



South China Holdings Limited

Incorporated in the Cayman Islands with limited liability

Stock Code : 265



2009
ANNUAL REPORT

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Hung Sang (*Chairman*)
Mr. Richard Howard Gorges
Ms. Cheung Choi Ngor
Mr. Ng Yuk Fung, Peter

Non-executive Directors

Mr. David Michael Norman
Ms. Ng Yuk Mui, Jessica

Independent Non-executive Directors

Mr. David John Blackett
Mrs. Tse Wong Siu Yin, Elizabeth
Mr. Cheng Hong Kei

AUDIT COMMITTEE

Mr. Cheng Hong Kei (*Committee Chairman*)
Mr. David John Blackett
Mrs. Tse Wong Siu Yin, Elizabeth
Mr. David Michael Norman

REMUNERATION COMMITTEE

Mrs. Tse Wong Siu Yin, Elizabeth (*Committee Chairman*)
Mr. Cheng Hong Kei
Mr. David John Blackett
Mr. David Michael Norman

COMPANY SECRETARY

Ms. Cheung Siu Lan

AUDITORS

Ernst & Young
Certified Public Accountants

PRINCIPAL BANKERS

The Bank of East Asia, Limited
Chong Hing Bank Limited
Standard Chartered Bank (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Bank of Communications Co., Ltd.
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

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

SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18th Floor, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai
Hong Kong

STOCK CODE

265

WEBSITE

<http://www.sctrade.com>

Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of South China Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2009.

FINANCIAL SUMMARY

The Group recorded a revenue of HK\$215.8 million and a profit attributable to owners of HK\$77.1 million for the year ended 31 December 2009. As compared to 2008, revenue increased by 27% while the annual results turned from loss to profit mainly because of the special dividend income from South China (China) Limited ("SCC") through the distribution in specie of South China Land Limited ("SCL") by SCC.

The profit from the continuing operations was HK\$66.5 million for the year ended 31 December 2009. The Group's principal businesses of travel and related services, information technology and trading and manufacturing remained profitable and fundamentally sound.

DIVIDEND

The board of directors of the Company (the "Board") resolved not to declare the payment of a final dividend for the year ended 31 December 2009 (2008: HK0.11 cents).

BUSINESS REVIEW

The Group recorded revenue of HK\$215.8 million and a profit of HK\$77.1 million for the year ended 31 December 2009. The profits from continuing operations and discontinued operations were HK\$66.5 million and HK\$10.6 million, respectively.

In June 2009, the Group distributed its interest in SCC, representing approximately 72.88% of SCC's issued share capital, by way of distribution in specie. SCC is a company principally engaged in trading and manufacturing of toys, shoes, electronics, leather products, motors and capacitors, property investment and development and agriculture with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the year, the Group incorporated the results of SCC up to 19 June 2009, the completion date of the distribution, as profit from discontinued operations.

The principal businesses or continuing operations of the Group now include travel and related services, information technology and trading and manufacturing in the PRC and forestry.

Travel and Related Services

The significant decrease in corporate travelers, in particular from the financial sector, and the spread of H1N1 epidemics in early 2009 dealt a significant blow to the global travel industry. Fortunately, business opportunities arose as most global corporations began to seek for travel agents that provide high quality services at reasonable prices. This enabled us to expand our event management and related travel services and also successfully enlarging our global corporate client base in both the local and China markets during the year. Hence, the results of Four Seas Travel recovered in the second half of 2009 and recorded a profit of HK\$18.9 million for the full year ended 31 December 2009, a 23% decrease compared to the previous financial year and a 10% drop in revenue.

Information Technology

The IT segment reported a 74% increase in revenue over the year ended 31 December 2008 to HK\$126.5 million. Our operations are mainly located in Chongqing, which comprise of system integration, software development and supply chain system development. The new subsidiary set up in 2008 in the high technology industrial park in Chongqing, which provides software development services for overseas buyers, has already started to generate revenue in 2009. The IT operations in China recorded a profit of HK\$1.5 million for year ended 31 December 2009 (2008: profit of HK\$1 million).

Chairman's Statement and Management Discussion and Analysis

Trading and Manufacturing

The remaining trading and manufacturing operation after the distribution of SCC is engaged in jewelry production of precious stones, jade, gold and silver located in Nanjing, China. Our products are distributed and sold through counters in sizable department stores as well as our own flagship shop in Nanjing city. The operation sustained revenue of HK\$18.2 million and a profit of HK\$0.5 million during the year ended 31 December 2009, as compared to HK\$0.6 million for the year ended 31 December 2008.

Forestry

In December 2009, the Company acquired 157,372 mu of woodland area for forest plantation in Chongqing and Wuhan from SCC for HK\$8.5 million. The management sees the great demand in timber in China and believes that the acquisition will give the Group an opportunity to tap in the market potential of the industry in the long run.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009 the Group had a current ratio of 1.29 and a gearing ratio of 0% (31 December 2008: 1.21 and 14.2%, respectively). The gearing ratio as at 31 December 2008 is computed by comparing the Group's total long-term bank borrowings of HK\$281.8 million to total equity of HK\$1,980.5 million. As at 31 December 2009, there was no long-term bank borrowing for the Group. The Group's operations and investments continue to be financed by internal resources and bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2009, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

CAPITAL STRUCTURE

The Group had no debt securities or other capital instruments as at 31 December 2009 and up to the date of this Annual Report. As compared to the 2008 Annual Report, there was no material change in the Group's capital structure. Details of the Group's debt maturity profile are set out in note 52 to the financial statements.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

In June 2009, the Group distributed its interest in SCC, representing approximately 72.88% of SCC's issued share capital, by way of distribution in specie. SCC is a company principally engaging in trading and manufacturing of toys, electronics, shoes, leather product, motors and capacitors, property investment and development and agriculture and woods with its shares listed on the Main Board of the Stock Exchange (stock code: 413).

The Group paid a special dividend distribution to the then shareholders in specie on the basis of 106 SCC shares and 21 SCC warrants for every 100 shares of the Company held by the shareholders on 19 June 2009.

In December 2009, the Group acquired from SCC certain subsidiaries engaged in forestry business in the PRC for a consideration of HK\$8.5 million.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

The Group had no material contingent liabilities and capital commitment as at 31 December 2009 after the distribution of SCC.

Before the distribution of SCC, the Group's investment properties, properties under development and majority of property, plant and equipments and inventories pledged for banking facilities were attributable to SCC group. Such items were excluded from the Group's pledge of assets as at 31 December 2009 after the distribution of SCC.

Chairman's Statement and Management Discussion and Analysis

INVESTMENTS

In addition to the transactions disclosed in the section "Material Acquisitions and Disposals of Subsidiaries and Associates", a significant increase of financial assets at fair value through profit or loss was recorded during the year ended 31 December 2009.

The Group held some remaining shares and warrants of SCC after the distribution in specie of its shares to the Company's shareholders in June 2009. In July 2009, the Group exercised the SCC warrants held which then converted to SCC shares. In August 2009, SCC paid a special dividend for its entire interest in SCL to its shareholder by means of distribution in specie. The increase in the financial assets at fair value through profit or loss was the value of SCL shares the Group entitled to receive from the special distribution on the date of receipt.

EMPLOYEES

As at 31 December 2009, the total number of employees of the Group was 644 (2008: approximately 18,700). Employees' cost (including directors' emoluments) amounted to approximately HK\$303 million for the year (2008: Approximately HK\$724 million).

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidized training programs are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. The Company adopted a share option scheme which came into effect on 28 June 2002.

