(b) Participants of the Share Option Schemes *(Continued)*

(1) *For the share option scheme of the Company (Continued)*

(viii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any Invested Entity or substantial shareholder;

(ix) any other group or classes of participants form time to time determined by the Directors as being contributed or may contribute to the development and growth of any member of the Group (including any discretionary object of a participant which is a discretionary trust); and

(x) any company wholly owned by one or more persons belonging to any of the above classes of participants.

(2) *For the share option scheme of SCL*

Any full time or part time employee (including any executive and non-executive director or proposed executive and non-executive director) of SCL and its subsidiaries (the "SCL Group"), adviser, consultant, contractor, client or supplier who has contributed to the SCL Group.

(c) Total number of shares available for issue under the Share Option Schemes

As at the date of this Annual Report the total number of shares available for issue under the Share Option Schemes are as follows:

(i) A total of 265,167,371 shares of the Company are available for issue under the Company's share option scheme, which represents 10% of the issued share capital of the Company as at the date of this Annual Report.

(ii) A total of 50,649,834 shares of SCL are available for issue under the SCL's share option scheme, which represents 10% of the issued share capital of the SCL as at the date of this Annual Report.

(d) Maximum entitlement of each participant

No participant shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted under the Share Option Schemes (including both exercised and outstanding options) in any 12 month period up to the date of grant to such participant would exceed 1% of the shares for the time being in issue unless the proposed grant has been approved by the shareholders of the respective companies in general meetings with the proposed participant and his associates (as defined in the Listing Rules and the GEM Listing Rules) abstaining from voting.

(e) Period within which the shares must be taken up under an option

The respective boards of the Companies may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of grant. The board may also impose restrictions on the exercise of a share option during the period a share option may be exercised.

43. SHARE OPTION SCHEMES *(Continued)*

(f) Minimum period, if any, for which an option must be held before it can be exercised

There is no specific requirement under the Share Option Schemes that an option must be held for any minimum period before it can be exercised, but the terms of the Share Option Schemes provide that the respective board has the discretion to impose a minimum period at the time of grant of any particular option.

(g) Amount payable upon acceptance of the option and the period within which the payment must be made

An amount of HK$1 for each lot of share options granted is payable upon acceptance of the options within 5 business days from the date of offer of the option.

(h) Basis of determining the exercise price of the option

The exercise price is determined by the respective boards of the Companies, and shall be at least the higher of: (i) the closing price of the respective company shares as stated in the Stock Exchange's daily quotations sheet on the date of offer; (ii) the average closing price of the respective company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the respective company's shares.

(i) Remaining life of the share option schemes

Subject to early termination of the Share Option Schemes pursuant to the terms thereof, the share option scheme of the Company and SCL will be valid and effective for a period of 10 years commencing on the date on which it became unconditional on 18 June 2002 and 18 July 2002 respectively.

Save as disclosed above, Nority International Group Limited ("NIG") (now known as "Wai Chun Mining Industry Group Company Limited"), a then subsidiary of the Group had been disposed of during the year ended 31 December 2007 and the Group had withdrawn from the NIG's share option scheme.

The following share options were outstanding under the share option scheme of the Company during the year:

	2008		2007	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.5**	**114,500**	–	–
Granted during the year	**–**	**–**	1.5	115,100
Forfeited during the year	**1.5**	**(12,700)**	1.5	(600)
Exercised during the year	**–**	**–**	–	–
At 31 December	**1.5**	**101,800**	1.5	114,500

43. SHARE OPTION SCHEMES *(Continued)*

The following share options of the Company were outstanding under the share option scheme during the year:

Name or category of participant	Outstanding as at 1 January 2008	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2008	Date of grant of share options* (DD/MM/YYYY)	Exercise period of share options (DD/MM/YYYY)	Subscription price per share** HK$
	Number of share options								
Directors of the Company									
Ms. Cheung Choi Ngor	8,666,666	–	–	–	–	8,666,666	18/09/2007	18/09/2008 – 17/09/2017	1.500
	8,666,667	–	–	–	–	8,666,667	18/09/2007	18/09/2009 – 17/09/2017	1.500
	8,666,667	–	–	–	–	8,666,667	18/09/2007	18/09/2010 – 17/09/2017	1.500
Mr. Ng Yuk Fung, Peter	8,666,666	–	–	–	–	8,666,666	18/09/2007	18/09/2008 – 17/09/2017	1.500
	8,666,667	–	–	–	–	8,666,667	18/09/2007	18/09/2009 – 17/09/2017	1.500
	8,666,667	–	–	–	–	8,666,667	18/09/2007	18/09/2010 – 17/09/2017	1.500
Sub-total	52,000,000	–	–	–	–	52,000,000			
Consultants									
In aggregate									
	1,399,999	–	–	–	–	1,399,999	18/09/2007	18/09/2008 – 17/09/2017	1.500
	1,399,999	–	–	–	–	1,399,999	18/09/2007	18/09/2009 – 17/09/2017	1.500
	1,400,002	–	–	–	–	1,400,002	18/09/2007	18/09/2010 – 17/09/2017	1.500
Sub-total	4,200,000	–	–	–	–	4,200,000			
Employees									
In aggregate	15,599,997	–	–	3,933,332	–	11,666,665	18/09/2007	18/09/2008 – 17/09/2017	1.500
	15,599,998	–	–	3,933,332	–	11,666,666	18/09/2007	18/09/2009 – 17/09/2017	1.500
	15,600,005	–	–	3,933,336	–	11,666,669	18/09/2007	18/09/2010 – 17/09/2017	1.500
	3,833,332	–	–	300,000	–	3,533,332	25/09/2007	25/09/2008 – 24/09/2017	1.500
	3,833,332	–	–	300,000	–	3,533,332	25/09/2007	25/09/2009 – 24/09/2017	1.500
	3,833,336	–	–	300,000	–	3,533,336	25/09/2007	25/09/2010 – 24/09/2017	1.500
Sub-total	58,300,000	–	–	12,700,000	–	45,600,000			
Total	114,500,000	–	–	12,700,000	–	101,800,000			

43. SHARE OPTION SCHEMES *(Continued)*

Notes:

* All share options granted are subject to a vesting period and becoming exercisable in the following manner:

From the date of grant of share options	**Exercisable percentage**
	%
Within 12 months	–
13th month – 120th month	Not more than $33^1/_3$
25th month – 120th month	Not more than $66^1/_3$
37th month – 120th month	100

The unexercised share options of each exercise period shall lapse at the end of the respective exercise period.

