Wonson International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 651)

annual report 2008

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors:

Mr. Chau On Ta Yuen *(Chairman)*

Mr. Li Ming *(Deputy Chairman & Chief Executive Officer)*

Mr. Zhang Shi Hong

Mr. Wang San Long

Independent non-executive directors:

Mr. Hu Bai He

Ms. Xiang Siying

Mr. Zhang Xi Ping

COMPANY SECRETARY

Mr. Ngai Man Wo

AUDITORS

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS

Hongkong & Shanghai Banking Corporation Limited
Hang Seng Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

Unit 1103,11/F., China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR

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

BRANCH REGISTRAR IN HONG KONG

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

Chairman's Statement

Dear Shareholders,

The Company and its subsidiaries (the "Group") recorded an audited consolidated turnover of approximately HK$1,191.60 million for the year ended 31 December 2008 when compared to turnover of approximately HK$5.20 million in 2007, an increase of 229 times and loss attributable to the shareholders of approximately HK$469.00 million for the year ended 31 December 2008 when compared to HK$54.63 million in 2007, an increase over eight times. The significant loss mainly represented the results of an impairment loss for goodwill and the imputed interest on convertible notes as a consideration for the acquisition of new business during the year.

During the year, the Group has diversified its business from metal trading and securities trading to shipbuilding in the People's Republic of China (the "PRC"). As the performances of metal trading business and securities trading business were unsatisfactory in 2008, the Group has ceased operation of metal trading and has not made further investment in securities in the second half of year 2008. The ship building industry experienced a continuous growth in the recent years and remained promising before the financial turmoil. The snow disaster in southern and eastern China provinces in the early of 2008, the increasing cost of raw material, shortage of shipping equipment, raising cost of labour, and appreciation in the value of Renminbi ("RMB") adversely affected the performance of this business segment in 2008. After the financial turmoil occurred in September, the ship owners are very cautious about placing new orders. Since the Group has already built a strong order book in the first half of 2008, barring unforeseen events, I am cautious but optimistic about the performance of the shipbuilding business in the coming year.

In conclusion, I would like to thank all shareholders and staff for your continued support and look forward to improving the Group's performance.

Chau On Ta Yuen
Chairman

27 April, 2009

Management Discussion and Analysis

Overview

The performances of metal trading business and securities trading business have not been satisfactory in recent years. In order to broadening the revenue sources of the Group and in the best interest of the Company, the Group has acquired all equity interest (the "Acquisition") in Inpax Technology Limited and its wholly owned subsidiary, namely, Jiangxi Jiangzhou Union shipbuilding Company Limited (Collectively the "Inpax Group") on 16 April 2008. The Group is engaged in the production and operation of shipbuilding, metal trading and investments in securities during the year under review.

For the year ended 31 December 2008, the Group recorded a revenue of HK$1,191.6 million (2007: HK$5.2 million), representing an increase of approximately 229.2 times over the correspondent year. The dramatic increase in revenue was mainly contributed by the shipbuilding business. The Group recorded a substantial loss attributable to shareholders of HK$469.0 million (2007: loss of HK$54.6 million) for the year ended 31 December 2008. The loss was mainly results of an impairment losses recognized for goodwill in relation to the Group's investment in Inpax Group amounted to HK$322.2 million, an amortization recognized for intangible asset arising from the acquisition of Inpax Group amounting to HK$115.2 million, and an imputed interest expenses on convertible notes as the consideration for the acquisition of Inpax Group amounting to HK$188.2 million.

Shipbuilding business

Based on the management accounts of Inpax Group, the revenue was HK$1,387.2 million and the operating profit before taxation was HK$243.8 million for the year ended 31 December 2008. As Inpax Group became a wholly owned subsidiary of the Company on 16 April 2008, the Group only consolidated the financial result of Inpax Group after the Acquisition. Accordingly, the shipbuilding business contributed a revenue of approximately HK$1,190.8 million and profit, before deducting impairment of goodwill and amortization of intangible assets, of approximately HK$250.2 million to the Group.

During 2008, the global economy swung from growth to recession. For shipbuilding market, it was equally a year of volatility. Before the global financial crisis occurred in September 2008, the business remained booming. The crisis resulted in, amongst other, the inability to finance commodity sales and combined with plummeting commodity prices, as well as high inventories, etc., resulted in a great deal of market activity coming to a crashing halt. Freight charge was reduced sharply. Accordingly, the ship owners are very cautious about placing new orders since the late of 2008.

The increasing cost of raw material, shortage of shipping equipment as well as raising wages of labours caused the construction costs of vessels increased significantly. Besides, the snow disaster in southern and eastern China provinces in the early of 2008 and the shortage of shipping equipment have delayed the delivery of two vessels from 2008 to early of 2009. As a result, the performance of this segment did not fully meet the expectations of the Board at the time of entering into this business.

The Group has built a strong order book prior to the occurrence of financial crisis. As at 31 December 2008, the Group has an order book of 39 vessels totalling amounted to approximately HK$8.5 billion. All of these were scheduled for delivery during 2009-2011.

Metal trading business

The metal trading business generated a revenue of approximately HK$0.77 million representing a decrease of approximately 85.2% as compared to approximately HK$5.2 million in the corresponding period of last year. For the year ended 31 December 2008, the metal trading business recorded an insignificant loss of HK$34,000 as compared to a gain of HK$399,000 in the correspondence period of last year.

Securities trading business

The volatility of stock market in 2008 continued to adversely affect the performance of the Group's securities investment business. For year ended 31 December 2008, the securities trading business recorded a loss of HK$36.3 million as compared to a loss of HK$40.9 million in the correspondence period of last year. The Group did not make further investments in the second half of 2008.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group had cash and bank balances of approximately HK$334.80 million (31 December 2007: HK$84.80 million) in which HK$176.65 million was pledged (31 December 2007: nil); unsecured short term loan of HK$32.50 million (31 December 2007: HK$51.76 million); unsecured short term bank loan and bank overdrafts of HK$118.16 million (31 December 2007: nil); long term bank borrowing of HK$227.27 million (31 December 2007: nil); long term convertible notes payable amounted to approximately HK$421.44 million (31 December 2007: HK$46.23 million) represented liabilities component of principal amount of HK$577.00 million (31 December 2007: HK$50.00 million). The gearing ratio (defined as non-current liabilities divided by total shareholders' equity) was 0.61 at 31 December 2008 (31 December 2007: 0.338).

SEGMENT INFORMATION

The segment information for the Group for the year ended 31 December, 2008 is set out in note 7 to the consolidated financial statements on page 60.

CHARGES ON GROUP ASSETS

As at 31 December 2008, HK$176.65 million of bank deposit and HK$37.25 million of prepaid lease payments were pledged to banks for banking facilities granted by banks to the Group. (31 December 2007: nil).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in RMB, Hong Kong Dollars, United States Dollars and EURO. As at 31 December 2008, the Group does not hedge its exposure to foreign exchange risk profile. The Boards will consider appropriate hedging measure in future as may be necessary.

NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

Save as the Acquisition disclosed in the announcement dated 15 November 2007 and the Company's circular dated 6 February 2008, there was no new business, material acquisitions and disposals of subsidiaries and associated companies in the period under review. The details of the Acquisition are set out in the note 35 to accounts.

POST BALANCE SHEET EVENTS

As at 31 December 2008, the Group had no significant post balance sheet events.

LITIGATION

During the year ended 31 December 2008, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Group.

HUMAN RESOURCES

The Group had around 1,200 employees as at 31 December 2008. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

RETIREMENT SCHEME

The Group's Hong Kong employees participate in a mandatory provident fund scheme. Particulars of this retirement scheme are set out in note 39 to the financial statements on page 93.

CONTINGENT LIABILITIES

At 31 December 2008, the Group has no material contingent liabilities.

CAPITAL COMMITTMENT

At 31 December 2008, the Group has capital expenditure of approximately of HK$40,587,000 contracted but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment and approximately of HK$79,418,000 authorised but not contracted for in respect of acquisition of property, plant and equipment.

PROSPECTS

Looking into the year 2009, the directors expect the global economic conditions to remain challenging. Given the recent volatilities in metal trading and securities trading, the Group has already ceased, for the time being, the operation of metal trading business and has not made further investments in securities since July 2008. The board will become more prudent and selective in choosing the investment portfolio.

The Board considers that the shipbuilding industry will continue to be impacted by the global financial crisis, a weakening world economy and credit market stress. The Group will continue to closely monitor the financial status of its customers and their financing resources.

After the occurrence of financial crisis, the costs of raw material are going down significantly from its peak in the mid of 2008, the shortage of shipping equipment is relieved and the wages of labour would become stabilized. All of these relieved the rising costs of constructing vessels. With three years order book of approximately HK$8.5 billion and no order cancellations from customers as at 31 December 2008, the Board remains confident of delivering continual growth in productivity and recording profit for 2009.

The Directors consider to adopt strategies to exit the business which is lose-making and with unpromising prospect. The Directors will continue to reinforce the Group's financial position so that it would be fully prepared to seize suitable investment opportunities when they arise.

Report on Corporate Governance

The Group has recognized the importance of transparency and accountability, and the Board believes that shareholders can be benefited from good corporate governance. The Company aims to achieve good standard of corporate governance, and thus during the year the Group has complied with most of the code provisions ("Code Provision") as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") except for the deviation of Code Provision A.2.1. The Company had been deviated from the Code Provision A.2.1 as the roles of the Chairman and Chief Executive Officer are not separated during 2008. Mr. Chau On Ta Yuen, being the Chairman of the Board, is in charge of the overall management of the Company and he also performs the role of a Chief Executive Officer of the Company as this would allow the Company to have more effective planning and execution of business strategies. On 3 February 2009, the Board appointed Mr. Li Ming as the Chief Executive Officer of the Company and the derivation has been remedied at this report date.

THE BOARD OF DIRECTORS

The Board's primary responsibilities are to formulate the Company's long-term corporate strategy, to oversee the management and to evaluate the performance of the Group.

The Board meets regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. For the year ended 31 December 2008, 39 board meetings were held. The individual attendance of each Director is set out below:

Name	Number of board meetings attended
Executive directors:	
Mr. Chau On Ta Yuen	39/39
Mr. Zhang Shi Hong	38/39
Mr. Wang San Long *(appointed on 8 May 2008)*	4/26
Mr. Tang Chi Ming *(resigned on 8 May 2008)*	4/13
Independent non-executive directors:	
Mr. Hu Bai He *(appointed on 15 May 2008)*	2/25
Ms. Xiang Si Ying *(appointed on 15 May 2008)*	2/25
Mr. Zhang Xi Ping *(appointed on 13 August 2008)*	2/14
Ms. Chan Ling, Eva *(resigned on 13 August 2008)*	2/25
Mr. Sin Chi Fai *(resigned on 15 May 2008)*	2/14
Mr. Chan Sek Nin, Jackey *(resigned on 29 May 2008)*	2/15

When the Board considers any material transaction in which a substantial shareholder or a Director has a conflict of interest, a board meeting is held and Independent Non-executive Directors who have no material interest in the transaction will be present at such board meeting. At the meeting, the Director who has an interest in the transaction is required to abstain from voting.