PROSPECTS

Four Seas Travel will continue to develop its exposure in the China market, where we already have five branches in various major cities. Our operation in China has contributed more than 10% of Four Seas Travel's revenue during the year ended 31 December 2009 and we envisage that profit contribution from these branches will soon materialize. We will continue to upgrade our computer system, including fare searching, online booking and performance reporting, in order to enhance our sales network and further improve our competitiveness in the market place. With the steady growth of our global client base and equipped with advance information tools, we have already witnessed the benefits as the tourism industry that began to emerge from its doldrums in the second half of 2009.

One of our principal subsidiaries in the IT segment in Chongqing already returned to profit in the second half of 2009. After a major revamp in 2009, we expect that our IT segment will continue to show improvement in the coming year.

Our jewelry trading and manufacturing operation in Nanjing reported a small profit in the second half of 2009 despite a minor loss during the interim period. The Board will consider the future direction of this non-core segment in the coming year.

We are in the process of expanding our forestry segment and plan to increase the portfolio by more than 10-fold before the end of 2010. The management believes that the forestry segment will contribute significantly to profits in the coming years due to the strong demand for timber in China for flooring, furniture and construction. In addition, the Group also plans to foray into the plantation of *Jatropha Curcus*, which is being used as raw material for bio-diesel production.

As mentioned in the interim report, we have been trying to resolve the disputes on the 500,000 square meters site in Tanggu, Tianjin, in which we have a 51% interest. We hope to commence development of the land this year pending the outcome of the dispute with our joint venture partner.

APPRECIATION

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

Ng Hung Sang
Chairman

Hong Kong, 30 March 2010

Directors' Biographical Details

EXECUTIVE DIRECTORS

Mr. Ng Hung Sang, aged 60, is an Executive Director and the Chairman of the Company. Mr. Ng is actively involved in the overall corporate policies, strategic planning and business development of the Group. Mr. Ng is also an executive director and the Chairman of South China Financial Holdings Limited ("SCF"), South China (China) Limited ("SCC") and South China Land Limited ("SCL"). He holds a Master degree in marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. Mr. Ng was appointed as a Director of the Company on 24 June 1992. Mr. Ng is the father of Ms. Ng Yuk Mui, Jessica, a Non-executive Director of the Company and Mr. Ng Yuk Fung, Peter, an Executive Director of the Company.

Mr. Richard Howard Gorges, aged 66, is an Executive Director of the Company. He is also an executive director and the vice-chairman of the SCC and SCF, and an executive director of SCL. He holds a Master degree in law from Cambridge University in the United Kingdom. Mr. Gorges was appointed as a Director of the Company on 24 June 1992.

Ms. Cheung Choi Ngor, aged 56, is an Executive Director of the Company. Ms. Cheung is also an executive director, the vice-chairman and chief executive officer of SCC, an executive director and a vice-chairman of SCF and an executive director, the compliance officer and an authorised representative of SCL. She holds a Master degree in business administration from University of Illinois in the United States of America. Ms. Cheung is a member of National Committee of the Chinese People's Political Consultative Conference. Ms. Cheung was appointed as a Director of the Company on 24 June 1992.

Mr. Ng Yuk Fung, Peter, aged 29, is an Executive Director of the Company, SCC and SCL. Mr. Ng holds a Bachelor degree in Law from King's College London, University of London in the United Kingdom and is an associate member of the Chartered Institute of Management Accountants. He is the son of Mr. Ng Hung Sang, the Chairman of the Company, and the brother of Ms. Ng Yuk Mui, Jessica, a Non-executive Director of the Company. Mr. Ng was appointed as a Director of the Company on 15 September 2003.

NON-EXECUTIVE DIRECTORS

Mr. David Michael Norman, aged 53, is a Non-executive Director of the Company and a partner of the Hong Kong office of an international law firm, Richards Butler in association with Reed Smith LLP. He studied philosophy and psychology at Oxford University in the United Kingdom and was admitted as a solicitor in the United Kingdom in 1981 and in Hong Kong in 1984 respectively. He was appointed as an Independent Non-executive Director of the Company on 16 January 1995 and re-designated as Non-executive Director of the Company on 21 September 2004.

Ms. Ng Yuk Mui, Jessica, aged 31, is a Non-executive Director of the Company, SCC and SCL. She holds a Bachelor degree in Law from King's College London, University of London in the United Kingdom, and was admitted to the Hong Kong Bar in 2006. Ms. Ng is an associate member of the Chartered Institute of Management Accountants and a member of the Tianjin Municipal Committee of Chinese People's Political Consultative Conference. She is the daughter of Mr. Ng Hung Sang, the Chairman of the Company, and the sister of Mr. Ng Yuk Fung, Peter, Executive Director of the Company. Ms. Ng was appointed as an Executive Director of the Company on 15 September 2003 and re-designated as Non-executive Director of the Company with effect from 1 July 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. David John Blackett, aged 59, is an Independent Non-executive Director of the Company and was the Chairman for the Asia Pacific region of the CIT Group Inc. of the United States of America. He studied commerce at The University of Edinburgh and is a member of the Institute of Chartered Accountants in Scotland. He has extensive experience in investment banking and finance, having previously been the Managing Director of NM Rothschild & Sons (Hong Kong) Limited. He was also a director of Shanghai Chlor-Alkali Chemical Company Limited which is listed on Shanghai Stock Exchange in The People's Republic of China and retired as a director on 12 December 2006. In 2008, he was appointed as a non-executive director of R.E.A. Holdings plc, a company listed in the UK, principally involved in oil palm plantations in Indonesia. Mr. Blackett was appointed as an Independent Non-executive Director of the Company on 25 May 2000.

Mrs. Tse Wong Siu Yin, Elizabeth, aged 52, is an Independent Non-executive Director of the Company, SCC and SCF. She is the Chairman of the Hong Kong Flower Retailers Association, a committee member of Skills Upgrading Scheme (Gardening and Floristry) of Labour and Welfare Bureau and the Convenor of Youth Skills Competition in Floristry of Vocational Training Council. Mrs. Tse holds a Bachelor degree of Science from the University of Western Ontario in Canada. Mrs. Tse was appointed as an Independent Non-executive Director of the Company on 21 September 2004.

Mr. Cheng Hong Kei, aged 55, is an Independent Non-executive Director of the Company. He is also an independent non-executive director of Waytung Global Group Limited (formerly known as Beauforte Investors Corporation Limited) and a co-founding director of Cheng & Cheng Limited, Certified Public Accountants, in Hong Kong. He was also an independent non-executive director of Sino Resources Group Limited from 7 June 2008 to 30 April 2009. He studied accountancy at Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) and was admitted as a Certified Public Accountant in Hong Kong in 1991. Mr. Cheng has over 30 years of experience in the accounting field. Prior to establishing of his own practice, he worked as an assessor for the Hong Kong Inland Revenue Department for 12 years. Mr. Cheng is a fellow member of each of the Chartered Association of Certified Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Certified Public Accountants (Practicing). He was appointed as an Independent Non-executive Director of the Company on 28 September 2004.

Directors' Report

The Directors submit their report and the audited consolidated financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in sale of airline tickets and travel package, provision of hotel accommodation booking and travel related services, implementation and marketing of software and system development and other information technology related services, property investment and development, forestry business and trading and manufacturing of jewelry products.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 116 of this Annual Report.

The Board resolved not to declare the payment of a final dividend for the year ended 31 December 2009 (2008: HK0.11 cents).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 117 of this Annual Report. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 16 and 17 to the financial statements respectively. Further details of the Group's investment property are set out on page 118 of this Annual Report.