** The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of the Company.

The fair value of the share options granted during the year ended 31 December 2007 was HK$62,481,000 of which the Group recognised a share option expense of HK$20,219,000 (2007: HK$10,787,000) during the year ended 31 December 2008.

The fair value of equity-settled share options granted during the year ended 31 December 2007 was estimated as at the date of grant using a trinomial model, taking into account the terms and conditions upon which the options were granted. No share option was granted during the year. The following table lists the inputs to the model used:

	2007
Dividend yield (%)	3.00
Average expected volatility (%)	101.01
Average historical volatility (%)	101.01
Average risk-free interest rate (%)	3.96
Expected life of options (year)	3-5
Weighted average share price immediately preceding the grant of share options (HK$)	0.88

The expected life of the options is based on the contractual life and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

No share option was exercised during the year.

At the balance sheet date, the Company had 101,800,000 share options outstanding under the scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 101,800,000 additional ordinary shares of the Company with additional share capital of HK$2,036,000 and share premium of HK$150,664,000 (before issue expenses).

43. SHARE OPTION SCHEMES *(Continued)*

Share option scheme of SCL

The following share options were outstanding under the share option scheme of SCL during the year:

Name or category of participant	Outstanding as at 1 January 2008	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2008	Date of grant of share options* (DD/MM/YYYY)	Exercise period of share options (DD/MM/YYYY)	Subscription price per share ** HK$
	Number of share options								
Directors									
Mr. Ng Yuk Fung, Peter	5,000,000	–	–	–	–	5,000,000	14/03/2007	14/03/2008 – 13/03/2012	0.2166
	5,000,000	–	–	–	–	5,000,000			
Others									
In aggregate	6,000,000	–	–	–	–	6,000,000	14/03/2007	14/03/2008 – 13/03/2012	0.2166
	3,000,000	–	–	–	–	3,000,000	02/04/2007	02/04/2008 – 01/04/2012	0.3150
	2,000,000	–	–	–	–	2,000,000	10/05/2007	10/05/2008 – 09/05/2012	0.3100
	11,000,000	–	–	–	–	11,000,000			
	16,000,000	–	–	–	–	16,000,000			

Notes:

* All share options granted are subject to a vesting period and becoming exercisable in the following manner:

From the date of grant of share options	**Exercisable percentage** %
Within 12 months	Nil
13th month – 36th month	$33^1/_3$
25th month – 48th month	$33^1/_3$
37th month – 60th month	$33^1/_3$

The unexercised share options of each exercise period shall lapse at the end of the respective exercise period.

** The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of SCL.

The fair value of the share options of SCL granted during the year ended 31 December 2007 HK$3,765,000. SCL recognised a share option expense of HK$1,314,000 (2007: HK$1,951,000) during the year ended 31 December 2008.

43. SHARE OPTION SCHEMES *(Continued)*

Share option scheme of SCL *(Continued)*

The fair value of equity-settled share options granted during the year ended 31 December 2007 was estimated as at the date of grant using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. No share option was granted during the year. The following table lists the inputs to the model used:

	2007
Dividend yield (%)	0.00
Average expected volatility (%)	464
Average historical volatility (%)	464
Average risk-free interest rate (%)	4.20
Expected life of options (year)	5
Weighted average share price (HK$)	0.228

The expected life of the options is based on the contractual life and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

44. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 28 to 29 of the financial statements.

44. RESERVES *(Continued)*

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2007		193,410	223	195,775	–	59,235	448,643
Warrants exercised		78	–	–	–	–	78
Profit for the year	11	–	–	–	–	40,920	40,920
Interim dividend paid		–	–	–	–	(26,517)	(26,517)
Equity settled share option arrangements		–	–	–	10,787	–	10,787
Proposed final dividend	13	–	–	–	–	(26,519)	(26,519)
At 31 December 2007 and 1 January 2008		193,488	223	195,775	10,787	47,119	447,392
Warrants exercised		36	–	–	–	–	36
Profit for the year	11	–	–	–	–	203,501	203,501
Equity settled share option arrangements		–	–	–	20,219	–	20,219
Proposed final dividend	13	–	–	–	–	(2,122)	(2,122)
At 31 December 2008		193,524	223	195,775	31,006	248,498	669,026

The contributed surplus 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 value of the Company's shares issued for the acquisition at the time of a group reorganisation in 1992.

The Company's reserves available for distribution represent the share premium, contributed surplus, share option reserve and retained profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2008 amounted to approximately HK$668,803,000 (2007: HK$447,169,000).

45. BUSINESS COMBINATIONS

On 15 January 2008, the Group completed the following acquisitions:

(a) acquired an 85% interest in Nanjing Hydraulic Press from the holding company of a joint venture partner of SC Santa, a former 51%-owned associate. Nanjing Hydraulic Press holds certain properties, and is engaged in manufacturing of hydraulic press. The purchase consideration for the acquisition was in the form of cash of RMB1,994,000 which was paid in December 2007. Subsequent to the acquisition, the Group has control on SC Santa with an effective interest of 92.7%.

(b) acquired the entire interest in Nanjing Compressor from the holding company of a joint venture partner of SC Hua Guan, a former 51%-owned associate. Nanjing Compressor holds certain properties, and is engaged in manufacturing of compressor. The purchase consideration for the acquisition was in the form of cash of RMB28,528,000 which was paid in December 2007. Subsequent to the acquisition, SC Hua Guan becomes a wholly-owned subsidiary of the Group.

(c) acquired the entire interest in Nanjing Power Machinery from the holding company of a joint venture partner of SC Sanda, a former 51%-owned associate. Nanjing Power Machinery holds certain properties, and is engaged in trading of flowers. The purchase consideration for the acquisition was in the form of cash of RMB25,261,000 which was paid in December 2007. Subsequent to the acquisition, SC Sanda becomes a wholly-owned subsidiary of the Group.