CHAIRMAN

The Board appointed Mr. Chau On Ta Yuen as the Chairman, who is responsible for the leadership and effective running of the Board to achieve its primary responsibilities. With the support of the Executive Directors, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and that all Directors receive adequate and reliable information on a timely manner. The Chairman also encourages Directors to be fully engaged in the Board's affair and make contribution in performing the Board's functions.

BOARD COMPOSITION

The Board comprises of four executive directors and three independent non-executive directors at the date of this report. The independent non-executive directors constitute over one-third of the Board. In addition, one of the independent non-executive directors possesses appropriate accounting qualifications and financial management expertise. The Directors are considered to have a balance of knowledge and experience appropriate for the requirements of the business of the Group. The independent non-executive directors serve the important function of ensuring and monitoring the basis of an effective corporate governance framework. The Board considers that each independent non-executive director is independent in character and judgment and that they all meet the specific independent criteria as required by the Listing Rules.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the requirement of the Rule 3.13 of the Listing Rules, the Board confirmed that the Company has received written confirmation from each of all three independent non-executive directors of their independence and considers them to be independent throughout the year.

TERMS OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

The non-executive directors are subject to retirement by rotation at the Company's annual general meeting pursuant to the bye-laws of the Company. All of them were appointed for a term of two years from the date of appointment.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Listing Rule regarding Directors' securities transactions. Based on specific enquiry of all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the year ended 31 December 2008.

NOMINATION OF DIRECTORS

The nomination of directors should take into consideration of the nominee's qualification, experience, ability and potential contributions to the Company. Three meetings were held during the year to discuss appointment of new directors. The Company is currently considering the setting up of a nomination committee.

REMUNERATION COMMITTEE

The Company has set up the Remuneration Committee ensuring that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management. The Remuneration Committee was comprised of three independent non-executive directors, Mr. Hu Bai He, Ms. Xiang Si Ying and Mr. Zhang Xi Ping and the Chairman of the Remuneration Committee is Mr. Zhang Xi Ping. One meeting was held during the year ended 31 December 2008.

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

AUDIT COMMITTEE

The Company established an Audit Committee with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The terms of the Audit Committee are consistent with the terms set up in the Code.

The Audit Committee comprises all three Independent Non-executive Directors, and the chairman of the Audit Committee, Mr. Hu Bai He possesses a professional accountancy qualification and has substantial experience in accounting and financial matters.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, financial statements and internal control procedures. It also acts as an important link between the Board and the Company's auditors in matters concerning the Group's audit.

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

Name of member	Number of committee meetings attended
Hu Bai He (appointed on 15 May 2008)	1/1
Xiang Si Ying (appointed on 15 May 2008)	1/1
Zhang Xi Ping (appointed on 13 August 2008)	1/1
Chan Ling, Eva (resigned on 13 August 2008)	1/1
Chan Sek Nin, Jackey (resigned on 29 May 2008)	1/1
Sin Chi Fai (resigned on 15 May 2008)	1/1

The Group's interim report of the six months to 30 June 2008 and the annual report for the year ended 31 December 2008 have been reviewed by the Audit Committee and recommendation was provided to the Board for approval.

AUDITORS' REMUNERATION

For the year ended 31 December 2008, the Auditors of the Company received approximately HK$1,260,000 for audit services and HK$1,045,813 for tax and other services.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

INTERNAL CONTROL

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls, and risk management functions.

The Group maintains a centralized cash management system for the Group's treasury function to oversee the Group's investment, lending and borrowing activities.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility.

COMMUNICATION WITH SHAREHOLDERS

Shareholders are encouraged to attend shareholders' meetings. The Chairman and/or the Directors are available to answer questions on the Group's businesses at the meetings. In respect of each substantially separate issue at a general meeting, a separate resolution is proposed by the chairman of that meeting. Shareholders are also informed the procedure to demand voting by poll.

On behalf of the Board

Zhang Shi Hong
Director

27 April 2009

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in notes 42 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 27.

DIVIDENDS

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in share capital of the Company are set out in note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company did not have any reserves available for distribution (2007: Nil).

Under the Companies Act 1981 of Bermuda (as amended), the balances in a company's contributed surplus and share premium accounts are available for distribution. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus and share premium if:

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

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

DIRECTORS

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

Executive directors:

Mr. Chau On Ta Yuen - *Chairman*	
Mr. Li Ming - *Deputy Chairman and Chief Executive Officer*	(appointed on 3 February 2009)
Mr. Zhang Shi Hong	
Mr. Wang San Long	(appointed on 8 May 2008)
Mr. Tang Chi Ming	(resigned on 8 May 2008)

Independent non-executive directors:

Mr. Hu Bai He	(appointed on 15 May 2008)
Ms. Xiang Siying	(appointed on 15 May 2008)
Mr. Zhang Xi Ping	(appointed on 13 August 2008)
Mr. Chan Ling, Eva	(resigned on 13 August 2008)
Mr. Chan Sek Nin, Jackey	(resigned on 29 May 2008)
Mr. Sin Chi Fai	(resigned on 15 May 2008)

In accordance with Clause 86(2) of the Company's Bye-laws, Mr. Li Ming, Mr. Zhang Xi Ping retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Clause 87 of the Company's Bye-laws, Mr. Chau On Ta Yuen and Mr. Hu Bai He retire by rotation and are eligible for re-election at the forthcoming annual general meeting.

All of the remaining directors continue in office.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors as at the date of this report are set out below:

Executive Directors

Mr. Chau On Ta Yuen, aged 61, graduated from Xiamen University majoring in Chinese Language and literature. Mr. Chau is currently the independent non-executive director of Wonderful World Holdings Limited, Build More Holdings Limited and Come True Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also an independent non-executive director of Everpride Biopharmaceutical Company Limited, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange. From March 2000 to November 2006, he was appointed as the executive director and the vice chairman of Everbest Century Holdings Limited (now known as Everbest Energy Holdings Limited) which is listed on the Main Board of the Stock Exchange. Mr. Chau is a member of the Chinese People Political Consultative Conference of the People Republic of China and the vice chairman of Hong Kong Federation of Fujian Associations.

Mr. Li Ming, aged 46, graduated from Jiangxi Finance Institute (now known as Jiangxi University of Finance & Economics) majoring in planning statistics. Prior to joining the Company, Mr. Li held senior positions in a number of well-known companies in the People's Republic of China and had extensive experience in management and business planning. During the period from 3 September 2002 to 5 October 2007, he was appointed as an non-executive director of Ningbo Yidong Electronic Company Limited, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

Mr. Zhang Shi Hong, aged 40, has over 15 years of experience in finance, credit management and investment management. He has worked for the head office of the Bank of China for around nine years and was mainly responsible for credit management. He also pursued investment management in various corporations in the PRC. Mr. Zhang holds a Master's degree in Economics.

Mr. Wang San Long, aged 58, has more than thirty years working experience in the field of ship-building. He is a senior engineer and was graduated from ship-building department of Huazhong Gong Xue Yuan (now known as Huazhong University of Science and Technology). Mr. Wang is a member of Changjiang Committee in China Classification Society. He is also a member of teaching guidance committee of ship engineering department in Jiujiang Vocational and Technical College. Mr. Wang is currently the director and general manager of one of the subsidiary of the Company, namely Jiangxi Jiangzhou Union Shipbuilding Co., Ltd.

Independent Non-Executive Directors

Mr. Hu Bai He, aged 46, was graduated from Jiangxi University of Finance & Economics. He is a Senior Accountant, Certified Public Accountant, Certified Public Valuer and Certified Tax Agent in the PRC. He has extensive experience in finance and accounting field. Mr. Hu is currently the General Manager of Peking Certified Public Accountants. Before he joined Peking Certified Public Accountants in 1993, he has had over seven years working experience with Ministry of Finance the PRC.

Ms. Xiang Si Ying, aged 46, holds an MBA degree from the London Business School. She has extensive experience in corporate finance, restructuring, initial public offering and merge and acquisitions deals. Ms. Xiang is currently an executive director of China International Capital Corporation Limited ("CICC") and works in its private equity department. Before she joined CICC in 2004, she has had over ten years working experience with International Finance Corporation (IFC), the private investment arm of the World Bank Group, in Washington DC, United States of America.

Mr. Zhang Xi Ping, aged 64, graduated from the department of shipping design and building at Harbin Institute of Military Engineering in 1968 and completed a postgraduate course in fluid mechanics at Shanghai Jiao Tong University in 1977. He is a professorial engineer and a senior economist in the PRC. Mr. Zhang has extensive experience in shipping field and has held senior positions in several national companies.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2008, the interests of the directors in the share capital of the Company or its associated corporations, as defined in Part XV of the Securities and Futures Ordinance (the "SFO") and as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) **Interest in ordinary shares of the company**

None of the directors or their associates had held any ordinary shares of the Company.

(ii) **Rights to acquire shares in the company**

At 31 December 2008, the directors of the Company had interests in share options to subscribe for shares in the Company and details of which are as follows:

Name of Director	Company /name of associated corporation	Nature of interest	Number of ordinary shares
Chau On Ta Yuen	Company	Personal interest *(Note 1)*	150,000,000
Zhang Shi Hong	Company	Personal interest *(Note 1)*	50,000,000
Wang San Long	Company	Personal interest *(Note 2)*	130,000,000

Notes:

1. Such number of Shares represents the underlying shares of the options granted on 5 March 2008 under the share option scheme of the Company adopted on 12 July 2002 ("2002 Scheme").