SHARE CAPITAL AND SHARE OPTIONS

There was no change in either the authorized capital or the issued capital of the Company during the year. Details of the movement in share capital and share options of the Company during the year are set out in notes 39 and 40 to the financial statements respectively.

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 41 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$136,181,000.

DIRECTORS

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

Executive Directors:

Mr. Ng Hung Sang (Chairman)
Mr. Richard Howard Gorges
Ms. Cheung Choi Ngor
Mr. Ng Yuk Fung, Peter

Non-executive Directors:

Mr. David Michael Norman
Ms. Ng Yuk Mui, Jessica

Independent Non-executive Directors:

Mr. David John Blackett
Mrs. Tse Wong Siu Yin, Elizabeth
Mr. Cheng Hong Kei

In accordance with Article 116 of the articles of association of the Company, Mr. Ng Hung Sang, Mr. Richard Howard Gorges and Mr. David John Blackett will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the Independent Non-executive Directors, namely Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. Cheng Hong Kei for the year ended 31 December 2009 and as at the date of this report, the Company still considers the Independent Non-executive Directors to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 6 and 7 of this Annual Report.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

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

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

As at 31 December 2009, the interests and short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

The Company

(i) Long positions in shares

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

(ii) Long positions in underlying shares

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

Notes:

- (a) The 1,272,529,612 shares of the Company held by Mr. Ng through controlled corporations include 371,864,000 shares held by Parkfield Holdings Limited ("Parkfield"), 396,050,252 shares held by Fung Shing Group Limited ("Fung Shing"), 16,665,600 shares held by Ronastar Investments Limited ("Ronastar"), 237,303,360 shares held by Bannock Investment Limited ("Bannock") and 250,646,400 shares held by Earnttrade Investments Limited ("Earnttrade"). Parkfield, Fung Shing and Ronastar are all wholly owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earnttrade which is owned as to 60% by Mr. Ng, 20% by Mr. Gorges and 20% by Ms. Cheung, all of whom are considered as parties to an agreement to which Section 317 of the SFO applies. As such, Mr. Ng, Mr. Gorges and Ms. Cheung were deemed to have an interest in 487,949,760 shares held by Bannock and Earnttrade.
- (b) These share options were granted on 18 September 2007 at an exercise price of HK\$2.00 per share of the Company with exercise period as follows: (i) not more than 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of the tenth year from the date of grant; (ii) not more than 2/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the tenth year from the date of grant; and (iii) all of the share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the tenth year from the date of grant.

Save as disclosed above, as at 31 December 2009, none of the Directors or Chief Executives of the Company had registered any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register which was required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SHARE OPTIONS SCHEME

The Directors and employees of the Group are entitled to participate in the share options scheme of the Company. Particulars of the share option scheme of the Company together with the details of the options granted were set out in note 40 to the financial statements. Details of the options granted by the Company to the Directors were set out under the section "Directors' and Chief Executives' Interests and Short Position in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" of this Annual Report.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

PENSION SCHEME

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and other companies in which a Director of the Company has beneficial interest are set out in note 49 to the financial statements and the sections "Connected Transaction and "Continuing Connected Transactions" of this Annual Report.

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

Directors' Report

MANAGEMENT CONTRACTS

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

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

As at 31 December 2009, the following persons, other than the Directors and Chief Executives of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions

Name of Shareholder	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Eartrade	Beneficial owner and interest of a controlled corporation	487,949,760 (Note)	26.76%
Bannock	Beneficial owner	237,303,360 (Note)	13.01%
Parkfield	Beneficial owner	371,864,000	20.39%
Fung Shing	Beneficial owner	396,050,252	21.72%

Note: Bannock is a wholly-owned subsidiary of Eartrade. The 487,949,760 shares in the Company held by Eartrade include 237,303,360 shares held by Bannock directly.

Save as disclosed above, as at 31 December 2009, no person, other than the Directors or Chief Executives of the Company whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation", had registered any interests or short positions in the shares or underlying shares of the Company that was required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng Hung Sang is an Executive Director and the controlling shareholder of South China (China) Limited ("SCC") and South China Land Limited ("SCL").

Mr. Ng Yuk Fung, Peter, Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges are the executive directors of both SCC and SCL while Ms. Ng Yuk Mui, Jessica is a non-executive director of SCC and SCL. Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges also hold certain corporate interests in SCC and SCL jointly with Mr. Ng Hung Sang.

Certain subsidiaries of SCC and SCL engage in property investment and development business which are considered as competing businesses of the Group.

Mr. Ng Hung Sang and Mr. Ng Yuk Fung, Peter are the directors and shareholders of Anwell Profits Limited ("Anwell") which engages in the information technology business.

Accordingly, each of Mr. Ng Hung Sang, Mr. Ng Yuk Fung, Peter, Ms. Ng Yuk Mui, Jessica, Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges is regarded as interested in such competing business of the Group.

The Directors are of the view that the Group can carry on its property investment and development business independently of and at arm's length from the business of SCC and SCL as there is no direct competition amongst the three listed group. For information technology business, the Group has its own target markets which are different from Anwell.

Save as disclosed above, as at 31 December 2009, none of the Directors or any of their respective associates had any interest in any business which causes or may cause any competition with the business of the Group or any conflicts with the interests of the Group.

SUFFICIENCY OF PUBLIC FLOAT

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Details of the compliance by the Company with the Code on Corporate Governance Practices are set out on pages 16 to 19 of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

Details of the compliance by the Company with the Model Code for Securities Transactions are set out on page 17 of this Annual Report.

CONTINUED AND CONTINUING CONNECTED TRANSACTIONS

Details of the significant related party transactions undertaken by the Group during the year in the ordinary course of business are set out in note 49 to the financial statements.

CONNECTED TRANSACTION

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

A sale and purchase agreement dated 16 December 2009 entered into between Thousand China Investments Limited, an indirect wholly owned subsidiary of the Company, as purchaser with Beat Time Enterprises Limited, an indirect wholly-owned subsidiary of SCC, as vendor in relation to the sale and purchase of 1 share in Eagle Bonus Investments Limited, which together with its subsidiaries engage in forestry business for a consideration of HK\$8,500,000.

Mr. Ng Hung Sang, the Chairman, the executive director and substantial shareholder of SCC and the Company, through interest in controlled corporations owned as to 60.17% in SCC and 73.72% in the Company. Hence, Mr. Ng was considered as a connected person of SCC and the Company.

Directors' Report

CONTINUING CONNECTION TRANSACTIONS

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

- (1) A tenancy agreement dated 27 May 2008 entered between First City Limited as landlord, a wholly-owned subsidiary of SCC, and Hong Kong Four Seas Tours Limited ("Four Seas"), a wholly-owned subsidiary of the Company, as tenant for the leasing of the premises at 1/F, On Lok Yuen Building, 25-27 Des Voeux Road Central, Hong Kong at a monthly rental of HK\$110,120 for a period from 1 June 2008 to 31 December 2009.
- (2) A tenancy agreement dated 27 May 2008 entered between Glorious Dragon Investments Limited as landlord, a wholly-owned subsidiary of SCC, and Four Seas as tenant for the leasing of the premises at 2/F, On Lok Yuen Building, 25-27 Des Voeux Road Central, Hong Kong at a monthly rental of HK\$101,460 for a period from 1 June 2008 to 31 December 2009.
- (3) A tenancy agreement dated 27 May 2008 entered between Kingstep Limited as landlord, a wholly-owned subsidiary of SCC, and Four Seas as tenant for the leasing of the premises at Units B & C, 9/F., Century House, 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon, Hong Kong at a monthly rental of HK\$32,982 for a period from 1 June 2008 to 31 December 2009.
- (4) A tenancy agreement dated 27 May 2008 entered between Tamon Development Limited as landlord, a wholly-owned subsidiary of SCC, and Four Seas as tenant for the leasing of the premises at Rooms 301-312, 2/F, Four Seas Jade Centre, 530-536 Canton Road, Yau Ma Tei, Kowloon, Hong Kong at a monthly rental of HK\$12,500 for a period from 1 June 2008 to 31 December 2009.