45. BUSINESS COMBINATIONS *(Continued)*

The fair values of the identifiable assets and liabilities of Nanjing Compressor, Nanjing Power Machinery and Nanjing Hydraulic Press (the "Acquired Entities") as at the dates of acquisition and their corresponding carrying amounts immediately before their acquisitions were as follows:

	Fair value recognised on acquisition of Nanjing Compressor HK$'000	Fair value recognised on acquisition of Nanjing Power Machinery HK$'000	Fair value recognised on acquisition of Nanjing Hydraulic Press HK$'000	Total HK$'000	Carrying amount of Nanjing Compressor HK$'000	Carrying amount of Nanjing Power Machinery HK$'000	Carrying amount of Nanjing Hydraulic Press HK$'000
Property, plant and equipment (note 16)	340	5,853	33,045	39,238	2,002	2,274	23,377
Investment properties (note 17)	110,959	155,902	137,267	404,128	26,031	43,610	34,697
Prepaid land lease payments (note 18)	–	10,196	16,065	26,261	–	10,790	4,755
Construction in progress (note 19)	–	–	1,352	1,352	–	–	1,352
Interest in associates	11,929	–	–	11,929	11,929	–	–
Available-for-sale financial assets	471	–	–	471	471	–	–
Inventories	4,414	26	6,285	10,725	9,538	26	7,464
Financial assets at fair value through profit or loss	–	–	1,599	1,599	–	–	1,599
Trade receivables	707	16	5,929	6,652	4,273	16	8,420
Prepayments, deposits and other receivables	9,751	127	720	10,598	22,275	338	1,152
Amounts due from fellow subsidiaries	2,083	–	–	2,083	2,083	–	–
Amount due from/(to) a minority shareholder	6,781	(3,958)	(21,371)	(18,548)	6,781	(3,958)	(21,371)
Cash and bank balances	4,449	1,523	226	6,198	4,449	1,523	226
Trade payables	(10,422)	(35)	(34,111)	(44,568)	(10,422)	(35)	(34,111)
Other payables and accruals	(12,644)	(17,189)	(33,151)	(62,984)	(12,644)	(17,189)	(33,151)
Amount due to a fellow subsidiary	(3,649)	(1,615)	(15,159)	(20,423)	(3,649)	(1,615)	(15,159)
Amount due to an intermediate holding company	(4,115)	–	–	(4,115)	(4,115)	–	–
Interest-bearing bank and other borrowings	–	(652)	(543)	(1,195)	–	(652)	(543)
Tax payable	(5,560)	–	–	(5,560)	(5,560)	–	–
Provision for severance payments (note 39)	(8,327)	(11,196)	(12,333)	(31,856)	(8,327)	(11,196)	(12,333)
Other non-current liabilities	(570)	–	(7,602)	(8,172)	(570)	–	(7,602)
Deferred tax liabilities	(21,232)	(28,073)	(25,642)	(74,947)	–	–	–
Minority interest	(489)	–	(10,971)	(11,460)	(489)	–	4,811
	84,876	110,925	41,605	237,406	44,056	23,932	(36,417)
Excess over the costs of business combinations	(49,531)	(83,833)	(39,467)	(172,831)			
	35,345	27,092	2,138	64,575			
Satisfied by:							
Prepayment for acquisition of subsidiaries	30,595	27,092	2,138	59,825			
Reclassification from interests in associate to interests in subsidiaries	4,750	–	–	4,750			
	35,345	27,092	2,138	64,575			

45. BUSINESS COMBINATIONS *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	Nanjing Compressor HK$'000	Nanjing Power Machinery HK$'000	Nanjing Hydraulic Press HK$'000	Total HK$'000
Cash and bank balances acquired and net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	4,449	1,523	226	6,198

The Acquired Entities' investment properties, prepaid land lease payments and leasehold buildings were revalued on 15 January 2008 by BMI Appraisals Limited, on an open market, existing use basis.

(i) Since the acquisition on 15 January 2008, Nanjing Compressor' contributed a loss of HK$5,731,000 to the Group's consolidated profit for the year ended 31 December 2008.

(ii) Since the acquisition on 15 January 2008, Nanjing Power Machinery contributed a loss of HK$5,252,000 to the Group's consolidated profit for the year ended 31 December 2008.

(iii) Since the acquisition on 15 January 2008, Nanjing Hydraulic Press contributed a loss of HK$9,320,000 to the Group's consolidated profit for the year ended 31 December 2008.

In prior year, the Group had the following business combinations:

On 16 April 2007, the Group acquired an 85% interest in 南京電力電容器有限公司 ("Power Capacitors") from a holding company of the joint venture partner of a former 51%-owned associate. Power Capacitors is engaged in property investment and manufacturing of power capacitors. The purchase consideration for the acquisition was in the form of cash of RMB1,211,500. Subsequent to the acquisition, the Group has control on Nanjing South China, Power Capacitors Co., Ltd, the abovementioned former associate, with an effective interest of 92.7%.

On 17 April 2007, the Group acquired the entire interest in Grandbase Universal Limited ("Grandbase") at a cash consideration of HK$2. Grandbase is engaged in property investment and development.

45. BUSINESS COMBINATIONS *(Continued)*

The fair values of the identifiable assets and liabilities of Power Capacitors and Grandbase as at the dates of acquisition and their corresponding carrying amounts immediately before their acquisitions were as follows:

	Fair value recognised on acquisition of Power Capacitors	Fair value recognised on acquisition of Grandbase	Carrying amount of Power Capacitors	Carrying of amount Grandbase
	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment (note 16)	5,056	–	5,056	–
Investment properties (note 17)	35,270	–	30,887	–
Prepaid land lease payments (note 18)	329	–	329	–
Available-for-sale financial assets	20	–	20	–
Inventories	512	–	512	–
Trade receivables	548	–	548	–
Prepayments, deposits and other receivables	731	–	731	–
Amount due from an equity holder	2,752	–	2,752	–
Amount due from a subsidiary	–	2,521	–	2,521
Amount due from a minority shareholder	246	–	246	–
Cash and bank balances	54	3	54	3
Trade payables	(1,622)	–	(1,622)	–
Other payables and accruals	(10,726)	–	(10,726)	–
Amount due to a fellow subsidiary	(102)	–	(102)	–
Amount due to an intermediate holding company	(2,033)	–	(2,033)	–
Amount due to a related party	–	(2,897)	–	(2,897)
Interest-bearing bank and other borrowings	(17,789)	–	(17,789)	–
Tax payable	(3)	–	(3)	–
Provision for severance payments (note 39)	(7,500)	–	(7,500)	–
Minority interests	130	–	130	–
	5,873	(373)	1,490	(373)
Goodwill on acquisition (note 20)	1,637	373		
	7,510	–		
Satisfied by:				
Cash	1,231	–		
Reclassification from interests in associate to interests in subsidiary	6,279	–		
	7,510	–		

45. BUSINESS COMBINATIONS *(Continued)*

An analysis of the net (inflow)/outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	Power Capacitors HK$'000	**Grandbase** HK$'000
Cash consideration	1,231	–
Cash and bank balance acquired	(54)	(3)
Net outflow/(inflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	1,177	(3)

(a) Power Capacitors' investment properties, prepaid land lease payments and leasehold buildings were revalued on 31 December 2007 by BMI Appraisals Limited on an open market, existing use basis.