2. Such number of Shares represents the underlying shares of the options granted on 7 May 2008 under the 2002 Scheme.

Save as disclosed in this report, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme adopted on 12 July 2002 are set out in note 39 to the consolidated financial statements. The following share options were outstanding under 2002 scheme during the year ended 31 December 2008:

Name or Category of Participant	As at 1 January 2008	Shares granted during the period	As at 31 December 2008	Exercise Price	Date of Grant	Exercise Period
Directors:						
Chau On Ta Yuen	—	60,000,000	60,000,000	0.180	05-03-08	05-03-08 to 04-03-18
	—	45,000,000	45,000,000	0.180	05-03-08	05-03-09 to 04-03-18
	—	45,000,000	45,000,000	0.180	05-03-08	05-03-10 to 04-03-18
Zhang Shi Hong	—	20,000,000	20,000,000	0.180	05-03-08	05-03-08 to 04-03-18
	—	15,000,000	15,000,000	0.180	05-03-08	05-03-09 to 04-03-18
	—	15,000,000	15,000,000	0.180	05-03-08	05-03-10 to 04-03-18
Wang San Long	—	52,000,000	52,000,000	0.143	07-05-08	07-05-08 to 06-05-18
	—	39,000,000	39,000,000	0.143	07-05-08	07-05-09 to 06-05-18
	—	39,000,000	39,000,000	0.143	07-05-08	07-05-10 to 06-05-18
Sub-total	—	330,000,000	330,000,000			
Employees:	—	69,600,000	69,600,000	0.143	07-05-08	07-05-08 to 06-05-18
	—	52,200,000	52,200,000	0.143	07-05-08	07-05-09 to 06-05-18
	—	52,200,000	52,200,000	0.143	07-05-08	07-05-10 to 06-05-18
Sub-total	—	174,000,000	174,000,000			
Other participants:	—	1,215,000,000	1,215,000,000	0.143	07-05-08	07-05-08 to 06-05-18
Total :	—	1,719,000,000	1,719,000,000			

No share option was exercised, cancelled or lapsed during the year ended 31 December 2008.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company for re-election at the forthcoming annual general meeting has service contract with the Company or any of its subsidiaries, which is not determinable by the employer within one year without payment of compensation, other than statutory compensations.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the following persons, not being a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the registers (the "Registers") maintained by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Long/Short position	Capacity	Number of ordinary shares held	Number of underlying share held (convertible notes)	Approximate percentage of the issued shares held
Million King Investment Limited	Long position	Beneficial owner	2,823,762,647	4,000,000,000	20.22%
Li Ming *(note 1)*	Long position	Beneficial owner	2,587,858,820	0	7.67%
	Long position	Interest of controlled Corporation	235,294,117 *(note 2)*	0	0.70%

Note 1 Mr. Li Ming has been appointed as a director of the Company on 3 February 2009.

Note 2 These shares are held by Lead Dragon Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Mr. Li Ming.

Other than as disclosed above, the Company has not been notified of any other interest or short positions in the shares and underlying shares of the Company as at 31 December 2008.

CONNECTED TRANSACTIONS

During the period from 3 November 2008 to 14 December 2008, Mr. Li Ming ("Mr. Li") and his controlled corporation held over 10% of the then issued share capital of the Company. Accordingly, Mr. Li was a connected person (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") of the Company during the mentioned period. He is also a controlling shareholder of China Ruilian Holding Corp (the "China Ruilian") which has, on 16 November 2007 and on 2 January 2008, entered into two guarantee agreements with Jiangxi Jianzhou shipbuilding Co., Ltd (the "Jiangxi Jianzhou"), an indirect wholly-owned subsidiary of the Company in respect of Jiangxi Jianzhou's payment obligations under bank facilities with various banks for vessels manufacturing (the "Guarantees") (where no security over the assets of the Group is granted in respect thereof). Being an associate of Mr. Li, China Ruilian was also a connected person of the Company under the Listing Rules and therefore the Guarantees constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As set out in the announcement of the Company dated 4 November 2008, it was considered that the Guarantees are exempted from all reporting, announcement and independent shareholders' approval requirements under the Listing Rules pursuant to Rule 14A. 65(4) of the Listing Rules as the transactions contemplated under the Guarantees constitute financial assistance provided by a connected person for the benefit to the Company on normal commercial terms where no charge over the assets of the Company is created in respect of the financial assistance.

The Guarantees are continuing connected transactions of the Company as Mr. Li has been appointed as a director of the Company on 3 February 2009. The Board considers that the transactions are still exempted from all reporting, announcement and independent shareholders' approval requirements under the mentioned reasons. For the year ended 31 December 2008, the aggregate fees paid by the Group to China Ruilian amounted to RMB9 million.

EMOLUMENT POLICY

The emolument policy of the employee of the Company is set up by the executive directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Board of Directors, having regard to their responsibility to the Company, their qualifications, experiences and past remuneration, the Company's performance and current market situation.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 39 to the consolidated financial statements.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of purchase attributable to the Group's largest supplier and five largest suppliers taken together accounted for 35% and 86%, respectively, of the Group's total purchase for the year.

The aggregate amount of turnover attributable to the Group's largest customer and five largest customers taken together accounted for 51% and 98%, respectively of the Group's total turnover for the year.

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

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2008 with most of the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules. Further information on the Company's corporate governance practice including any deviations from the Code is set out in the Corporate Governance Report on pages 8 to 13.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Chau On Ta Yuen
Chairman

Hong Kong, 27 April 2009

Deloitte.
德勤

TO THE MEMBERS OF WONSON INTERNATIONAL HOLDINGS LIMITED
和成國際集團有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Wonson International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 97, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000
Revenue	7	**1,191,596**	5,203
Cost of sales		**(1,031,125)**	(4,152)
		160,471	1,051
Other income	8	**24,579**	5,574
Loss on disposal of available-for-sale investments		**(1,025)**	—
Change in fair value of conversion option embedded in convertible note	20	**—**	1,282
Change in fair value of investments held for trading		**(37,928)**	(40,848)
Impairment loss on goodwill		**(322,221)**	—
Distribution and selling expenses		**(670)**	—
Administrative expenses		**(64,885)**	(15,736)
Finance costs	9	**(233,311)**	(5,949)
Loss before tax	10	**(474,990)**	(54,626)
Taxation	11	**5,994**	—
Loss for the year		**(468,996)**	(54,626)
Loss per share - Basic	14	**(HK0.02) cents**	(HK0.52) cents

Consolidated Balance Sheet

At 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	15	916,871	1,133
Deposit paid for acquisition of property, plant and equipment		3,029	—
Prepaid lease payments - non current portion	16	345,004	—
Goodwill	35	514,179	—
Intangible asset	17	1,546,602	—
Available-for-sale investments	18	—	18,912
Conversion option embedded in convertible note	20	—	2,631
		3,325,685	22,676
Current assets			
Inventories	21	482,125	378
Trade and other receivables	22	562,518	4,979
Prepayment for purchase of raw materials	22	863,043	—
Prepaid lease payment - current portion	16	1,701	—
Loan receivables	23	—	48,364
Investments held for trading	24	18,423	231,351
Pledged bank deposits	25	176,648	—
Bank balances and cash	25	158,155	84,796
		2,262,613	369,868
Current liabilities			
Trade, bills and other payables	26	1,371,331	4,952
Amounts due to customers for contract work	27	358,079	—
Margin loan payable	28	32,499	51,759
Bank overdrafts	25	4,521	—
Bank borrowings - due within one year	29	113,637	—
Provision for warranty	30	2,974	—
Deferred consideration	31	173,447	—
		2,056,488	56,711
Net current assets		206,125	313,157
		3,531,810	335,833

Consolidated Balance Sheet (Continued)

At 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	32	**33,740**	17,198
Reserves		**2,259,669**	272,410
		2,293,409	289,608
Non-current liabilities			
Bank borrowings - due after one year	29	**227,273**	—
Convertible notes payable	33	**421,440**	46,225
Deferred tax liabilities	34	**589,688**	—
		1,238,401	46,225
		3,531,810	335,833

The financial statements on pages 27 to 97 were approved and authorised for issue by the Board of Directors on 27 April 2009 are signed on its behalf by:

Chau On Ta Yuen
DIRECTOR

Zhang Shi Hong
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Capital reserve HK$'000	Convertible notes reserve HK$'000	Shared-based payment reserve HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	5,316	312,933	528,327	—	802	—	—	—	(701,715)	145,663
Gain on change in fair value of available-for-sale investments recognised directly in equity	—	—	—	—	—	—	—	261	—	261
Loss for the year	—	—	—	—	—	—	—	—	(54,626)	(54,626)
Total recognised loss for the year	—	—	—	—	—	—	—	261	(54,626)	(54,365)
Issue of shares	6,000	90,000	—	—	—	—	—	—	—	96,000
Transaction costs attributable to issue of shares	—	(2,000)	—	—	—	—	—	—	—	(2,000)
Recognition of equity components of convertible notes payable	—	—	—	—	—	10,362	—	—	—	10,362
Conversion of convertible notes payable	5,882	94,974	—	—	—	(6,908)	—	—	—	93,948
At 31 December 2007	17,198	495,907	528,327	—	802	3,454	—	261	(756,341)	289,608

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2008

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Capital reserve HK$'000	Convertible notes reserve HK$'000	Shared-based payment reserve HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Exchange differences on translation	–	–	–	84,956	–	–	–	–	–	84,956
Loss on change in fair value of available-for-sale investments	–	–	–	–	–	–	–	(1,286)	–	(1,286)
Net income recognised directly in equity	–	–	–	84,956	–	–	–	(1,286)	–	83,670
Release on disposal of available-for-sale investments	–	–	–	–	–	–	–	1,025	–	1,025
Loss for the year	–	–	–	–	–	–	–	–	(468,996)	(468,996)
Total recognised loss for the year	–	–	–	84,956	–	–	–	(261)	(468,996)	(384,301)
Recognition of equity components of convertible notes payable	–	–	–	–	–	889,887	–	–	–	889,887
Deferred tax liability arising on recognition of equity component of convertible notes	–	–	–	–	–	(146,831)	–	–	–	(146,831)
Release of deferred tax liability upon conversion	–	–	–	–	–	114,445	–	–	–	114,445
Recognition of equity-settled shared-based payment	–	–	–	–	–	–	42,012	–	–	42,012
Conversion of convertible notes payable	16,542	2,170,766	–	–	–	(698,719)	–	–	–	1,488,589
At 31 December 2008	33,740	2,666,673	528,327	84,956	802	162,236	42,102	–	(1,225,337)	2,293,409

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	HK$'000	HK$'000
OPERATING ACTIVITIES		
Loss for the year	(474,990)	(54,626)
Adjustments for:		
Depreciation of property, plant and equipment	33,959	157
Change in fair value of conversion option embedded in convertible notes	—	(1,282)
Change in fair value of investments held for trading	37,928	30,135
Loss on disposal of available-for-sale investments	1,025	—
Loss (gain) on disposal of property, plant and equipment	624	(280)
Interest income	(7,617)	(5,294)
Finance costs	233,311	5,949
Release of prepaid lease payment	4,812	—
Amortisation of intangible asset	115,199	—
Impairment loss on goodwill	322,221	—
Share-based payment expense	42,012	—
Operating cash flows before movements in working capital	308,484	(25,241)
(Increase) decrease in inventories	(135,742)	468
Increase in trade and other receivables	(675,734)	(4,206)
Decrease (increase) in investments held for trading	175,000	(125,054)
Increase in trade, bills and other payables	1,120,181	1,992
Decrease in provision of warranty	(5,733)	—
Decrease in amounts due to customers for contract work	(452,447)	—
(Decrease) increase in margin loan payables	(19,260)	51,759
Decrease in margin loan receivables	—	224
Cash generated from (used in) operations	314,749	(100,058)
Interest received	7,617	5,294
NET CASH FROM (USED IN) OPERATING ACTIVITIES	322,366	(94,764)

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2008

	NOTE	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Increase in pledged bank deposit		(161,100)	—
Purchase of property, plant and equipment		(126,702)	(1,212)
Deposit paid for acquisition of property, plant and equipment		(3,029)	—
Decrease (increase) in loan receivables		48,364	(48,364)
Proceeds from disposal of available-for-sale investments		20,257	—
Acquisition of a subsidiary	35	13,731	—
Proceeds from disposal of property, plant and equipment		21	350
Purchase of convertible note		—	(20,000)
NET CASH USED IN INVESTING ACTIVITIES		(208,458)	(69,226)
FINANCING ACTIVITIES			
Repayment of bank borrowings		(41,807)	—
Interest paid		(26,702)	(2,414)
New bank loan raised		16,314	—
Net proceeds from issue of convertible notes payable		—	147,000
Net proceeds from issue of shares		—	94,000
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(52,195)	238,586
NET INCREASE IN CASH AND CASH EQUIVALENTS		61,713	74,596
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		7,125	—
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		84,796	10,200
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by		153,634	84,796
Bank balances and cash		158,155	84,796
Bank overdraft		(4,521)	—
		153,634	84,796

1. GENERAL

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

The Company is an investment holding company. The principal activities of its subsidiaries and associate are set out in notes 42 and 43, respectively.