Mr. Ng Hung Sang, the Chairman, the executive director and a substantial shareholder of SCC and the Company, through interest in controlled corporations owned as to 60.17% in SCC and 73.72% in the Company. Hence Mr. Ng was considered a connected person of SCC and the Company.

One of the principal activities of the Group is engaged in sale of airlines tickets and the provision of other travel related services and the above rental agreements allowed Four Seas to continue its business operation in the aforesaid premises.

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

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

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

- (1) have received the approval of the Board;
- (2) have been entered into in accordance with the relevant agreements governing the transactions; and
- (3) have not exceeded the cap disclosed in the announcement of SCC dated 27 May 2008.

On 15 December 2009, the leasing of all the tenancy agreements mentioned above have been renewed by the respective same parties and the respective same terms for two years from 1 January 2010 to 31 December 2011.

Please refer to the joint announcement of the Company with SCC dated 15 December 2009 for details of the renewed tenancy agreements.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three Independent Non-executive Directors and one Non-executive Director, namely Mr. Cheng Hong Kei (chairman of the audit committee), Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. David Michael Norman.

The Audit Committee is satisfied with its review of the audit fees, the independence of the Auditors and recommended to the Board the re-appointment of the Auditors in 2010 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2009 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2009, the sales to the Group's five largest customers accounted for 57% of the total sales and sales to the largest customer included therein amounted to 27%. Purchases from the Group's five largest suppliers accounted for 7% of the total purchases and purchases from the largest supplier included therein accounted for 2% of the total purchases.

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

AUDITORS

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

On behalf of the Board

Ng Hung Sang
Chairman

Hong Kong, 30 March 2010

Corporate Governance Report

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 December 2009.

BOARD COMPOSITION AND BOARD PRACTICES

As at 31 December 2009, the Board composed of 9 directors, including the Chairman who is an Executive Director, 3 additional Executive Directors, 2 Non-executive Directors and 3 Independent Non-executive Directors. One-third of the Board is Independent Non-executive Directors. Their biographies and relevant relationships amongst them are set out in the Directors’ Biographical Details on pages 6 to 7 of this Annual Report.

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

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

The Board has adopted a formal written procedure and policy for the appointment of new directors. When selecting potential candidates for directors, their skills, experience, expertise, devotion of time and conflicts of interests are the key factors for consideration. No nomination committee has been set up, and hence, the nomination and selection process are performed by the Board. The Board meets at least once a year in discussing whether the composition, size and structure of the Board is adequate. The Board met once in 2009 for the said purpose with all the Directors present.

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

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

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

There are defined roles in relation to the responsibilities of the Chairman and the Chief Executive Officer of the Company. Their roles are exercised by separate individuals with a view to reinforce their independence and accountability. Mr. Richard Howard Gorges and Ms. Cheung Choi Ngor had been identified as the Chief Executives of the Company who are jointly responsible for the daily operations of the Company. Key and important decisions are fully discussed at the board meetings. All Directors have been fully consulted about any matters proposed for inclusion in the agenda of regular meetings. The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the assistance of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and have received adequate and reliable information in a timely manner.

The Board held five meetings in 2009:

	Attendance
Executive Directors	
Mr. Ng Hung Sang (Chairman)	5/5
Mr. Richard Howard Gorges	5/5
Ms. Cheung Choi Ngor	5/5
Mr. Ng Yuk Fung, Peter	4/5
Non-executive Directors	
Mr. David Michael Norman	5/5
Ms. Ng Yuk Mui, Jessica	5/5
Independent Non-executive Directors	
Mr. David John Blackett	3/5
Mrs. Tse Wong Siu Yin, Elizabeth	5/5
Mr. Cheng Hong Kei	5/5

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. In addition, the Board has established similar guidelines for relevant employees who are likely in possession of unpublished price sensitive information in relation to the Group or its securities.

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors throughout the year ended 31 December 2009.

INTERNAL CONTROL

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

Corporate Governance Report

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

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

IA Team monitors the internal control procedures and systems of the Group, reports findings and makes recommendations, if any, to Audit Committee on a regular interval. During the year, the internal control of financial reporting cycle of travel business of the Group was reviewed and addressed in the internal control report which was presented by the IA Team to the Audit Committee and the Board for review.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on page 20 of this Annual Report.

AUDITORS' REMUNERATION

For the year ended 31 December 2009, the Auditors of the Company received approximately HK\$800,000 for audit services and HK\$3,000 for non-audit services provided to the Company.

REMUNERATION COMMITTEE

The Remuneration Committee was set up on 21 April 2005 and comprises all the Independent Non-executive Directors, Mrs. Tse Wong Siu Yin, Elizabeth (Chairman of the Remuneration Committee), Mr. Cheng Hong Kei and Mr. David John Blackett and one Non-executive Director, Mr. David Michael Norman.

The Remuneration Committee met once in 2009 and was attended by all Committee members. The policies on the remuneration of Executive Directors were reviewed by the Remuneration Committee. Remuneration, including basic salaries, discretionary performance bonus and other emolument, of the Executive Directors is based on skills, knowledge, involvement in the Company's affairs and performance of the individual Executive Directors with reference to the Company's performance and profitability, as well as industry practice. Granting share options is considered as one of the means for giving long-term incentive to and for retaining staff.

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

AUDIT COMMITTEE

The Audit Committee comprises all Independent Non-executive Directors, Mr. Cheng Hong Kei (Chairman of the Audit Committee), Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and one Non-executive Director, Mr. David Michael Norman. The principal duties of the Audit Committee in accordance with its terms of reference, are substantially the same as the CG Code, include the review of the Group's financial reporting system and internal control procedures, review of financial information of the Group and review of the relationship with the Auditors of the Group.

The Audit Committee Members held two meetings in 2009 in which representatives of the management were present to review the interim and final results, the interim report and annual report and other financial and internal control matters. The Group's Auditors were also present in one of the meetings.

Attendance

Mr. Cheng Hong Kei	2/2
Mr. David John Blackett	2/2
Mrs. Tse Wong Siu Yin, Elizabeth	2/2
Mr. David Michael Norman	2/2

The Audit Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board the re-appointment of the Auditors in 2010 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2009 were reviewed by the Audit Committee.