Since the acquisition on 16 April 2007, Power Capacitors contributed a profit of HK$3,266,000 to the Group's consolidated profit for the year ended 31 December 2007.

(b) Since the acquisition on 17 April 2007, Grandbase contributed a loss of HK$518,000 to the Group's consolidated profit for the year ended 31 December 2007.

46. DISPOSAL OF INTERESTS IN SUBSIDIARIES

(a) During the year, the Group disposed of its entire interest in Sino Cosmo International Ltd. ("Sino Cosmo") and 南京大地水射流有限公司 ("水射流") to independent third parties:

	Sino Cosmo HK$'000	**水射流** HK$'000
Net assets disposed of:		
Available-for-sale financial assets	–	2,435
Prepayments, deposits, and other receivables	13	1,059
Other payables and accruals	(9)	(204)
	4	3,290
Exchange reserve realised	–	(515)
Gain/(loss) on disposal of subsidiaries	996	(677)
	1,000	2,098
Satisfied by:		
Cash	1,000	2,098

Prior to the disposal, the aggregate contribution from Sino Cosmo and 水射流 to the Group's consolidated profit for the year ended 31 December 2008 was insignificant.

(b) In prior year, the Group disposed of its entire interest in NIG to an independent third party. Further details have been set out in the Company's circular dated 18 December 2006.

In prior year, the Group disposed of its entire equity interest in Four Seas Travel (BVI) Limited ("FS Travel") and Southchinanet.com (BVI) Limited ("SCN"). Further details has been set out in the Company's circular dated 25 July 2007.

46. DISPOSAL OF INTERESTS IN SUBSIDIARIES *(Continued)*

(b) *(Continued)*

	NIG HK$'000	FS Travel HK$'000	SCN HK$'000	Express News Management HK$'000
Net assets disposed of:				
Property, plant and equipment (note 16)	20,565	2,848	13,422	–
Prepaid land lease payments (note 18)	3,119	–	–	–
Goodwill (note 20)	13,573	2,994	3,504	–
Interests in associates	–	–	1,529	–
Available-for-sale financial assets	228	–	–	–
Deferred tax assets (note 41)	–	2,508	–	–
Cash and bank balances	21,935	34,979	2,521	–
Pledged bank deposits	–	12,580	–	–
Inventories	28,916	380	11,878	–
Trade receivables	13,526	116,160	14,845	–
Prepayments and other receivables	2,848	17,896	15,412	–
Due from fellow subsidiaries	–	2,345	300	–
Due from a minority shareholder of a subsidiary	–	–	912	–
Trade payables	(26,515)	(82,846)	(17,436)	(150)
Accruals and other payables	(14,033)	(22,852)	(8,698)	(6)
Interest-bearing bank and other borrowings	–	(30,144)	(13,542)	(9)
Due to fellow subsidiaries	(14,988)	–	(51)	–
Due to an intermediate holding Company	(10,000)	–	–	–
Tax payable	(1,005)	–	–	–
Minority interests	(1,130)	–	(8,664)	–
	37,039	56,848	15,932	(165)
Exchange reserve realised	–	–	(1,102)	–
Gain/(loss) on disposal of subsidiaries (note 12)	65,791	(22,148)	12,470	165
	102,830	34,700	27,300	–
Satisfied by:				
Cash	101,905	–	–	–
Interests in associate	925	–	–	–
Amount due from an intermediate holding company	–	34,700	27,300	–
	102,830	34,700	27,300	–

46. DISPOSAL OF INTERESTS IN SUBSIDIARIES *(Continued)*

(b) *(Continued)*

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of interests in subsidiaries is as follows:

	NIG	FS Travel	SCN
	HK$'000	HK$'000	HK$'000
Cash consideration	101,905	–	–
Cash and bank balances disposed of	(21,935)	(34,979)	(2,521)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	79,970	(34,979)	(2,521)

Prior to the disposal, FS Travel and SCN contributed a profit of HK$19,976,000 and a loss of HK$2,416,000 in aggregate to the Group's consolidated profit for the year ended 31 December 2007, respectively. NIG was disposed of in early January 2007, and did not have significant contribution to the Group's consolidated profit for the year ended 31 December 2007.

47. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year ended 31 December 2008, promissory notes of HK$1,120,000 (2007: HK$95,959,000) were issued for the acquisition of an additional equity interests of 0.79% (2007: 67.66%) in SCL.

48. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with banking facilities granted to:				
FWIL	**396,000**	210,000	**396,000**	210,000
Nority	**5,300**	20,000	**5,300**	20,000
Subsidiaries	**–**	–	**1,190,970**	934,600
Undertaking given to a former associate for banking facilities utilised by the former associate	**13,526**	13,526	**13,526**	13,526
	414,826	243,526	**1,605,796**	1,178,126

As at 31 December 2008, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$669,777,000 (2007: HK$508,968,000). The banking facilities guaranteed by the Company to FWIL and Nority were utilised to the extent of approximately HK$379,800,000 (2007: HK$191,850,000) and HK$14,700,000 (2007: HK$11,714,000), respectively, of which HK$14,700,000 (2007: Nil) has been provided for. Further details are set out in note 22 to the financial statements.