The functional currency of the Company was originally Hong Kong dollars ("HKD"). On 16 April 2008, the Company acquired INPAX Technology Limited and its subsidiary Jiangxi Union Shipbuilding Company Limited 江西江州聯合造船有限責任公司(「江州聯合船廠」) (collectively the "INPAX Group"), both of which have Renminbi ("RMB") as their functional currency. The directors are of the opinion that after the acquisition of INPAX Group, the primary economic environment in which the Company operates is the People's Republic of China (the "PRC"), taking into consideration that the Company's principal activity is holding of investments in subsidiaries. The directors have therefore determined that the functional currency of the Company has been changed to RMB after acquisition of INPAX Group.

The consolidated financial statements are presented in HKD for the convenience of the shareholders, as the Company is listed in Hong Kong.

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) - Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) - Int 18	Transfers of Assets from Customers[7]

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

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

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

Basis of consolidation

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

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

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

All intra-group transactions, balances, income and expense are eliminated on consolidation.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Business combination agreements with adjustments to the cost of combination based on contingent events are included in the cost of combination at the acquisition date if the adjustment is probable and can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the condensed consolidated balance sheet.

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

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for service rendered (for shipbuilding, see below "construction contracts" for details) and goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from shipbuilding represents contracted revenue arising on construction contracts for shipbuilding for the year.

Sales of goods are recognised when the goods are delivered and title has passed.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire leasehold land interests. The prepaid lease payments are stated at cost and are charged to the condensed consolidated income statement over the period of the lease on a straight line basis.

Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

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

Construction contracts

Where the outcome of a construction contract for shipbuilding can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as determined by reference to the standard hours incurred up to the balance sheet date as a percentage of total estimated standard hours for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the contract work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

Financial assets

The Group's financial assets are classified into financial assets held for trading, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss of the Group includes financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

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

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

Impairment of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Financial assets, such as trade and other receivables and loan receivables, assets that are assessed for impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis, of which the interest expense is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Convertible notes issued by the Group

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

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes reserve).

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

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

Other financial liabilities

Other financial liabilities of the Group include trade and other payable, bills payable, margin loan payable, bank borrowings and deferred consideration which are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derivative financial instruments

Derivatives (including not-closely related embedded derivatives separated from host contract) are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

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

Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible assets and intangible assets other than goodwill

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

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

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year.

Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which a foreign operation is disposed of.

Inventories

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

Leasing

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

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

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme/State-managed retirement benefit schemes, which is a defined contribution scheme, are charged as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair values at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

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

Share options granted to consultants

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following is the key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amount of asset within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amount of goodwill is approximately HK$514,179,000 (net of accumulated impairment loss of approximately HK$322,221,000). Details of the recoverable amount calculation are disclosed in note 35.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which include the cash and cash equivalents, net of the margin loan payables, bank borrowings (note 29), deferred consideration (note 31), convertible notes payable and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Fair value through profit or loss		
- Held for trading	**18,423**	231,351
- Conversion option embedded in convertible note	**—**	2,631
Loans and receivables (including cash and cash equivalents)	**777,577**	138,139
Available-for-sale investments	**—**	18,912
Financial liabilities		
Liabilities measured at amortised cost	**1,294,596**	102,936

6b. Financial risk management objectives and polices

The Group's major financial instruments include available-for-sale investments, conversion option embedded in convertible note receivable, trade and other receivables, loan receivables, investments held for trading, bank balances, trade and other payables, margin loan payables, bills payable, bank borrowings, deferred consideration and convertible notes payable. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS (Continued)

6b. Financial risk management objectives and polices (Continued)

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency, interest rates and equity prices. Market risk exposures are further measured by sensitivity analysis. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk. Details of each type of market risks are described as follows:

(i) Currency risk

The Group's major operating subsidiary has RMB as its functional currency and is mainly exposed to United States dollars ("USD"), Euro ("EUR"), HKD and Singapore dollars ("SGD"), arising from foreign currency denominated bank balance, investment held for trading, convertible notes payables and deferred consideration. The Group's other operating subsidiaries (all with HKD as their functional currency) do not have significant foreign currency exposure.

The Group currently does not have an foreign currency hedging policy. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

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

6. **FINANCIAL INSTRUMENTS** (Continued)

6b. **Financial risk management objectives and polices** (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

	Liabilities		Assets	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**—**	—	**2,985**	54
EUR	**—**	—	**4,242**	—
HKD	**657,701**	—	**18,677**	—
SGD	**—**	—	**—**	93,478

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD, EUR, HKD and SGD, respectively. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their translation at the year end for 5% change in foreign currency rates. The sensitivity analysis includes bank balance in USD, EUR and HKD, investments held for trading in SGD, margin loan payable, bank borrowing, deferred consideration and convertible notes payables in HKD where the denomination of the receivables or payables is in a currency other than the functional currency of the lender or the borrower. A positive number indicates an decrease in loss for the year in total effect where RMB strengthens against USD, EUR, HKD and SGD. For weakening of RMB against USD, EUR, HKD and SGD would be an equal and opposite impact on the loss for the year and the balance below would be negative.

	2008	2007
	HK$'000	HK$'000
Increase in loss for the year		
- USD	**(7)**	—
- EUR	**(11)**	—
- HKD	**639**	—
- SGD	**—**	(234)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

6. FINANCIAL INSTRUMENTS (Continued)

6b. Financial risk management objectives and polices (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank overdrafts and bank deposits (2007: variable-rate margin loan payable and bank deposits), and exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits, bank borrowings, liability component of convertible notes payable, margin loan payables, deferred consideration and the debt element of convertible note payable (2007: fixed-rate liabilities component of convertible notes payable). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the Group's bank overdrafts and bank deposits.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank overdrafts and bank balances at the balance sheet date. The analysis is prepared assuming the amount of the outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year would decrease/increase by HK$766,000 (2007: HK$259,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank overdrafts and bank balances.

6. FINANCIAL INSTRUMENTS (Continued)

6b. Financial risk management objectives and polices (Continued)

Market risk (Continued)

(iii) Price risk on investments held for trading

The Group is exposed to equity price risk through its investments held for trading. The Group's equity price risk is mainly concentrated on listed equity instruments quoted in the respective Stock Exchanges. The management manages this exposure by closely monitoring the price risk and maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks of investments held for trading at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower and all other variables were held constant, loss for the year ended 31 December 2008 would decrease/increase by HK$921,000 (2007: decrease/ increase by HK$11,568,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

(iv) Price risk on conversion option embedded in convertible note

The Group was required to estimate the fair value of the conversion option embedded in the convertible note at each balance sheet date with changes in fair value to be recognised in the consolidated income statements as long as the convertible note were outstanding. The fair value adjustment would be affected either positively or negatively, amongst others, by the change in share price volatility of the convertible note issuer.

Sensitivity analysis

The sensitivity analysis below had been determind based on the exposure to the convertible note issuer's share price volatility at the reporting date only as the directors of the Company consider that the change in market interest rate might not have significant financial impact on the face value of conversion option.

6. FINANCIAL INSTRUMENTS (Continued)

6b. Financial risk management objectives and polices (Continued)

Market risk (Continued)

(iv) Price risk on conversion option embedded in convertible note (Continued)

Sensitivity analysis (Continued)

If the convertible note issuer's share price volatility had been 5% higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2007 (as a result of changes in fair value of conversion option component of convertible note would decrease/increase by approximately HK$175,000).

In management's opinion, the sensitivity analyses are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option component of convertible note involves multiple variables and certain variables are interdependent.

Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk on loan receivables is significantly reduced.

The Group has concentration of credit risk as 83.9% (2007: 79.8%) of deposits are placed with three banks (2007: one bank). The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Other than the concentration of credit risk on bank deposits, the Group has an additional concentration credit risk as 75.7% (2007: Nil) of its trade and other receivables was due from a stakeholder in the sales contracts.

In order to minimise the credit risk in respect of the receivables from the stakeholder, the Group signed fund transfer agreements with the stakeholder and banks with which the receivables are placed. The agreements specify the receivables placed in bank could only be withdrawn by the company for shipbuilding purpose. In the event of default of the stakeholder, the bank would retain the receivables for shipbuilding purpose under the arrangement.

6. FINANCIAL INSTRUMENTS (Continued)

6b. Financial risk management objectives and polices (Continued)

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table for non-derivative financial liabilities has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 1 month HK$'000	1 to 3 months HK$'000	3 months to 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2008 HK$'000
2008								
Non-derivative financial liabilities								
Trade and other payables	—	80,121	3,031	34,082	—	—	117,234	117,234
Bills payables	—	45,454	159,091	—	—	—	204,545	204,545
Margin loan payables								
- fixed rates	12%	324	650	33,925	—	—	34,899	32,499
Deferred consideration	16.25%	—	—	200,000	—	—	200,000	173,447
Convertible notes payable								
- liability component (note)	16.25%	—	—	5,400	5,400	579,999	590,799	421,440
Bank borrowings								
- variable rates	7%	4,521	—	—	—	—	4,521	4,521
- fixed rates	8.2%	289	5,608	128,349	18,639	244,382	397,267	340,910
		130,709	168,380	401,756	24,039	824,381	1,549,265	1,294,596

6. FINANCIAL INSTRUMENTS (Continued)

6b. Financial risk management objectives and polices (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 1 month HK$'000	1 to 3 months HK$'000	3 months to 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2008 HK$'000
2007								
Non-derivative financial liabilities								
Other payables	—	4,952	—	—	—	—	4,952	4,952
Margin loan payables								
- variable rates	HK prime rate + 3%	51,759	—	—	—	—	51,759	51,759
Convertible notes payable								
- liability component *(note)*	7.95%	—	—	—	50,000	—	50,000	46,225
		56,711	—	—	50,000	—	106,711	102,936

Note: This is categorised based on contractual term of redemption obligation at maturity, the holders of the convertible notes can convert the notes into the Company's shares anytime.