Independent Auditors' Report



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

We have audited the financial statements of South China Holdings Limited set out on pages 21 to 116, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
30 March 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	5	215,792	169,827
Cost of sales		(114,374)	(64,756)
Gross profit		101,418	105,071
Other income	5	87,417	10,374
Gain on disposal of subsidiaries	43	—	34,530
Gain on disposal of financial assets at fair value through profit or loss		—	874
Fair value loss on financial assets at fair value through profit or loss		(5,734)	—
Selling and distribution costs		(7,740)	(11,266)
Administrative expenses		(86,842)	(78,713)
Equity-settled share option expense		(12,214)	(27,840)
Other operating expenses, net		(1,857)	(1,676)
		74,448	31,354
Finance costs	7	(3,846)	(2,856)
Share of profits and losses of associates		82	(99)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	70,684	28,399
Income tax expense	10	(4,116)	(4,740)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		66,568	23,659
DISCONTINUED OPERATIONS			
Profit/(loss) for the year from discontinued operations	12	10,564	(131,885)
PROFIT/(LOSS) FOR THE YEAR		77,132	(108,226)
Attributable to:			
Owners of the Company	11	83,746	(65,129)
Minority interests		(6,614)	(43,097)
		77,132	(108,226)

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009	2008 (Restated)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	14		
Basic			
– For profit/(loss) for the year		HK4.6 cents	HK(3.6) cents
– For profit from continuing operations		HK3.6 cents	HK1.3 cents
Diluted			
– For profit/(loss) for the year		N/A	N/A
– For profit from continuing operations		N/A	N/A

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 HK\$'000	2008 HK\$'000
PROFIT/(LOSS) FOR THE YEAR	77,132	(108,226)
OTHER COMPREHENSIVE INCOME		
Changes in fair value of available-for-sale financial assets	22,781	9,100
Exchange differences on translation of foreign operations	132	72,116
Surplus on revaluation of land and buildings	–	27,340
OTHER COMPREHENSIVE INCOME FOR THE YEAR	22,913	108,556
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	100,045	330
Attributable to:		
Owners of the Company	106,714	2,228
Minority interests	(6,669)	(1,898)
	100,045	330

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	17,892	296,938
Investment properties	17	25,000	1,605,674
Prepaid land lease payments	18	10,337	48,323
Construction in progress	19	—	27,279
Interests in associates	21	720	298,449
Biological assets	15	—	84,904
Available-for-sale financial assets	23	37,655	44,741
Other non-current assets	24	26,616	48,165
Goodwill	22	5,568	12,041
Total non-current assets		123,788	2,466,514
CURRENT ASSETS			
Properties under development	25	—	448,734
Inventories	26	40,775	322,478
Trade and other receivables	27	180,287	410,950
Financial assets at fair value through profit or loss	28	67,977	10,945
Due from affiliates	35	—	457
Advances to minority shareholders of subsidiaries	34	1,635	27,480
Tax recoverable		—	5,016
Pledged bank deposits	29	14,625	14,342
Cash and cash equivalents	29	58,007	193,072
Total current assets		363,306	1,433,474
CURRENT LIABILITIES			
Trade and other payables	30	170,780	644,860
Interest-bearing bank and other borrowings	31	105,187	487,606
Advances from minority shareholders of subsidiaries	34	408	22,048
Due to affiliates	35	4,478	2,180
Tax payable		763	29,284
Total current liabilities		281,616	1,185,978
NET CURRENT ASSETS		81,690	247,496
TOTAL ASSETS LESS CURRENT LIABILITIES		205,478	2,714,010

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		205,478	2,714,010
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	—	281,845
Advances from shareholders	33	6,029	7,876
Advances from minority shareholders of subsidiaries	34	—	29,226
Other non-current liabilities	36	—	85,419
Promissory notes	38	—	97,079
Deferred tax liabilities	37	2,499	232,079
Total non-current liabilities		8,528	733,524
Net assets		196,950	1,980,486
EQUITY			
Equity attributable to owners of the Company			
Issued capital	39	45,584	45,584
Reserves	41(a)	115,731	1,330,641
Proposed final dividend	13	—	2,006
		161,315	1,378,231
Minority interests		35,635	602,255
Total equity		196,950	1,980,486

Ng Hung Sang
Chairman

Richard Howard Gorges
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2009

	Notes	Attributable to owners of the Company														Minority interests	Total equity
		Issued capital	Share premium account	Capital redemption reserve	Capital reserve	Merger reserve	Share option reserve	Asset revaluation reserve	Available-for-sale financial asset revaluation reserve	PRC statutory reserves	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total			
At 1 January 2008		45,584	253,234	56	3,060	73,190	29,880	15,913	29,071	6,394	28,250	1,064,188	25,528	1,574,348	684,694	2,259,042	
Total comprehensive income for the year		-	-	-	-	-	-	20,445	6,779	-	40,133	(65,129)	-	2,228	(1,898)	330	
Acquisition of minority interests		-	-	-	32	(749)	12	-	-	-	197	-	-	(508)	(530)	(1,038)	
Acquisition of subsidiaries	42	-	-	-	-	-	-	-	-	-	-	-	-	-	11,460	11,460	
Increase in minority sharing of a subsidiary		-	-	-	-	-	-	(4)	-	-	-	-	-	(4)	42	38	
Capital contribution from minority shareholders of subsidiaries		-	-	-	-	-	-	-	-	-	-	18,551	-	18,551	6,257	24,808	
Transfer from retained profits		-	-	-	-	-	-	-	-	692	-	(692)	-	-	-	-	
Equity-settled share option arrangements		-	-	-	-	-	46,604	-	-	-	-	-	-	46,604	6,853	53,457	
2007 final dividend paid		-	-	-	-	-	-	-	-	-	-	-	(25,528)	(25,528)	-	(25,528)	
Dividends paid to minority shareholders of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	-	(14,945)	(14,945)	
Effect on distribution in specie	43	-	-	-	(1,165)	-	(12,660)	-	(881)	-	-	(222,754)	-	(237,460)	(89,678)	(327,138)	
Proposed final 2008 dividend	13	-	-	-	-	-	-	-	-	-	-	(2,006)	2,006	-	-	-	
At 31 December 2008		45,584	253,234*	56*	1,927*	72,441*	63,836*	36,354*	34,969*	7,086*	68,580*	792,158*	2,006	1,378,231	602,255	1,980,486	

Consolidated Statement of Changes In Equity

Year ended 31 December 2009

Attributable to owners of the Company																
								Available- for-sale financial								
	Issued capital	Share premium account	Capital redemption reserve	Capital reserve	Merger reserve	Share option reserve	Asset revaluation reserve	asset revaluation reserve	PRC statutory reserves	Exchange fluctuation reserve	Retained profits	Proposed final dividend		Minority interests	Total equity	
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2009	45,584	253,234	56	1,927	72,441	63,836	36,354	34,969	7,086	68,580	792,158	2,006	1,378,231	602,255	1,980,486	
Total comprehensive income for the year	-	-	-	-	-	-	-	22,781	-	187	83,746	-	106,714	(6,669)	100,045	
Acquisition of minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(254)	(254)	
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	5,903	5,903	
Transfer from retained profits	-	-	-	-	-	-	-	-	731	-	(731)	-	-	-	-	
Equity-settled share option arrangements	-	-	-	-	-	15,506	-	-	-	-	-	-	15,506	1,198	16,704	
2008 final dividend paid	13	-	-	-	-	-	-	-	-	-	-	(2,006)	(2,006)	-	(2,006)	
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,822)	(9,822)	
Effect on distribution in specie	43	-	-	(1,927)	(123,053)	(28,150)	(36,354)	(34,603)	(6,956)	(59,534)	(1,046,553)	-	(1,337,130)	(556,976)	(1,894,106)	
Transfer from/(to) retained profits	-	(198,818)	(56)	-	50,612	(51,192)	-	-	-	-	199,454	-	-	-	-	
At 31 December 2009	45,584	54,416 *	- *	- *	- *	- *	- *	23,147*	861*	9,233 *	28,074*	-	161,315	35,635	196,950	

At 31 December 2008 and 2009, the merger reserve represents the difference between the share capital and share premium account of a subsidiary and the nominal value of the Company's shares issued in exchange thereof at the time of the group reorganisation in 1992, less a transfer of HK\$200,000,000 to retained profits in 2001. At 31 December 2008, the merger reserve also included the difference between the consideration amount for South China Land Limited ("SCL") and the share capital, share premium and minority interests of SCL.