49. PLEDGE OF ASSETS

Assets pledged to secure the banking facilities granted to the Group at the balance sheet date are analysed as follows:

	2008 HK$'000	2007 HK$'000
Net book value of pledged assets:		
Leasehold land and buildings	**65,087**	33,255
Machinery and equipment	**3,169**	8,997
Investment properties	**478,237**	453,719
Inventories	**142,989**	144,027
Properties under development	**154,632**	–
	844,114	639,998

50. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 17 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Within one year	**46,571**	30,194
In the second to fifth years, inclusive	**89,667**	70,764
Over five years	**10,169**	17,279
	146,407	118,237

50. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases certain of its factory premises and office properties under operating lease arrangements. Leases for these factory premises are negotiated for terms ranging from three months to ten years, and those for office properties are for terms of one to two years.

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**11,327**	8,692
In second to fifth years, inclusive	**32,391**	27,997
Over five years	**55,219**	59,562
	98,937	96,251

51. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 50(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted but not provided for:		
Machinery and equipment	**5,699**	9,089
Construction in process	**–**	18,588
Investment in equity interest	**–**	15,977
	5,699	43,654
Authorised but not contracted for:		
Machinery and equipment	**478**	1,702

52. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	Group 2008 HK$'000	Group 2007 HK$'000
Transactions with associates:			
Interest income	(iii)	**40**	1,062
Rental income received	(i)	**2,981**	2,719
Transactions with fellow subsidiaries:			
Rental income**	(i)	**3,684**	3,845
Brokerage fee paid*	(i)	**–**	1,227
Air tickets and travel related services purchased*	(i)	**3,144**	1,148
Interest expense paid*	(ii)	**104**	1,595
Transactions with an intermediate holding company:			
Interest expense paid*	(iv)	**–**	730
Transactions with a related company#:			
Rental income received**	(i)	**3,483**	–

The related company is controlled by a substantial shareholder, who is also a director of the Company.

Notes:

(i) These transactions were charged at prevailing market rates.

(ii) The interest expense was charged at prevailing market lending rates on short term borrowings from fellow subsidiaries.

(iii) The interest was charged at a rate of 0.5% per annum on the outstanding advances to FWIL.

(iv) During the year ended 31 December 2007, interest was charged at 6% per annum on the advance from an intermediate holding company.

(b) Other transactions with related parties:

(i) During the year, the Group issued an additional promissory note with a principal amount of HK$1,120,000 (2007: HK$95,959,000) to a substantial shareholder of the Group in respect of the acquisition of an additional equity interest of 0.79% (2007: 67.66%) in a subsidiary, SCL. Details are set out in note 40 to the financial statements.

(ii) Details of guarantees given by the Group to FWIL and Nority are set out in notes 22 and 48 to the financial statements.

52. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Outstanding balances with related parties:

Details of the balances with related parties at the balance sheet date are included in notes 22, 29, 30, 31 and 38 to the financial statements.

(d) Compensation of key management personnel of the Group:

The executive directors and the non-executive director are the key management personnel of the Group. Details of their remuneration are disclosed in note 8 to the financial statements.

* The related party transactions also constitute exempted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

** The related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. Further details of the transactions are disclosed in the section headed "Connected and Continuing Connected Transactions" in the Report of the Directors.

53. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2008 **Group**

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Advances to associates (note 22)	–	16,312	–	16,312
Available-for-sale financial assets	–	–	44,281	44,281
Trade receivables	–	171,092	–	171,092
Financial assets included in prepayments, deposits and other receivables	–	73,768	–	73,768
Due from a minority shareholder of subsidiaries	–	25,845	–	25,845
Financial assets at fair value through profit or loss	10,945	–	–	10,945
Cash and bank balances	–	150,497	–	150,497
	10,945	437,514	44,281	492,740

53. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Group **2008**

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	**271,624**
Financial liabilities included in other payables and accruals	**186,070**
Interest-bearing bank and other borrowings	**683,460**
Advances from a minority shareholder of subsidiaries	**49,018**
Due to an associate	**1,846**
Due to an intermediate holding company	**8,062**
Due to related parties	**224**
Promissory notes	**97,079**
	1,297,383

Group 2007

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Advances to associates (note 22)	–	12,055	–	12,055
Available-for-sale financial assets	–	–	38,169	38,169
Trade receivables	–	135,711	–	135,711
Financial assets included in prepayments, deposits and other receivables	–	108,455	–	108,455
Due from a minority shareholder of a subsidiary	–	12,561	–	12,561
Due from fellow subsidiaries	–	8,887	–	8,887
Due form an intermediate holding company	–	709	–	709
Due from associates	–	234,045	–	234,045
Financial assets at fair value through profit or loss	54,513	–	–	54,513
Cash and bank balances	–	162,235	–	162,235
	54,513	674,658	38,169	767,340

53. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Group 2007

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	267,634
Financial liabilities included in other payables and accruals	173,635
Interest-bearing bank and other borrowings	533,684
Advances from minority shareholders of subsidiaries	53,704
Due to fellow subsidiaries	17,128
Due to related parties	13,098
Promissory notes	95,959
	1,154,842

Company

Financial assets

	Loans and receivables	
	2008 HK$'000	2007 HK$'000
Due from subsidiaries (note 21)	**1,218,758**	794,237
Due from an intermediate holding company	**–**	650
Other receivables	**10,570**	10,750
Cash and bank balances	**142**	158
	1,229,470	805,795

Company

Financial liabilities

	Financial liabilities at amortised cost	
	2008 HK$'000	2007 HK$'000
Interest-bearing bank borrowings	**–**	16,116
Due to an intermediate holding company	**11,624**	–
Due to subsidiaries (note 21)	**712,177**	496,006
Financial liabilities included in other payables and accruals	**799**	742
	724,600	512,864

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, other interest-bearing loans, equity investments, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate net borrowings).

		Group
	Change in basis point	**Change in profit before tax** HK$'000
2008		
Hong Kong dollar	**50**	**3,148**
RMB	**50**	**227**
United States dollar	**50**	**–**
2007		
Hong Kong dollar	50	2,690
RMB	50	44
United States dollar	50	228

Foreign currency risk

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi and United States dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The directors consider that the exchange rates of Hong Kong dollars against Renminbi and United States dollars in the foreseeable future are expected to be relatively stable and the appreciation in Renminbi against Hong Kong dollars is expected to be mild. There is no significant exposure to fluctuations in foreign exchange rates and any related hedges.