6c. Fair value

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets (including available-for-sale unlisted debt securities) and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (Bionomical option pricing model).

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group was originally organised into two operating divisions - metals trading and trading of securities before the acquisition of INPAX Group. A further operating division in ship building is added during the year after the acquisition. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2008

	Shipbuilding HK$'000	Metals trading HK$'000	Trading of securities HK$'000	Total HK$'000
Gross proceeds	1,190,824	772	425,660	1,617,256
Revenue	1,190,824	772	—	1,191,596
Segment result	(151,405)	(34)	(36,277)	(187,716)
Other income				10,215
Unallocated corporate expenses				(49,953)
Share-based payment expenses				(14,225)
Finance costs				(233,311)
Loss before tax				(474,990)
Taxation				5,994
Loss for the year				(468,996)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

2007

	Metals trading HK$'000	Trading of securities HK$'000	Total HK$'000
Gross proceeds	5,203	133,536	138,739
Revenue	5,203	—	5,203
Segment result	399	(40,848)	(40,449)
Interest income			5,294
Gain on change in fair value of conversion option embedded in convertible note			1,282
Unallocated corporate expenses			(14,804)
Finance costs			(5,949)
Loss for the year			(54,626)

Balance sheet

	2008		2007	
	Carrying amount of assets HK$'000	**Carrying amount of liabilities HK$'000**	Carrying amount of assets HK$'000	Carrying amount of liabilities HK$'000
Ship building	**5,232,411**	**1,730,978**	—	—
Metals trading	**772**	**—**	623	—
Trading of securities	**18,423**	**—**	291,677	51,759
Segmental total	**5,251,606**	**1,730,978**	292,300	51,759
Other corporate assets	**336,692**	**1,563,911**	100,244	51,177
Consolidated total	**5,588,298**	**3,294,889**	392,544	102,936

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Other information

	2008				
	Shipbuilding HK$'000	**Metal trading HK$'000**	**Trading of securities HK$'000**	**Other HK$'000**	**Total HK$'000**
Capital additions	**124,256**	**—**	**—**	**2,446**	**126,702**
Depreciation	**33,444**	**—**	**—**	**515**	**33,959**
Amortisation prepaid lease payments	**4,812**	**—**	**—**	**—**	**4,812**
Amortisation of intangible assets	**115,199**	**—**	**—**	**—**	**115,199**
Loss on disposal of property, plant and equipment	**—**	**—**	**—**	**624**	**624**
Shared-based payment expense	**27,787**	**—**	**—**	**14,225**	**42,012**
Charge in fair value of investments held for trading	**—**	**—**	**37,928**	**—**	**37,928**
Impairment loss on goodwill	**322,221**	**—**	**—**	**—**	**322,221**

	2007			
	Metal trading HK$'000	Trading of securities HK$'000	Other HK$'000	Total HK$'000
Capital additions	—	—	1,212	1,212
Depreciation	—	—	157	157
Gain on disposal of property, plant and equipment	—	—	280	280
Charge in fair value of investments held of trading	—	40,848	—	40,848

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(b) Geographical segments

An analysis of the Group's revenue by geographical markets based on location of customers, irrespective of the origin of the goods, is presented below:

2008

	United States of America HK$'000	Europe HK$'000	Others HK$'000	Consolidated HK$'000
REVENUE				
External sales	145,031	1,045,793	772	1,191,596

Less than 10% of the Group's carrying amounts of assets and capital additions are located outside the PRC, hence no segment analysis by geographical locations is presented.

2007

The Group operates within one geographical segment because its revenue was primarily generated in Hong Kong, all sales were made to customers of the Group located in Hong Kong and all identifiable assets of the Group were substantially located in Hong Kong. Accordingly, no geographical segment was presented.

8. OTHER INCOME

	2008 HK$'000	2007 HK$'000
Dividend income from investments held for trading	2,385	—
Interest on bank deposits	6,762	1,867
Interest on loan receivables	855	3,427
Sales of scrap materials	4,626	—
Gain on disposal of property, plant and equipment	—	280
Exchange gain	9,900	—
Others	51	—
	24,579	5,574

9. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates (Note 33)	188,188	5,107
Imputed interest expense on deferred consideration (Note 31)	18,809	—
Bank borrowings	19,353	—
Other borrowings	6,961	842
	233,311	5,949

10. LOSS BEFORE TAX

	2008 HK$'000	2007 HK$'000
Loss before tax has been arrived at after charging:		
Directors' emoluments	**19,591**	3,237
Other staff costs (including share-based payment of HK$ 2,416,000 (2007: Nil))	**39,314**	4,024
Contributions to retirement benefits scheme, excluding directors'	**4,187**	131
Total staff costs	**63,092**	7,392
Share-based payment expense (included in cost of sales)	**22,842**	—
Auditor's remuneration	**1,150**	1,260
Amortisation of intangibles assets (included in cost of sales)	**115,199**	—
Depreciation of property, plant and equipment	**33,959**	157
Release of prepaid lease payments	**4,812**	—
Loss on disposal of property, plant and equipment	**624**	—
Minimum lease payments under operating leases in respect of rented premises	**1,427**	1,128

11. TAXATION

No provision for Hong Kong Profits Tax has been made since the Group has no assessable profits for both years.

In accordance with Article 8 of the Foreign Enterprise Income Tax ("FEIT') law of the PRC, foreign investment enterprises ("FIEs") of production nature are eligible to enjoy two years of exemption and three years of 50% deduction in FEIT starting from the first profit - making year (the "2+3 tax holidays"). The first fully exempted financial year of 江州聯合船廠 was the year ended 31 December 2007 and 江州聯合船廠 still enjoys full exemption for the current year.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law ("Implementation Regulations"). The New Law and Implementation Regulations will change the tax rate to 25% for certain subsidiaries from 1 January 2008 onwards. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), certain tax exemption and deduction for the FEIT is still applicable until the end of the five-year transitional period under the New Law.

11. TAXATION (Continued)

Under the New Law and Implementation Regulations, 江州聯合船廠 continues to enjoy the preferential tax treatment (12.5% effective tax rate, i.e. 50% of the applicable tax rate of 25%) for each of the years from 2009 to 2011. Thereafter, the tax rate will ratchet up to 25% from 2012.

Income tax for the year can be reconciled to the loss before tax per the consolidated income statement as follows:

	2008 HK$'000	2007 HK$'000
Loss before tax	(474,990)	(54,626)
Tax at applicable domestic income tax rate of 25% (2007: 17.5%)	(118,748)	(9,559)
Tax effect of expenses not deductible for tax purpose	176,463	11,665
Tax effect of income not taxable for tax purpose	(3,382)	(2,106)
Tax effect of tax exemption granted to a PRC subsidiary	(54,333)	—
Tax effect of deductible temporary difference	(27,699)	—
Deferred tax on undistributed earnings of a PRC subsidiary	21,705	—
Tax charge for the year	(5,994)	—

At the balance sheet date, the Group had unused tax losses of approximately HK$25,906,000 (2007: HK$25,906,000) available to offset against future profits. No deferred taxation asset has been recognised due to unpredictability of future profits streams. Tax losses may be carried forward indefinitely.

12. DIRECTORS' EMOLUMENTS

	2008						2007				
	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Share-based payments HK$'000	Total HK$'000	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive:											
Mr. Chau On Ta Yuen	—	1,300	—	12	10,460	11,772	—	340	—	3	343
Mr. Zhang Shi Hong	—	960	—	5	3,487	4,452	—	—	—	—	—
Mr. Wang San Long	—	137	—	4	2,807	2,948	—	—	—	—	—
Mr. Tang Chi Ming*	132	—	—	—	—	132	—	293	—	9	302
Mr. Chiu Kong	—	—	—	—	—	—	—	338	—	5	343
Mr. Hui Richard Rui	—	—	—	—	—	—	—	447	—	4	451
Mr. Tsui Ching Hung	—	—	—	—	—	—	—	424	—	4	428
Ms. Cheung Sze Man	—	—	—	—	—	—	—	500	—	10	510
Mr. Chung Nai Ting	—	—	—	—	—	—	—	215	—	2	217
Mr. Tse Lanny Cheuk Ming	—	—	—	—	—	—	—	205	—	2	207
Mr. Chen Zhong Min	—	—	—	—	—	—	—	126	—	2	128
Independent non-executive:											
Mr. Hu Bai He	51	—	—	—	—	51	—	—	—	—	—
Mr. Xiang Siying	51	—	—	—	—	51	—	—	—	—	—
Mr. Zhang Xiping	31	—	—	—	—	31	—	—	—	—	—
Mr. Sin Chi Fai*	31	—	—	—	—	31	50	—	—	—	50
Ms. Chan Ling, Eva*	74	—	—	—	—	74	97	—	—	—	97
Mr. Chan Sek Nin, Jackey*	49	—	—	—	—	49	86	—	—	—	86
Mr. Miu Frank H.	—	—	—	—	—	—	45	—	—	—	45
Mr. Chan Sze Hung	—	—	—	—	—	—	30	—	—	—	30
	419	2,397	—	21	16,754	19,591	308	2,888	—	41	3,237

* Directors resigned during the year

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2007: five) were directors of the Company whose emoluments are included in note 12 above. The emoluments of the remaining two highest paid individuals are as follows:

	2008	2007
	HK$'000	HK$'000
Salaries and other benefits	864	—
Retirement benefits scheme contributions	12	—
Share-based payments	1,699	—
	2,575	—

Their emoluments were within the following bands:

	2008	2007
	HK$'000	HK$'000
HK$nil to HK$1,000,000	—	—
HK$1,000,001 to HK$1,500,000	1	—
HK$1,500,001 to HK$2,000,000	1	—

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments.

14. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008 HK$'000	2007 HK$'000
Loss		
Loss for the year attributable to equity holders of the Company	**(468,996)**	(54,626)

	2008 HK$'000	2007 HK$'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	**19,160,105**	10,437,646

No diluted loss per share was presented for the year ended 31 December 2008 and 2007 because the exercise of both share options and convertible notes has an anti-dilutive effect.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2007	428	796	2,067	—	—	3,291
Additions	996	216	—	—	—	1,212
Disposals	(428)	(796)	(2,067)	—	—	(3,291)
At 31 December 2007	996	216	—	—	—	1,212
Additions	725	3,256	7,103	36,645	78,973	126,702
Acquired on acquisition of a subsidiary	651,976	638	14,746	41,492	87,795	796,647
Disposals	(524)	(169)	(48)	—	—	(741)
Currency realignment	15,302	298	830	4,263	9,150	29,843
At 31 December 2008	**668,475**	**4,239**	**22,631**	**82,400**	**175,918**	**953,663**
DEPRECIATION						
At 1 January 2007	390	756	1,997	—	—	3,143
Provided for the year	96	61	—	—	—	157
Eliminated on disposals	(428)	(796)	(1,997)	—	—	(3,221)
At 31 December 2007	58	21	—	—	—	79
Provided for the year	26,235	280	2,053	5,391	—	33,959
Eliminated on disposals	(59)	(21)	(16)	—	—	(96)
Currency realignment	2,334	20	150	346	—	2,850
At 31 December 2008	**28,568**	**300**	**2,187**	**5,737**	**—**	**36,792**
CARRYING VALUES						
At 31 December 2008	**639,907**	**3,939**	**20,444**	**76,663**	**175,918**	**916,871**
At 31 December 2007	938	195	—	—	—	1,133

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	5%
Furniture and fixtures	25%
Motor vehicles	12.5%
Plant and machinery	6.67% - 25%

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2008 HK$'000	2007 HK$'000
Leasehold land held under medium-term lease in the PRC	**346,705**	—
Analysed for reporting purposes as:		
Non-current asset	**345,004**	—
Current asset	**1,701**	—
	346,705	—

17. INTANGIBLE ASSET

	Contracted and uncontracted customer relationships HK$'000
COST	
At 1 January 2007 and at 31 December 2007	—
Acquired on acquisition INPAX Group *(Note 35)*	1,626,339
Currency realignment	35,462
At 31 December 2008	1,661,801
AMORTISATION AND IMPAIRMENT	
At 1 January 2007 and at 31 December 2007	—
Amortisation charge for the year	115,199
At 31 December 2008	**115,199**
CARRYING VALUES	
At 31 December 2008	**1,546,602**
At 31 December 2007	—

Intangible asset represents contracted and unconstructed customer relationships arising from the acquisition of INPAX Group during the year.

The fair value of the intangible asset as the date of acquisition was arrived using the multiperiod excess earnings method under the income capitalisation approach. Under the income capitalisation approach the value of an asset reflects the future cash flows it generates. The multiperiod excess earnings method assumes that the value of the asset equals to the present value of the incremental after tax cash flows attributable to the asset.

The amount will be amortised over its estimated useful life of 10 years on a straight-line basis.

18. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2008 HK$'000	2007 HK$'000
Unlisted securities:			
- Equity securities at cost	(a)	**13,489**	13,489
Less: impairment loss recognised		**(13,489)**	(13,489)
		—	—
- Debt securities	(b)	**—**	18,912
Total		**—**	18,912

Notes:

(a) The unlisted investment represents approximately a 5.94% interest in the issued share capital of Found Macau Investments International Limited ("Found Macau"), an investment holding company incorporated in the British Virgin Islands. Found Macau was formed to invest in gaming, entertainment and related business in Macau through its subsidiaries. Included in the investment cost is the fair value adjustment of HK$13,489,000 arising from an interest free loan advanced to Found Macau which was considered as deemed capital contribution.

In view of the recurring operating losses incurred by Found Macau, the directors of the Company reviewed the carrying amount of the unlisted investment based on its expected recoverable amount. Accordingly, an impairment loss of HK$13,489,000 was identified and charged to the consolidated income statement in 2006.

(b) On 2 November 2007, the Group subscribed convertible note of HK$20,000,000 from ITC Corporation Limited ("ITC 2009 CN"), a 5% convertible note bearing interest at 5% per annum payable semi-annually with maturity on 1 November 2009. ITC Corporation Limited is a public limited company with their shares listed on the Stock Exchange. The Group has classified the debt element of the convertible note as available-for-sale investment and the embedded derivative component as conversion option embedded in convertible note on initial recognition. The fair value of each component of the convertible note on initial recognition and at the balance sheet date are determined by the directors of the Company with reference to the valuation performed by Greater China Appraisal Limited, a firm of independent valuers.

As at 31 December 2007, the fair value for the debt element and conversion option element were approximately HK$18,912,000 and HK$2,631,000. Therefore, an increase in fair value of approximately HK$261,000 for the debt element and an increase in fair value of approximately HK$1,282,000 for conversion option element were recognised in equity and profit and loss during the year, respectively.

On 4 February 2008, the Group disposed of the convertible note to an independent third party at consideration of approximately HK$20,257,000.

19. INTEREST IN AN ASSOCIATE

	2008 & 2007 HK$'000
Cost of unlisted investment in an associate	—
Loan to an associate	54,505
Less: Impairment loss recognised	(54,505)
	—

In previous years, in view of the recurring operating loss incurred by the associate, which exceeded the Group's investments, full impairment had been recognised and the Group did not share loss of the associate since then. Details of the Group's associate at 31 December 2008 are set out in note 43.

20. CONVERSION OPTION EMBEDDED IN CONVERTIBLE NOTE

As explained in note 18(b), the Group subscribed ITC 2009 CN during the year, an amount of HK$1,349,000 was recognised as conversion option embedded in convertible note upon the subscription which was measured at fair value at initial recognition and changes in fair value was directly recognised in profit or loss in subsequent period.

The fair value of the conversion option embedded in convertible note is based on Black-Scholes pricing model using a rate based on the market interest rate and risk premium of 1.5%.

The Group recognised an increase in fair value of approximately HK$1,282,000 as at 31 December 2007. On 4 February 2008, the Group had disposed of the convertible note to an independent third party (see not 18(b)).

21. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	482,125	—
Finished goods	—	378
	482,125	378

22. TRADE AND OTHER RECEIVABLES/PREPAYMENT OF RAW MATERIALS

	2008 HK$'000	2007 HK$'000
Trade receivables	3,053	—
Value-added tax recoverable	109,385	—
Amount receivable from a stakeholder (Note)	426,004	—
Other	24,076	4,979
Total trade and other receivables	562,518	4,979
Prepayment for purchase of raw materials	863,043	—

Note: A ship buyer has made progress payment for ship construction contracts to a stakeholder rather than directly to the Group. The amounts received by the stakeholder will be paid over to the Group based on the progress of the contract work.

The Group allows an average credit period of 90 days to its trade customers. The Group's trade receivables aged over 90 days as at the reporting date.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$3,053,000 (2007: Nil) which are past due as at the reporting date for which the Group has not provided for impairment loss. The amount was fully settled subsequent to the balance sheet date. The Group does not hold any collateral over these balances. The average age of these receivables is 150 days (2007: Nil).

Prepayment of raw materials represents amount paid for purchase of steel plates and vessel components for shipbuilding.

The directors consider that the carrying amounts of trade receivables and amount due from a stakeholder approximate their fair values.

23. LOAN RECEIVABLES

Loan receivables were unsecured, interest bearing at Hong Kong Prime Rate plus 1% per annum and repayable on demand.

The loan receivables are fully repaid during the year.

The directors consider the carrying amount approximates its fair value.

24. INVESTMENTS HELD FOR TRADING

	2008	2007
	HK$'000	HK$'000
At fair value:		
Equity securities listed in Hong Kong	**18,423**	137,873
Equity securities listed elsewhere	**—**	93,478
	18,423	231,351

Details of the investments as at 31 December 2008 and 2007 are as follows:

Name of company	**Country of incorporation**	**Class of shares held**	**Attributable equity interest**	
			2008	2007
Get Nice Holdings Limited	Cayman Islands	Ordinary	**—**	3.98%
ITC Properties Group Limited	Bermuda	Ordinary	**—**	3.41%
Pacific Century Regional Developments Limited	Republic of Singapore	Ordinary	**—**	1.61%
Superb Summit International Timber Company Limited	Cayman Islands	Ordinary	**0.08%**	—
China E-Learning Group Limited	Cayman Islands	Ordinary	**2.47%**	—

25. BANK BALANCES/PLEDGED BANK DEPOSITS/BANK OVERDRAFTS

Bank balances/pledged bank deposits

Bank balances carry interest at market rates ranging from 0.01% to 0.72% (2007: an average 1.55%) per annum.

The pledged deposits carry a fixed interest rate of 3.78% (2007: Nil) per annum.

Bank Overdrafts

Bank overdrafts carry interest at market rate at Hong Kong Prime rate +2% per annum.

26. TRADE, BILLS AND OTHER PAYABLES

	2008 HK$'000	2007 HK$'000
Trade payable	40,753	—
Bills payable	204,545	—
Advance from customers for ship construction contract	1,024,767	—
Interest payable	20,160	—
Dividend payable to former equity holders of a subsidiary	21,757	—
Consideration payable for acquisition of prepaid lease payment	42,859	—
Others payable and accruals	16,490	4,952
	1,371,331	4,952

Advance from customers for ship construction contract represents advance from customers for ship building. The construction work of which has not yet been commenced at the balance sheet date.

Included in trade and other payables are trade and bills payable of HK$245,298,000. The following is an aged analysis of trade payables at the balance sheet dates:

	2008 HK$'000	2007 HK$'000
0 - 30 days	79,538	—
30 - 60 days	25,757	—
61 - 90 days	1,916	—
Over 90 days	138,087	—
	245,298	—

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payable is within the credit timeframe.

Bills payable are secured by pledged bank deposits (Note 25).

Non-trade payables are unsecured, non interest bearing and repayable on demand.

The directors consider the carrying amounts of trade payable, bills payable, interest payable, consideration payable for acquisition of prepaid lease payment approximate their fair values.

27. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	2008 HK$'000	2007 HK$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred to date	1,002,281	—
Recognised profits less recognised losses	314,905	—
	1,317,186	—
Less: Progress payments and progress billings	(1,675,265)	—
Amounts due to customers for contract works	(358,079)	—

28. MARGIN LOAN PAYABLE

The amount is unsecured, bears fixed interest rate at 12% (2007: Hong Kong Prime rate +3%) per annum and is repayable within one year subsequent to balance sheet date.

The directors consider the carrying amount approximates its fair value.