The Group's PRC statutory reserves represent reserves required to be appropriated from profit after taxation of the Company's PRC subsidiaries under the PRC laws and regulations. The amount of the appropriation is at the discretion of the PRC subsidiaries' boards of directors.

The retained profits and exchange fluctuation reserve of the Group included debit balance of HK\$480,000 (2008: HK\$282,510,000) and a debit balance of HK\$Nil (2008: HK\$754,000), respectively, retained by the associates of the Group.

* These reserve accounts comprise the consolidated reserves of HK\$115,731,000 (2008: HK\$1,330,641,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		70,684	28,399
From discontinued operations	12	15,249	(118,968)
		85,933	(90,569)
Adjustments for:			
Impairment of trade and other receivables, net	6, 12	3,687	9,203
Write off of trade payables	5, 12	(5,654)	—
Provision/(reversal of provision) against obsolete inventories	6, 12	16,061	(17,357)
Decrease in biological assets due to harvest	12	—	895
Depreciation	6, 12	23,623	50,592
Dividend income from listed investments	5, 12	(82,156)	(3,135)
Excess over the cost of business combinations	12	—	(172,831)
Finance costs	7, 12	11,754	28,148
Interest income	5, 12	(194)	(1,458)
Fair value loss/(gain) on investment properties	12	(44,500)	23,467
Gain on disposal of investment properties	12	(4,372)	(1,424)
Fair value gains on biological assets	12	—	(5,893)
Amortisation of prepaid land lease payments	12	2,385	1,484
Fair value losses of financial assets at fair value through profit or loss	6, 12	3,825	143,161
Gain on disposal of financial assets at fair value through profit or loss	12	(594)	—
Loss on disposal of items of property, plant and equipment, net	6, 12	(44)	(236)
Equity-settled share option expense	6, 12	16,706	53,457
Share of profits and losses of associates		(14,667)	823
Impairment of advances to an associate, net	12	416	28,306
Gain on disposal of subsidiaries	43	—	(34,849)
		12,209	11,784
Increase in properties under development		(60,142)	(182,164)
Increase in inventories		(61,110)	(6,087)
Increase in trade and other receivables		(78,817)	(61,024)
Decrease in loans receivable		—	137,827
Decrease in financial assets at fair value through profit or loss		3,503	8,469
Increase in amounts due to/(from) affiliates, net		6,371	(11,071)
Decrease in cash held on behalf of clients		—	219,475
Decrease in client deposits		—	(209,957)
Increase/(decrease) in trade and other payables		104,666	(59,297)
Cash used in operations		(73,320)	(152,045)
Hong Kong profits tax paid		(5,644)	(4,458)
Mainland China tax paid		(2,664)	(4,509)
Net cash used in operating activities		(81,628)	(161,012)

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	16	(13,695)	(31,562)
Purchase of available-for-sale financial asset		(5,491)	(185)
Additions to prepaid land lease payments	18	(11,615)	(3,249)
Additions to construction in progress	19	(520)	(3,423)
Cash acquired from acquisition of subsidiaries, net	42	—	6,198
Repayment/(advances) to associates, net		(15,133)	215,552
Acquisition of minority interests		(254)	(2,010)
Cash disposed of from the disposal of subsidiaries, net	43	(36,753)	(177,234)
Interest received		194	1,458
Proceeds from disposal of items of property, plant and equipment		392	841
Dividends received from listed investments		—	3,135
Acquisition of other non-current assets		(134,710)	(265)
Proceeds from disposal of an investment property		42,572	2,559
Dividend received from an associate		9,000	2,557
Net cash flows generated from/(used in) investing activities		(166,013)	14,372
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		(124,631)	(214,376)
Increase/(decrease) in trust receipt loans		1,057	(1,039)
Repayment to shareholders		(1,847)	(6,653)
Repayment to minority shareholders of subsidiaries		(3,778)	(12,811)
Interest paid		(14,251)	(33,496)
Dividends paid to minority shareholders of subsidiaries		(9,822)	(14,945)
Dividends paid		(2,006)	(25,528)
Capital element of finance lease rental payments		(1,172)	(4,075)
New bank loans		244,542	392,768
Capital contribution from minority shareholders of subsidiaries		5,903	—
Decrease in other non-current liabilities		(234)	(241)
Net cash flows from financing activities		93,761	79,604
NET DECREASE IN CASH AND CASH EQUIVALENTS		(153,880)	(67,036)
Cash and cash equivalents at beginning of year		191,441	264,581
Effect of foreign exchange rate changes, net		(26)	(6,104)
CASH AND CASH EQUIVALENTS AT END OF YEAR		37,535	191,441
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the statement of financial position	29	58,007	193,072
Time deposits with original maturity of less than three months when acquired	29	14,625	14,342
Bank overdrafts	31	(35,097)	(15,973)
Cash and cash equivalents as stated in the statement of cash flows		37,535	191,441

Statement of Financial Position

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	20	181,712	675,490
CURRENT ASSETS			
Cash and bank balances	29	116	108
CURRENT LIABILITIES			
Other payables	30	63	61
NET CURRENT ASSETS		53	47
Net assets		181,765	675,537
EQUITY			
Issued capital	39	45,584	45,584
Reserves	41(b)	136,181	627,947
Proposed final dividend		—	2,006
Total equity		181,765	675,537

Ng Hung Sang
Chairman

Richard Howard Gorges
Director

Notes to the Financial Statements

31 December 2009

1. CORPORATE INFORMATION

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

The Company is an investment holding company. Its subsidiaries are principally engaged in sale of airline tickets and travel package, provision of hotel accommodation booking and travel related services, implementation and marketing of software and system development and other information technology related services, forestry business and trading and manufacturing of jewelry products.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

Notes to the Financial Statements

31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 18 Amendment*	Amendments to Appendix to HKAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendment to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers (adopted from 1 July 2009)</i>
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

* Included in Improvements to HKFRSs 2009 (as issued in May 2009)

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the adoption of impact of HKAS 1 (Revised), HKAS 18 amendment, HKFRS 7 and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

(a) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 51 to the financial statements while the revised liquidity risk disclosures are presented in note 52 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(continued)***(b) HKFRS 8 Operating Segments**

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

(c) HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(d) Amendment to Appendix HKAS 18 Revenue – Determining whether an entity is acting as a principal or as an agent included in Improvements to HKFRSs 2009

In prior years, revenue from sales of airline tickets and provision of other related travel services, and joint operations of sales of jewellerys was included in the gross proceeds from sales of goods, while the related costs of sales were presented as "Cost of sales" in the income statement.

In the current year, the Group has reviewed and revised the recognition and measurement of revenue due to the issuance of the amendment to Appendix HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent* included in *Improvements to HKFRS 2009* ("Improvements") by the HKICPA during the year. The Improvements has added guidance to analyse the key features indicating that an entity is acting as a principal or as an agent.

The Group concluded that the proceeds from sales of goods are offset against the respective cost of sales, and the resulting net proceeds are presented as commission income in the income statement.

The effects of the changes in the recognition and measurement of revenue have been accounted for retrospectively with comparative figures restated. The specific line items affected are as follows:

	2009 HK\$'000	2008 HK\$'000
Decrease in revenue	1,881,408	2,323,226
Decrease in cost of sales	1,881,408	2,323,226
Effect on profit/(loss) for the year	—	—

These changes do not have any impact on the results of the Group in respect of the current and prior years.