The Group has certain investments in operations in Mainland China, whose net assets are exposed to translation risk. Management does not expect any material adverse impact on the foreign exchange fluctuation, as an expected mild appreciation in Renminbi will further benefit the Group's net assets position in Mainland China.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the Renminbi and United State dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

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

Foreign currency risk *(Continued)*

	Group	
	Change in foreign currency rate	**Increase/ (decrease) in profit before tax**
	%	HK$'000
2008		
If Hong Kong dollar weakens against:		
RMB	**5**	**(5,475)**
If Hong Kong dollar strengthens against:		
RMB	**5**	**5,475**
2007		
If Hong Kong dollar weakens against:		
RMB	5	(1,572)
If Hong Kong dollar strengthens against:		
RMB	5	1,572

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. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, equity investments at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 48 to the financial statements.

The Group's concentration of credit risk is mainly in Hong Kong and PRC by geographical location. The Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it has no significant concentration of credit risk by a single debtor.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 27 to the financial statements.

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

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and other interest-bearing loans. The Group's policy is that not more than 90% of borrowings should mature in any 12-month period. 59% of the Group's debts would mature in less than one year as at 31 December 2008 (2007: 66%) based on the carrying value of interest bearing bank and other borrowings reflected in the financial statements.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

Group			**2008**			
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to less than 12 months HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Trade and bills payables	**10,635**	**144,723**	**116,266**	**–**	**–**	**271,624**
Other payables	**50,775**	**74,394**	**60,901**	**–**	**–**	**186,070**
Interest-bearing bank and other borrowings	**9,244**	**262,159**	**130,212**	**245,929**	**35,916**	**683,460**
Advances from minority shareholders of subsidiaries	**–**	**–**	**19,899**	**29,119**	**–**	**49,018**
Due to an associate	**1,846**	**–**	**–**	**–**	**–**	**1,846**
Due to an intermediate holding company	**8,062**	**–**	**–**	**–**	**–**	**8,062**
Due to related parties	**224**	**–**	**–**	**–**	**–**	**224**
Promissory notes	**–**	**–**	**–**	**97,079**	**–**	**97,079**
	80,786	**481,276**	**327,278**	**372,127**	**35,916**	**1,297,383**

Group			2007			
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade and bills payables	28,260	132,624	106,750	–	–	267,634
Other payables	28,263	73,913	71,459	–	–	173,635
Interest-bearing bank and other borrowings	16,448	152,185	183,917	119,295	61,839	533,684
Due to fellow subsidiaries	16,167	961	–	–	–	17,128
Due to related parties	–	13,098	–	–	–	13,098
Advances from minority shareholders of subsidiaries	–	–	2,128	51,576	–	53,704
Promissory notes	–	–	–	95,959	–	95,959
	89,138	372,781	364,254	266,830	61,839	1,154,842

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

Liquidity risk *(Continued)*

Company	**2008** **On demand** **HK$'000**	**Less than 3 months** **HK$'000**	**3 to less than 12 months** **HK$'000**	**Over 1 year** **HK$'000**	**Total** **HK$'000**
Other payables	**–**	**799**	**–**	**–**	**799**
Due to an intermediate holding company	**11,624**	**–**	**–**	**–**	**11,624**
Due to subsidiaries	**–**	**–**	**–**	**712,177**	**712,177**
	11,624	**799**	**–**	**712,177**	**724,600**

Company	2007 On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	Over 1 year HK$'000	Total HK$'000
Interest-bearing bank borrowings	–	16,116	–	–	16,116
Other payables	–	742	–	–	742
Due to an intermediate holding company	–	–	–	–	–
Due to subsidiaries	–	–	–	496,006	496,006
	–	16,858	–	496,006	512,864

Equity price risk

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the balance sheet date, and their respective highest and lowest points during the year were as follows:

	31 December 2008	**High/low 2008**	31 December 2007	High/low 2007
Hong Kong – Hang Seng Index	**14,387**	**27,615/ 11,015**	27,813	31,958/ 18,659

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date.

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

Equity price risk *(Continued)*

	Carrying amount of equity investments HK$'000	Change in profit before tax HK$'000
2008		
Investments listed in:		
Hong Kong – Held-for-trading	**10,945**	**1,095**
2007		
Investments listed in:		
Hong Kong – Held-for-trading	54,513	5,451

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the two years ended 31 December 2008 and 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The Group's policy is to maintain the gearing ratio below 50%. Net debt includes interest-bearing bank and other borrowings, less cash and cash equivalents, and excludes discontinued operations. Capital includes total equity. The gearing ratios as at the balance sheet dates were as follows:

Group

	2008 HK$'000	2007 HK$'000
Interest-bearing bank and other borrowings	**683,460**	533,684
Less: Cash and cash equivalents	**(150,497)**	(162,235)
Net debt	**532,963**	371,449
Capital	**1,907,587**	1,735,648
Capital and net debt	**2,440,550**	2,107,097
Gearing ratio	**21.8%**	17.6%

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2009.

56. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Copthorne Holdings Corp.	Republic of Panama/ Hong Kong	US$200	100%	Property investment
Eastand Investments Limited	Hong Kong	HK$2	100%	Investment holding
Ever Talent Limited*	Hong Kong	HK$1	69.87%	Investment holding
Everwin Toys (Dongguan) Co., Ltd (note d)	The PRC/ Mainland China	HK$25,340,000	100%	Manufacturing of toys
Guang Dong Huaxin Fruit Development Co. Ltd. (note d)	The PRC/ Mainland China	US$7,500,000	100%	Fruit plantation
遼寧大發房地產有限責任公司* (note c)	The PRC/ Mainland China	RMB202,000,000	55.90%	Real estate development
Nanjing South China Dafang Electric Co., Ltd. (note c)	The PRC/ Mainland China	RMB77,550,000	93.63%	Property investment
Nanjing South China Santa Machinery Co., Ltd. (note c)	The PRC/ Mainland China	RMB54,900,000	92.65%	Property investment
Nanjing South China Hua Guan Compressor Ltd. (note c)	The PRC/ Mainland China	RMB61,230,000	100%	Property investment
Nanjing South China Sanda Motor Co., Ltd. (note c)	The PRC/ Mainland China	RMB18,940,000	100%	Property investment
南京液壓件二廠有限公司 (note c)	The PRC/ Mainland China	RMB2,345,600	85%	Property investment
南京第二壓縮機有限公司 (note d)	The PRC/ Mainland China	RMB16,756,800	100%	Property investment

56. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
南京電機有限公司 (note d)	The PRC/ Mainland China	RMB25,261,300	100%	Property investment
南京微分電機有限公司(note c)	The PRC/ Mainland China	RMB29,035,500	87%	Property investment
Nority Development Limited	British Virgin Islands	US$2	100%	Property holding
Prime Prospects Limited	Hong Kong	HK$100,000	70%	Property investment
Micon Limited	Hong Kong	HK$2	100%	Investment holding
Shineway Footwear Limited	Hong Kong	HK$500,000	100%	Trading of shoes
Skychance Group Limited	British Virgin Islands	US$1	100%	Investment holding
South China Industries (BVI) Limited	British Virgin Islands	US$1,000	100%	Investment holding
South China Land Limited* 南華置地有限公司 (Listed on the GEM of Stock Exchange)	Cayman Islands/ Hong Kong	HK$5,064,983	69.87%	Investment holding
South China Shoes Products Company Limited	Hong Kong	HK$500,000	100%	Trading of shoes
South China Strategic Limited	Hong Kong	HK$308,593,789	100%	Investment holding
South China Strategic Property Development Limited	Hong Kong	HK$5,000,000	100%	Property development and investment holding

56. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Spark-Inn Investments Limited	Hong Kong	HK$2	100%	Property investment
Strategic Finance Limited	Hong Kong	HK$2	100%	Provision of financing services
Tianjin South China Leather Chemical Products Co. Ltd. (note c)	The PRC/ Mainland China	RMB20,516,500	80%	Manufacturing of leather chemical products
Tianjin South China Leesheng Sporting Goods Co. Ltd. (note c)	The PRC/ Mainland China	RMB10,213,600	80%	Manufacturing of sports products
Tianjin South China Shoes Products Co. Ltd. (note c)	The PRC/ Mainland China	RMB36,100,200	80%	Manufacturing of footwear products
Wah Heng Toys (Shenzhen) Co., Ltd (note d)	The PRC/ Mainland China	US$8,000,000	100%	Manufacturing of toys
Wah Shing Electronics Company Limited	Hong Kong/ Mainland China	HK$571,500	70%	Manufacturing and trading of toys
Wah Shing Toys Company Limited	Hong Kong	HK$2 ordinary HK$3,020,002 Non-voting deferred (note b)	100%	Trading of toys

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

Notes:

a. Except South China Industries (BVI) Limited, the principal subsidiaries of the Group are all held indirectly by the Company.

b. The non-voting deferred shares have no voting rights and practically no entitlement to dividend of profit or distribution on winding up.

c. These are Sino-foreign equity joint ventures established in the PRC.

d. These are wholly-foreign-owned equity enterprises established in the PRC.

The above summary lists only the subsidiaries of the Group which, in the opinion of the Company's 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.

57. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31 December 2008 are as follows:

Name	Place of incorporation and operation	Class of share held	Percentage of equity interest indirectly held by the Group	Principal activity
FWIL*	Hong Kong	Ordinary	30%	Property investment
Nority Limited*	Hong Kong/ Mainland China	Ordinary	35%	Manufacturing of footwear products

The financial statements of the associates are coterminous with those of the Group, except for FWIL which has a financial year end date of 30 June.

The Group's shareholdings in the associates all comprise equity shares held through wholly-owned subsidiaries of the Company.

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

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

Summary of Financial Information

31 December 2008

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	(Restated)
TURNOVER	**1,934,033**	2,113,362	2,070,954	3,971,834	3,470,171
PROFIT BEFORE TAX	**84,228**	415,664	344,452	270,864	137,227
TAX	**(17,910)**	(1,641)	(19,873)	(28,263)	(2,931)
PROFIT FOR THE YEAR	**66,318**	414,023	324,579	242,601	134,296
ATTRIBUTABLE TO:					
Equity holders of the Company	**78,004**	413,820	333,587	208,953	114,345
Minority interests	**(11,686)**	203	(9,008)	33,648	19,951
	66,318	414,023	324,579	242,601	134,296

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	(Restated)
TOTAL ASSETS	**3,595,936**	3,088,204	2,984,075	2,168,696	1,890,295
TOTAL LIABILITIES	**(1,688,349)**	(1,352,556)	(1,586,469)	(987,749)	(915,890)
MINORITY INTERESTS	**(135,808)**	(93,853)	(93,992)	(223,224)	(199,059)
	1,771,779	1,641,795	1,303,614	957,723	775,346

Details of the Properties

A. INVESTMENT PROPERTIES

	Location	Group's interest	Existing use
(1)	**Hong Kong**		
	The Centrium No. 60 Wyndham Street Central Hong Kong	30%	Commercial
	The 1st floor and 2nd floor On Lok Yuen Building and the four lavatories thereof Nos. 25, 27 & 27A Des Voeux Road Central Hong Kong	100%	Commercial
	Units A, B, C and D on 2nd Floor Units A, B, C and D on 3rd Floor Units A, B, C and D on 4th Floor Unit C on 6th Floor Units A and D on 10th Floor Units A, B, C and D on 12th Floor Unit C and D on 13th Floor Car Parking Space Nos. 7, 17, 18 and 19 and Lorry Parking Space Nos 3, 12, 13, 15, 21, 25 and 26 Wah Shing Centre 5 Fung Yip Street Chaiwan, Hong Kong	100%	Industrial and carparking
	Units J and L on 2nd Floor Private Car Parking Space Nos. G20 and G22 and Lorry Parking Space Nos. L3 and L4 on Ground Floor Kaiser Estate 2nd Phase Nos. 47-53 Man Yue Street Nos. 20-28 Man Lok Street Hunghom, Kowloon, Hong Kong	100%	Industrial and carparking
	Unit A and B, Ground Floor Cheung Wah Industrial Building Nos. 10-12 Shipyard Lane Quarry Bay Hong Kong	100%	Commercial and industrial
	1st Floor of Block G Kimberley Mansion No. 15 Austin Avenue Tsimshatsui Kowloon Hong Kong	100%	Commercial and residential