29. BORROWINGS

	2008 HK$'000	2007 HK$'000
Bank loans	**340,909**	—
Secured	**52,296**	—
Unsecured	**288,614**	—
	340,910	—
Carrying amount repayable:		
On demand or within one year	**113,637**	—
More than two years but not more than five years	**227,273**	—
	340,910	—
Less: Amounts due within one year shown under current liabilities	**(113,637)**	—
	227,273	—

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	2008 HK$'000	2007 HK$'000
Fixed-rate borrowings:		
Within one year	**113,637**	—
In more than two years but not more than five years	**227,273**	—
	340,910	—

29. BORROWINGS (Continued)

In addition, the Group has variable-rate borrowing which carries interest at Hong Kong Prime rate plus 2% per annum. Interest is repriced in accordance with the relevant bank's periodic announcement.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

Effective interest rate:

Fixed-rate borrowings	6.66% to 10.2%
Variable-rate borrowing	Hong Kong Prime rate +2%

The Group's borrowing denominated in HKD, currency other than the functional currency of the relevant Group entity is set out below:

	HK$'000
As at 31 December 2008	**4,521**
As at 31 December 2007	—

30. PROVISION FOR WARRANTY

	HK$'000
At 1 January 2007 and 31 December 2007	—
Acquired on acquisition of INPAX Group (Note 35)	8,707
Additional provision for the year	2,729
Reversal of provision	(8,177)
Currency realignment	(285)
At 31 December 2008	**2,974**

The Group provides an one-year warranty on shipbuilding and undertakes to repair or replace items that fair to perform satisfactorily. The provision is estimated based on historical data of the level of repairs and replacement.

31. DEFERRED CONSIDERATION

	2008 HK$'000	2007 HK$'000
Acquisition of INPAX Group *(Note 35)*	**154,638**	—
Imputed interest expense	**18,809**	—
At 31 December 2008	**173,447**	—

The amount is interest free and repayable on 31 December 2009 and represents HK$200,000,000 deferred consideration payable for the acquisition of INPAX Group during the year. The imputed interest rate is 16.25% per annum.

The directors consider the carrying amount approximates its fair value.

32. SHARE CAPITAL

	Number of shares		Share capital	
	2008	2007	**2008 HK$'000**	2007 HK$'000
Ordinary shares of HK$0.001 each				
Authorised:				
At the beginning and the end of the year	**250,000,000,000**	250,000,000,000	**250,000**	250,000
Issued and fully paid:				
At the beginning of the year	**17,198,806,126**	531,645,319	**17,198**	5,316
Issue of new shares				
- on 12 April 2007 *(note a)*	—	100,000,000	—	1,000
- on 21 May 2007 *(note b)*	—	500,000,000	—	5,000
Issued of new shares upon share subdivision on 3 July 2007 *(note c)*	—	10,184,807,871	—	—
Conversion of convertible notes *(note d)*	**16,541,176,465**	5,882,352,936	**16,542**	5,882
At the end of the year	**33,739,982,591**	17,198,806,126	**33,740**	17,198

32. SHARE CAPITAL (Continued)

Notes:

(a) On 15 March 2007, the Company entered into an underwriting agreement with a placing agent for placement of 100,000,000 new shares on a fully-underwritten basis at the price of HK$0.16 per share to independent third parties.

(b) On 15 March 2007, the Company also entered into a placing agreement with a placing agent for placement of 500,000,000 new shares on a best-effort basis at the price of HK$0.16 per share to independent third parties.

(c) Pursuant to an ordinary resolution at the special general meeting on 29 June 2007, each of the existing issued and unissued shares of HK$0.01 each in the share capital of the Company be subdivided into ten shares of HK$0.001 each in the share capital of the Company.

(d) During the year, CBI and CBII (as defined in note 33) were converted into 16,541,176,465 ordinary shares of HK$0.001 each of the Company.

33. CONVERTIBLE NOTES PAYABLE

The Company issued convertible notes in 2007 and 2008. The details are as follows:

- On 18 May 2007, the Company issued convertible loan notes ("CBI") with an aggregate principal amount of HK$150,000,000. The fair value of the liability component at the date of issue is HK$139,426,909. CBI carries a coupon of 4% per annum, accrued on a day to day basis on the outstanding principal amount, payable annually in arrears, and will be matured on 17 May 2009. CBI is denominated in HKD. The initial conversion price is HK$0.17 per share and is adjusted to HK$0.017 following a share subdivision in 2007, which is subject to anti-dilutive adjustments. The effective interest rate of the liability component is 7.95% per annum.

  Unless the notes have been converted by the noteholders, the Company will redeem CBI on the maturity date at the principal amount of the convertible notes then outstanding.

  After the conversion of HK$100,000,000 of CBI in 2007, the principal amount of CBI remained outstanding at 31 December 2007 amounted to HK$50,000,000. During the year, the remaining HK$50,000,000 of CBI was converted into 2,941,176,470 of the company's shares of HK$0.001 each.

The movement of the liability component of CBI is as follow:

	2008	2007
	HK$'000	HK$'000
Liability component at the beginning of the year	**46,225**	—
Issue of convertible note	**—**	136,638
Conversion	**(45,990)**	(93,948)
Interest charged	**2,264**	5,107
Interest paid	**(2,499)**	(1,572)
	—	46,225

On 5 November 2007, the Company entered into a conditional agreement to issue convertible notes under an acquisition agreement for the acquisition of the entire interest in INPAX Group (see Note 35). The convertible notes ("CBII") were issued on 16 April 2008 upon completion of the acquisition.

CBII comprises restricted convertible notes and unrestricted convertible notes.

The aggregrate principal amount of the unrestricted convertible notes issued in HK$2,400 million.

33. CONVERTIBLE NOTES PAYABLE (Continued)

The aggregate initial principal amount of the restricted convertible notes issued is HK$600 million, which is subject to downward adjustment for the potential shortfall between the guaranteed profit of HK$600 million and the audited profit after taxation of INPAX Group for the year ended 31 December 2008. Based on the audited profit after taxation of INPAX Group of HK$217 million, the shortfall is determined to be approximately HK$383 million as compared to the guaranteed profit of HK$600 million.

The difference between the principal amount of the CBII of HK$2,617 million, representing the aggregate amount of the principal amount of the unrestricted convertible notes of HK$2,400 million and the adjusted principal amount of the unrestricted convertible notes issued of HK$217 million, and the fair value of the liability component of the CBII of approximately HK$1.7 billion, represents the conversion option of approximately HK$0.9 billion, which is credited directly to equity as convertible loan notes reserve.

The holder(s) of the restricted convertible notes may convert the whole or any part of the principal amount of the restricted convertible notes outstanding into ordinary shares of the Company from 1 April 2009 to 15 April 2011 at the initial conversion price of HK$0.15 per share (subject to anti-dilutive adjustments).

The holder(s) of the unrestricted convertible notes may convert the whole or any part of the principal amount of the unrestricted convertible notes outstanding into ordinary shares of the Company from 16 April 2008, the date of issue of the convertible notes, to 15 April 2011, the date of maturity, at an initial conversion price of HK$0.15 per conversion share (subject to anti-dilutive adjustments).

The conversion rights of CBII shall only be exercisable so long as the aggregate shareholdings in the Company held by Million King Investments Limited ("Million King"), an independent third party from which the Company acquired INPAX Group, its associates and parties acting in concert immediately upon such exercise will not reach or exceed 30% of the then issued share capital of the Company; and that Million King, its associates and parties acting in concert shall not become a controlling shareholder of the Company within the meaning of Listing Rules.

In respect of the restricted convertible note, no interest will be payable. For the unrestricted convertible note, coupon interest at the rate of 1.5% per annum will be accrued on a day to day basis on the outstanding principal amount, payable semi-annually in arrears. First coupon interest payment due October 2008 had been deferred for one year.

The CBII is not redeemable at the option of the noteholder(s) prior to maturity. The Company shall have the right to redeem any portion of the CBII outstanding at an amount equals to the principal amount of the CBII together with any interest accrued at its sole and absolute discretion at any time prior to the maturity date of the CBII. In the opinion of the directors of the Company, such redemption option has risks and characteristics that are closely related to CBII, therefore, it is not separated from the liability component. Unless previously converted or redeemed, the Company shall redeem the CBII at par on the maturity date of the CBII.

33. CONVERTIBLE NOTES PAYABLE (Continued)

The CBII is freely transferrable, provided that the noteholder(s) of the CBII must inform and obtain written consent from the Company of each transfer or assignment made by them. All noteholders of the CBII are still subject to the above-mentioned 30% limit.

The fair value of the equity component of the CBII was calculated using the Binominal option pricing model. The inputs used in the model in determining the fair value as follows:

	Restricted Liability Component 16 April 2008	Unrestricted Liability Component 16 April 2008
Share price	HK$0.149	HK0.149
Exercise price	HK$0.15	HK$0.15
Contractual Life	3 years	3 years
Risk-free rate	1.659%	1.659%
Expected dividend yield	0%	0%
Volatility	49.05%	51.46%

The movement of the liability component of CBII is as follows:

	HK$'000
Liability component at the beginning of the year	—
Issue of convertible note	1,723,162
Conversion	(1,469,597)
Interest charged	185,924
Interest paid	18,049
Liability component at the end of the year	421,440

The effective interest rate of the liability portion of CBII was 16.25%.

As at the balance sheet date, the unconverted principal amount of restricted and unrestricted convertible notes is HK$217 million and HK$360 million, respectively.

34. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Convertible loan notes HK$'000	Withholding tax on undistributed earnings of the PRC subsidiaries HK$'000	Fair value adjustments on properties and intangible asset HK$'000	Total HK$'000
At 1 January 2007 and 31 December 2007	—	—	—	—
Acquisition of INPAX Group *(Note 35)*	—	—	532,006	532,006
Currency realignment	—	—	4,292	4,292
(Credit) Charge to consolidated income statement for the year	(27,699)	21,705	—	(5,994)
Charge to equity for the year	146,831	—	—	146,831
Reversal on conversion of CBII during the year (credit to equity)	(87,447)	—	—	(87,447)
At 31 December 2008	**31,685**	**21,705**	**536,298**	**589,688**

Under the New Law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. At 31 December 2008, deferred tax has been provided in respect of temporary differences attributable to such retained profits.

35. ACQUISITION OF A SUBSIDIARY/ASSESSMENT ON IMPAIRMENT OF GOODWILL

On 5 November 2007, the Company entered into a sale and purchase agreement with Million King to acquire 100% interest in INPAX Group. The completion date of the agreement was on 16 April 2008, which is also the acquisition date for accounting purposes.

The consideration for the acquisition comprises cash payment of HK$300,000,000, convertible loan notes (see note 33) and interest free deferred cash payment of HK$200,000,000 to be settled on 31 December 2009. The fair value of the total consideration was approximately HK$3,067,687,000.

INPAX Group is engaged in the shipping building business in Jiangxi region, the PRC.