Notes to the Financial Statements

31 December 2009

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ¹
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters ²
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions ²
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments ⁶
HKAS 24 (Revised)	Related Party Disclosures ⁵
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues ³
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement ⁵
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners ¹
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁴
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary ¹
HK Interpretation 4 (Revised in December 2009)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases ²

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

¹ Effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2010

³ Effective for annual periods beginning on or after 1 February 2010

⁴ Effective for annual periods beginning on or after 1 July 2010

⁵ Effective for annual periods beginning on or after 1 January 2011

⁶ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (c) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associates

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

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

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

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

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

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

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

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

Goodwill previously eliminated against consolidated retained profits

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

Impairment of non-financial assets other than goodwill

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Impairment of non-financial assets other than goodwill** *(continued)*

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

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a member of the key management personnel of the Group or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (c);
- (e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than certain land and buildings and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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

Leasehold land and buildings	2% to 10%, not exceeding the lease terms
Furniture and leasehold improvements	10% to 25%, not exceeding the lease terms
Machinery and equipment	10% to 25%
Moulds and tools	20% to 25%
Motor vehicles and vessels	20% to 33.3%

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

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Costs comprise the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

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

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

Leases

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement (continued)

The Group's financial assets include cash and bank balances, trade and other receivables and quoted and unquoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Available-for-sale financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial assets (continued)

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

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, amount due to affiliates and interest-bearing bank and other borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and other valuation models.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts *(continued)*

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Inventories

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

Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

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

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Revenue recognition

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

- (a) income from the sale of goods are recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) commission income are recognised upon the sale of goods;
- (c) service income are recognised when the services have been rendered;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

- (d) dividend income are recognised when the shareholders' right to receive payment has been established; and
- (e) interest income are recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Employee benefits

Pension schemes

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

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

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

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

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a trinomial model, further details of which are given in note 40 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions (continued)

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

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and service conditions are satisfied.

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends and distributions

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to the Financial Statements

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

Estimation uncertainty *(continued)*

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale financial assets and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2009, no impairment losses have been recognised for available-for-sale assets (2008: Nil).

Impairment of trade receivables

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

Income taxes

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

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- (a) the travel and related services segment involves in the sale of airline tickets and travel-related services;
- (b) the information technology segment involves in the information technology related business;
- (c) the trading and manufacturing segment involves the trading and manufacturing of jewellery products;
- (d) the forestry segment involves in the forestation related business; and
- (e) the investment holding segment comprises the Group's management services and other investment holding.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that finance costs, result of associates and impairment of advances to an associate are excluded from such measurement.

Segment liabilities exclude tax payable, deferred tax liabilities and bank loans as these liabilities are managed on a group basis.

31 December 2009

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2009	Travel and related services HK\$'000	Information technology HK\$'000	Trading and manufacturing of jewellery HK\$'000	Forestry HK\$'000	Investment holding HK\$'000	Total HK\$'000
Segment revenue:						
Sales to external customers and revenue from continuing operations	71,171	126,465	18,156	–	–	215,792
Segment results	18,879	1,459	453	–	53,657	74,448
Reconciliation:						
Finance costs						(3,846)
Share of profits and losses of associates						82
Profit before tax from continuing operations						70,684
Segment assets and total assets	185,278	97,292	20,091	14,954	169,479	487,094
Segment liabilities	111,213	52,343	3,103	6,454	8,582	181,695
Reconciliation:						
Corporate and other unallocated liabilities						108,449
Total liabilities						290,144
Other segment information:						
Impairment of trade and other receivables, net	4	–	–	–	1,611	1,615
Depreciation and amortisation	1,472	2,419	154	–	–	4,045
Capital expenditure	813	1,075	66	–	–	1,954

* Capital expenditure consists of additions to property, plant and equipment.

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4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2008 (Restated)	Travel and related services HK\$'000	Information technology HK\$'000	Trading and manufacturing of jewellery HK\$'000	Investment holding HK\$'000	Total HK\$'000
Segment revenue:					
Sales to external customers and revenue from continuing operations	78,954	72,675	18,198	–	169,827
Segment results	24,606	952	561	5,235	31,354
Reconciliation:					
Finance costs					(2,856)
Share of profits and losses of associates					(99)
Profit before tax from continuing operations					28,399
Segment assets	168,853	73,174	17,083	62,259	321,369
Reconciliation:					
Assets related to discontinued operations					3,578,619
Total assets					3,899,988
Segment liabilities	101,835	29,156	5,554	12,950	149,495
Reconciliation:					
Corporate and other unallocated liabilities					89,719
Liabilities related to discontinued operations					1,680,288
Total liabilities					1,919,502
Other segment information:					
Impairment of trade and other receivables, net	–	1,355	274	16	1,645
Depreciation and amortisation	1,581	2,261	155	–	3,997
Capital expenditure	1,606	2,101	63	–	3,770

31 December 2009

4. OPERATING SEGMENT INFORMATION *(continued)***Geographical segments****(a) Revenue from external customers**

	2009 HK\$'000	2008 HK\$'000 (Restated)
Hong Kong	67,424	76,464
Mainland China	148,368	93,363
	215,792	169,827

The revenue information from continuing operations above is based on the location of the customers.

(b) Non-current assets

	2009 HK\$'000	2008 HK\$'000
Hong Kong	26,388	555,201
Mainland China	59,025	1,542,736
Others	—	25,387
	85,413	2,123,324

The non-current assets information from continuing operations above is based on the location of assets and excludes interests in associates and available-for-sale financial assets.

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5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered and commission income during the year.

An analysis of revenue and other income from continuing operations is as follows:

	2009 HK\$'000	2008 HK\$'000 (Restated)
Revenue		
Commission and service income from travel related business (a)	71,171	78,954
Service income from the information and technology related business	126,465	72,675
Manufacturing and trading of jewelleryes	13,338	11,436
Commission income from sale of jewelleryes	4,818	6,762
	215,792	169,827
Other income		
Dividend income from listed investments (b)	82,075	—
Handling charge	1,815	1,119
Advertising income	922	1,389
Provision of information and technology training and consultation	819	1,852
Government grants (c)	531	2,784
Bank interest income	107	492
Write off of trade payables	203	1,048
Others	945	1,690
	87,417	10,374
	303,209	180,201

- (a) The HKICPA issued some improvements to the HKFRSs in May 2009. Of this, an amendment to HKAS 18 was made for recognition of revenue (note 2.2(d)). Under the new definition, the Group's travel and related services operation in relating to the sales of air-tickets is treated as cash collected on behalf of the principal as an agent, and thus its revenue shall be recorded on net basis. In all the prior years, the Group has been recognising the revenue from the sales of air-tickets in gross amount. This policy is revised in current year and only the commission has been recognised as revenue. The comparative figure has also been restated to conform to the current year's presentation. Gross proceeds from the sale of air tickets and the provision of other related services are as follows:-

	2009 HK\$'000	2008 HK\$'000
Gross proceeds received	1,911,687	2,356,116

- (b) The Group held some remaining shares and warrants of SCC after the distribution in specie of its shares to Company's shareholders in June 2009. In July 2009, the Group exercised the SCC warrants held which then converted to SCC shares. In August 2009, SCC paid a special dividend for its entire interest in SCL to its shareholders by means of distribution in specie. The dividend income was the value of SCL shares the Group entitled to receive from the special distribution on the date of receipt.
- (c) Various government grants have been received for the Group's business in an enterprise zone within Chongqing, Mainland China, to cope with the increasing demand for upgrading and computerisation of operating system of the government and local enterprises. The government grants released have been recognised in other income. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

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

	Notes	2009 HK\$'000	2008 HK\$'000 (Restated)
Cost of inventories sold		94,930	45,625
Depreciation	16	4,045	3,997
Auditors' remuneration		800	800
Employee benefit expense (including directors' remuneration):	8		
Wages and salaries and other benefits		54,728	56,490
Equity-settled share option expense		12,214	27,840
Pension scheme contributions**		3,620	3,314
Total employee benefit expense		70,562	87,644
Minimum lease payments under operating leases in respect of land and buildings		8,279	7,515
Impairment of trade and other receivables, net*		1,615	1,645
Provision against obsolete inventories		1,375	—
Fair value loss/(gain) of financial assets at fair value through profit or loss		5,734	(874)
Losses on disposal of items of property, plant and equipment, net*		242	31
Foreign exchange differences, net		10	(542)

* These balances are included in "other operating expenses, net" in the consolidated income statement.