Details of the Properties

A. INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(1) Hong Kong *(Continued)*		
Unit 14 on 6th Floor Nan Fung Commercial Centre No. 19 Lam Lok Street Kowloon Bay, Kowloon Hong Kong	100%	Commercial
Flats A, B, C and D on 1st Floor Fu Fung Building Nos. 5-7 Tsing Fung Street North Point Hong Kong	100%	Commercial
Unit A on Ground Floor Mai Luen Industrial Building Nos. 23-31 Kung Yip Street Kwai Chung New Territories Hong Kong	100%	Commercial and industrial
2nd Floor No. 10A Austin Avenue Tsim Sha Tsui Kowloon Hong Kong	100%	Residential
Units A, B and C on 7th Floor and the three lavatories thereof Century House Nos. 3-4 Hanoi Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
Unit A, B and C on 8th Floor and the three lavatories thereof Century House Nos. 3-4 Hanoi Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
Units B and C on 9th Floor and the two lavatories thereof Century House Nos. 3-4 Hanoi Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
Unit No. 78 on 2nd Floor Units Nos. 4, 5, 6, 7 and 8 on 3rd floor Houston Centre No. 63 Mody Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial

Details of the Properties

A. INVESTMENT PROPERTIES *(Continued)*

	Location	Group's interest	Existing use
(1)	**Hong Kong** *(Continued)*		
	The Second Floor and External Walls Metropole Building Nos. 53-63 Peking Road and Nos. 12, 12A, 12B & 12C Hankow Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
	Unit No 1022 on 10th Floor, Nan Fung Centre Nos. 264-298 Castle Peak Road and Nos. 64-98 Sai Lau Kok Road Tsuen Wan New Territories Hong Kong	100%	Commercial
	Four Seas Jade Centre Nos. 530, 532, 534 and 536 Canton Road Yau Ma Tei Kowloon Hong Kong	100%	Commercial
	The Whole of 4th Floor McDonald's Building Nos. 46-54 Yee Wo Street Causeway Bay Hong Kong	100%	Commercial
	Ground Floor to 5th Floor (The Whole Block) Nos. 18-20 Ming Fung Street Wong Tai Sin Kowloon Hong Kong	100%	Residential/ commercial

Details of the Properties

A. INVESTMENT PROPERTIES *(Continued)*

	Location	Group's interest	Existing use
(2)	**Mainland China**		
	Various buildings and a land parcel located at No. 28 Yunan North Road No. 2 Shi Zi Qiao, Gulou District Nanjing City, Jiangsu Province The PRC	87%	Commercial
	A building and a land parcel located at No. 32 Shi Zi Qiao, Gulou District Nanjing City, Jiangsu Province The PRC	87%	Commercial
	Various buildings and two land parcels located at No. 36 Zhe Fang Road Baixia District Nanjing City Jiangsu Province The PRC	87%	Commercial
	Various buildings erected upon a land parcel located at No. 166 Yingtian West Road, Jianye District, Nanjing City, Jiangsu Province, the PRC	100%	Commercial
	A building and a land parcel located at No. 178 Baixia Road, Baixia Zone, Nanjing City, Jiangsu Province, the PRC	100%	Industrial
	4th Floor No. 64 Ertiao Lane Baixia District, Nanjing City, Jiangsu Province, the PRC	100%	Commercial
	Various buildings and two land parcels located at No. 104 & 160 Fenghuang East Road, Luhe District, Nanjing City, Jiangsu Province, the PRC	100%	Commercial

Details of the Properties

A. INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(2) Mainland China *(Continued)*		
Various buildings and a land parcel located at No. 262 Yuhua West Road, Yuhuatai District, Nanjing City, Jiangsu Province, the PRC	100%	Commercial
Various buildings and four land parcels located at No. 145 Yuhua West Road, Yuhuatai District, Nanjing City, Jiangsu Province, the PRC	100%	Commercial/ Industrial
Various buildings and a land parcel located at No. 160 Honghua Village, Honghua Town, Qinhuai District, Nanjing City, Jiangsu Province, the PRC	92.65%	Commercial
A building and land parcel located at No. 2 Tuoyuan, Nanhu Street, Jianye Zone, Nanjing City, Jiangsu Province, the PRC	92.65%	Commercial
A land parcel located at No. 292 Sheng Zhou Road Jianye District Nanjing City Jiangsu Province The PRC	85%	Commercial
Various buildings erected upon a land parcel located at No. 292 Sheng Zhou Road Jianye District Nanjing City Jiangsu Province The PRC	92.65%	Commercial
Nority Industrial Building No. 4 Xiaobian Industrial District Changan Town Dougguan City Guangdong Province The PRC	100%	Industrial

Details of the Properties

A. INVESTMENT PROPERTIES *(Continued)*

	Location	Group's interest	Existing use
(2)	**Mainland China** *(Continued)*		
	Unit C on 15th Floor World Trade Plaza Wusi Road Fuzhou, Fujian Province The PRC	100%	Commercial
	Grand Hotel Four Seas Kai Cheung Da Dao Danshui Huiyang City, Guangdong Province The PRC	100%	Commercial
	Unit 23B of Tower 2 and 16 Car Parking Spaces La SeVilla, Fahuazhen Lu Changning District, Shanghai The PRC	100%	Residential and carparking
(3)	**Taiwan**		
	Unit 2 on Level 15 Unit 1 on Level 24 and portion of Basement 2 No. 303 Zhong Ming Road South West District Taichung City Taiwan	100%	Commercial
	No. 1-1 Mokeng Lane Mingjian Township Nantou County Taiwan	100%	Industrial
	Level 1, Unit 2 on Level 2 One carparking space and one motorcycle parking space in Basement 2, No. 28-5 Section 1 Zhiyou Road West District Taichung City Taiwan	100%	Commercial and carparking

Details of the Properties

B. PROPERTIES UNDER DEVELOPMENT

Particulars	Type	Stage of completion	Anticipated completion date	Group's interest	Approximate gross floor area	Approximate site area
Fortuna Plaza, (formerly known as "South China Landmark Plaza") a development site located at the Western side of Zhaoyang Street, Shenhe District, Shenyang, Liaoning Province, the PRC	Commercial	Superstructure works in progress	2009	55.90%	117,200 sq. m.	21,893.5 sq. m.
Relocation project in Zhongjie	Residential	Main body of building	2009	48.91%	9,956 sq. m.	6,147 sq. m.