35. ACQUISITION OF A SUBSIDIARY/ASSESSMENT ON IMPAIRMENT OF GOODWILL (Continued)

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	145,020	651,627	796,647
Prepaid lease payment	82,043	261,597	343,640
Intangible assets	—	1,626,339	1,626,339
Inventories	257,432	88,573	346,005
Other receivables and prepayment	746,948	(2,100)	744,848
Pledged bank deposits	15,548	—	15,548
Bank balances and cash	313,731	—	313,731
Amounts due to customers for contract work	(810,526)	—	(810,526)
Trade and other payables	(196,486)	—	(196,486)
Bills payable	(22,206)	—	(22,206)
Provision for warranty	(8,707)	—	(8,707)
Bank borrowings	(366,402)	—	(366,402)
Deferred tax liabilities	(2,645)	(529,361)	(532,006)
Net assets acquired	153,750	2,096,675	2,250,425
Goodwill			817,262
Total consideration			3,067,687
Total consideration satisfied by:			
Cash			300,000
Deferred consideration *(Note 31)*			154,638
CBII *(Note 33)*			2,613,049
			3,067,687
Net cash outflow of cash and cash equivalents in respect of acquisition of INPAX Group:			
Cash consideration paid			(300,000)
Bank balances and cash acquired			313,731
			13,731

35. ACQUISITION OF A SUBSIDIARY/ASSESSMENT ON IMPAIRMENT OF GOODWILL (Continued)

INPAX Group contributed a profit of approximately HK$190,850,000 to the Group's result for the period between the date of acquisition and the balance sheet date.

The initial accounting for the acquisition of INPAX Group involves identifying and determining the fair value to be assigned to the identifiable assets, liabilities and contingent liabilities and the cost of the business combination.

The fair value adjustments of the property, plant and equipment are determined based on the assessment carried by the directors using depreciated placement cost while the prepaid lease payment and inventories are determined using market approach by reference to market evidence of transaction prices for similar properties and inventories. For fair value adjustment of intangible asset, the directors adopted income capitalisation approach to determine the fair value.

The goodwill arising on the acquisition is attributable to the anticipated profitability of its business. In addition, the consideration paid for the combination effectively included amount in relation to the benefit of assembled work force amounting to approximately HK$115,000. This benefit is not recognised separately from goodwill as the amount is not significant.

If the acquisition had been completed on 1 January 2008, total group revenue for the year would have been approximately HK$1,387,953,000, and loss for the year would have been approximately HK$442,547,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

35. ACQUISITION OF A SUBSIDIARY/ASSESSMENT ON IMPAIRMENT OF GOODWILL (Continued)

Impairment of goodwill

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill is allocated to one individual cash generating unit ("CGU"), being the ship building segment.

The movement of the goodwill is as follows:

	HK$'000
At 1 January 2007 and 31 December 2007	—
Acquisition of INPAX Group	817,262
Currency realignment	19,138
Impairment loss recognised	(322,221)
At 31 December 2008	**514,179**

During the year ended 31 December 2008, the Group recognised an impairment loss of approximately HK$322,221,000 in relation to goodwill arising on acquisition of INPAX Group.

The basis of the recoverable amount of the CGU and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. For impairment purpose, the calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 19.4%. The cash flows beyond the 5-year period are extrapolated with zero growth rates. Another key assumption for the value in use calculations relate to the estimation of cash inflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the ship building segment to exceed the aggregate recoverable amount of the ship building segment.

36. CAPITAL COMMITMENTS

	2008 HK$'000	2007 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	40,587	—
Capital expenditure in respect of the acquisition of properties, plant and equipment authorised but not contracted for	79,418	—

37. PLEDGE OF ASSETS

	2008 HK$'000	2007 HK$'000
Bank deposits	176,648	—
Prepaid lease payments	37,250	—
	213,898	—

Bank deposits and prepaid lease payments were pledged to banks for banking facilities granted by banks to the group.

Pledged bank deposits represents deposits pledged to banks to secure bills payable issued by the Group and is therefore classified as current assets.

The pledge on the bank deposits will be released upon the settlement of relevant bills payables.

38. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to resolutions passed on 5 March 2008 and 7 May 2008 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 4 March 2018 and 6 May 2018 respectively. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 1,719,000,000, representing 5.1% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 per person. Options may be exercised at any time during the exercise period. The subscription price of the option shall be determined by the board but in any case shall not be less than the higher of (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant which must be a trading day, (ii) the average closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of grant; or (iii) the nominal value of a share.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses details of the options held by directors, employees and consultants and movements in such holding during the period ended 31 December 2008:

Name	Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Outstanding at 31.12.2008
Category I:							
Directors	5 March 2008	5 March 2008 to 4 March 2018	HK$0.180	–	80,000,000	–	80,000,000
		5 March 2009 to 4 March 2018	HK$0.180	–	60,000,000	–	60,000,000
		5 March 2010 to 4 March 2018	HK$0.180	–	60,000,000	–	60,000,000
				–	200,000,000	–	200,000,000
	7 March 2008	7 May 2008 to 6 May 2018	HK$0.143	–	52,000,000	–	52,000,000
		7 May 2009 to 6 May 2018	HK$0.143	–	39,000,000	–	39,000,000
		7 May 2010 to 6 May 2018	HK$0.143	–	39,000,000	–	39,000,000
				–	130,000,000	–	130,000,000
				–	330,000,000	–	330,000,000
Category II:							
Employees	7 May 2008	7 May 2008 to 6 May 2018	HK$0.143	–	69,600,000	–	69,600,000
		7 May 2009 to 6 May 2018	HK$0.143	–	52,200,000	–	52,200,000
		7 May 2010 to 6 May 2018	HK$0.143	–	52,200,000	–	52,200,000
				–	174,000,000	–	174,000,000
Category III:							
Consultants	7 May 2008	7 May 2008 to 6 May 2018	HK$0.143	–	1,215,000,000	–	1,215,000,000
				–	1,719,000,000	–	1,719,000,000

The consultants provide consultancy service with regard to the acquisition and operation of INPAX Group.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

No share options were exercised during the year ended 31 December 2008. The estimated fair values of the options granted on 5 March and 7 May 2008 are approximately HK$18,086,000 and HK$30,502,000 respectively.

These fair values were calculated using the Binominal model. The inputs into the model were as follows:

	5 March 2008	7 May 2008
Grant date share price	HK$0.180	HK$0.138
Exercise price	HK$0.180	HK$0.143
Contractual life	10 years	10 years
Expected volatility	43.73%	44.73%
Dividend yield	0%	0%
Risk-free interest rate	2.766%	2.802%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of approximately HK$42,012,000 for the year ended 31 December 2008 (2007: Nil) in relation to share options granted by the Company.

No options were granted in 2007.

39. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK$1,000 in maximun of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The Company's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of PRC. The retirement scheme contributions, which are based on a certain percentage of the basic salaries of the relevant subsidiaries' employees, are charged to the consolidated income statement in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme. The only obligation of the Group with respect to the retirement benefits schemes operated by the PRC is to make the required contributions under the schemes.

The retirement benefit cost charged to the consolidated income statement represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

40. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments payable under non-cancellable operating leases which fall due as follows:

	2008	2007
	HK$'000	HK$'000
In respect of rented premises:		
Within one year	269	807
In the second to fifth year inclusive	95	295
	364	1,102

Leases are negotiated for an average term of one to two years.

41. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2008	2007
	HK$'000	HK$'000
Short-term benefits	2,816	3,196
Long-term benefits	21	41
Share-based payment expenses	16,754	—
	19,591	3,237

The remuneration of directors and the key executive is determined by the remuneration committee having regard to the performance of individual and market trends.

42. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2008 and 2007 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company				Principal activities
			2008		2007		
			Directly	**Indirectly**	Directly	Indirectly	
			%	%	%	%	
Able King Investment Limited	British Virgin Islands*	1 ordinary share of US$1 each	**100**	**—**	100	—	Investment holding
Acewell Investments Limited	British Virgin Islands*	1 ordinary share of US$1 each	**—**	**100**	—	100	Investment holding
Ample Asset Investment Limited	British Virgin Islands*	1 ordinary share of US$1 each	**—**	**100**	—	100	Investment holding
Global Empire Group Inc	British Virgin Islands*	1 ordinary share of US$1 each	**—**	**100**	—	100	Investment holding
Gold Castle Investments Limited	British Virgin Islands*	1 ordinary share of US$1 each	**—**	**100**	—	100	Investment holding
Giant Wave Limited	Hong Kong	1 ordinary share of HK$1 each	**—**	**100**	—	100	Securities investment
King Force International Limited	British Virgin Islands*	1 ordinary share of US$1 each	**—**	**100**	—	100	Investment holding
Merge Limited	Hong Kong	1 ordinary share of HK$1 each	**100**	**—**	100	—	Inactive
Northlink Holdings Limited	British Virgin Islands*	200 ordinary share of US$1 each	**100**	**—**	100	—	Investment holding
Ocean Vision Investments Limited	British Virgin Islands*	1 ordinary share of US$1 each	**—**	**100**	—	100	Investment holding

42. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company				Principal activities
			2008		2007		
			Directly %	Indirectly %	Directly %	Indirectly %	
Premier Win Investments Limited	British Virgin Islands*	1 ordinary share of US$1 each	100	—	100	—	Inactive
Wealth Prospect Limited	Hong Kong	2 ordinary share of HK$1 each	—	100	—	100	Metals trading
INPAX Technology Limited**	British Virgin Islands*	10,000 ordinary share of US$1 each	100	—	N/A	N/A	Investment holding
Jiangxi Union Shipbuilding Company Limited*** 江州聯合船廠	British Virgin Islands	RMB100,000,000 paid-up registered capital	—	100	N/A	N/A	Manufacturing metal vessel, vessel ancillary products and repiration of vessels

* *The companies are engaged in investment holding or inactive and have no specific principal place of operation.*

** *The company was newly acquired during 2008.*

*** *The Company is registered in the form of a wholly foreign owned enterprise. It was held by INPAX Technology Limited and became a group member subsequent to the acquisition of INPAX Technology Limited by the Company.*

None of the subsidiaries had any debt securities at 31 December 2008 and 2007 or at any time during the years.

43. PARTICULARS OF AN ASSOCIATE

Particulars of the Group's associate as at 31 December 2008 and 2007 is as follows:

Name of associate	Place of incorporation/ operation	Issued share capital	Nominal value of issued share capital held by the Group 2008 & 2007	Principal activity
Chinachem Industries Limited	Hong Kong	10,000 ordinary shares of HK$1 each	49%	Inactive

Financial Summary

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000 *(Note)*	HK$'000
RESULTS					
LOSS FOR THE YEAR	**(468,996)**	(54,626)	(61,789)	(51,706)	(2,778)

	At 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	**5,588,298**	392,544	148,623	211,491	42,914
TOTAL LIABILITIES	**(3,294,889)**	(102,936)	(2,960)	(4,034)	(3,702)
NET ASSETS	**2,293,409**	289,608	145,663	207,457	39,212

Note: The results and the summary of assets and liabilities of the Group for 31 December 2004 have been adjusted upon the adoption of the new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005.