** At 31 December 2009, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2008: Nil).

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Group 2009 HK\$'000	2008 HK\$'000 (Restated)
Interest on bank loans, overdrafts and other loans wholly repayable within five years	2,749	2,856
Interest on advances from a related company	792	—
Interest on advances from a director	305	—
	3,846	2,856

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8. DIRECTORS' REMUNERATION

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

	Group	
	2009	2008
	HK\$'000	HK\$'000
Fees	410	640
Other emoluments:		
Salaries, allowances and benefits in kind	1,114	5,950
Equity-settled share option expense	14,458	39,086
Pension scheme contributions	49	274
	16,031	45,950

(a) Independent non-executive directors

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

	2009	2008
	HK\$'000	HK\$'000
Mr. David John Blackett	100	100
Mr. Cheng Hong Kei	50	50
Ms. Tse Wong Siu Yin, Elizabeth	50	150
	200	300

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

8. DIRECTORS' REMUNERATION *(continued)***(b) Executive directors and non-executive directors**

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Equity- settled share option expense HK\$'000	Pension scheme contributions HK\$'000
2009				
Executive directors:				
Mr. Ng Hung Sang	10	288	—	14
Ms. Cheung Choi Ngor	10	288	4,598	14
Mr. Richard Howard Gorges	10	294	2,595	15
Mr. Ng Yuk Fung, Peter	10	244	4,670	6
	40	1,114	11,863	49
Non-executive directors:				
Mr. David Michael Norman	120	—	—	—
Ms. Ng Yuk Mui, Jessica	50	—	2,595	—
	170	—	2,595	—
	210	1,114	14,458	49

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Equity- settled share option expense HK\$'000	Pension scheme contributions HK\$'000
2008				
Executive directors:				
Mr. Ng Hung Sang	30	1,863	—	92
Ms. Cheung Choi Ngor	30	1,692	13,252	83
Mr. Richard Howard Gorges	30	1,805	6,080	87
Mr. Ng Yuk Fung, Peter	20	590	14,151	12
	110	5,950	33,483	274
Non-executive directors:				
Mr. David Michael Norman	120	—	—	—
Ms. Ng Yuk Mui, Jessica	110	—	5,603	—
	230	—	5,603	—
	340	5,950	39,086	274

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2008: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2008: two) non-director, highest paid employees for the year are as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	795	3,430
Discretionary bonuses	500	897
Equity-settled share option expense	—	14,151
Pension scheme contributions	12	108
	1,307	18,586

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

	Number of employees	
	2009	2008
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$3,000,001 to HK\$3,500,000	—	1
HK\$15,000,001 to HK\$15,500,000	—	1
	1	2

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Group	
	2009	2008
	HK\$'000	HK\$'000
		(Restated)
Current – Hong Kong	3,861	4,733
– Elsewhere	255	7
Total tax charge for the year	4,116	4,740

10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax from continuing operations at the statutory rate for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
		(Restated)
Profit before tax from continuing operations	70,684	28,399
Tax at the statutory tax rate	11,663	4,686
Effect of different tax rates of subsidiaries operating in Mainland China	69	1
Expenses not deductible for tax	5,643	16,603
Income not subject to tax	(13,560)	(16,773)
Tax losses utilised from previous periods	(24)	(26)
Tax losses not recognised	325	249
Total tax charge for the year	4,116	4,740

The share of tax credit attributable to associates amounting to HK\$8,000 (2008: share of tax charge of HK\$4,743,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2009 includes a profit of HK\$261,230,000 (2008: loss of HK\$16,568,000) which has been dealt with in the financial statements of the Company (note 41(b)).

Notes to the Financial Statements

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12. DISCONTINUED OPERATIONS

- (i) On 22 May 2009, the Company announced a proposal to declare a special interim distribution to be satisfied by way of a distribution in specie (the “2009 Distribution”) comprising substantially the Company’s beneficial shareholding in South China (China) Limited (“SCC”) of 1,983,206,785 shares and 396,641,357 warrants, representing approximately 74.78% of the issued share capital and 74.83% of the outstanding warrants of SCC held by the Company. SCC is a company engaged in the trading and manufacturing of toys, shoes, electronics toys products, leather products, motors and capacitors, property investment and development, and agriculture and woods, with its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (“Stock Exchange”) (stock code: 413).

On 19 June 2009, the Company announced the Company’s shareholders passed the resolution to declare the 2009 Distribution in the proportion of 106 shares (“SCC Shares”) and 21 warrants (“SCC Warrants”) of SCC for every 100 shares held by the Company’s shareholders based on the market price of SCC at HK\$0.74 per share and HK\$0.32 per warrant on 19 June 2009. The Company distributed 1,932,805,449 shares of SCC and 382,914,277 warrants of SCC to the Company’s shareholders at the 2009 Distribution. Details of which are disclosed in the announcement and circular of the Company dated 22 May 2009 and 3 June 2009, respectively.

Immediately prior to the completion of the 2009 Distribution, the Company’s investment in SCC was approximately HK\$765 million. Following the 2009 Distribution, SCC and its subsidiaries (the “SCC Group”) ceased to be subsidiaries of the Company and the business of trading and manufacturing of toys, shoes, electronics toys products, leather products, motors and capacitors, and property investment which were solely carried out by the SCC Group became discontinued operations. Results of the SCC Group then ceased to be accounted for in the consolidated financial statements of the Group.

- (ii) On 21 October 2008, the Company announced a proposal to declare a special interim distribution to be satisfied by way of a distribution in specie (the “2008 Distribution”) comprising substantially the Company’s beneficial shareholding of 3,660,502,500 shares of HK\$0.025 each in South China Financial Holdings Limited (“SCF”), representing approximately 72.79% of the issued share capital of SCF, held by the Company. SCF is a company engaged in securities and financial related services with its shares listed on the Main Board of the Stock Exchange (stock code: 619).

On 2 December 2008, the Company announced the Company’s shareholders passed the resolution to declare the 2008 Distribution in the proportion of two shares of SCF (“SCF Shares”) for every one share held by the Company’s shareholders based on the market price of SCF at HK\$0.035 per share on 2 December 2008. The Company distributed 3,646,802,752 shares of SCF to the Company’s shareholders at the 2008 Distribution. Details of which are disclosed in the announcement and circular of the Company dated 21 October 2008 and 11 November 2008.

Following the Distribution, SCF and its subsidiaries (the “SCF Group”) ceased to be subsidiaries of the Company and the business of securities and financial services which was solely carried out by the SCF Group became a discontinued operation. Results of the SCF Group then ceased to be accounted for in the consolidated financial statements of the Group.

12. DISCONTINUED OPERATIONS *(continued)*

(a) The results from SCC Group and SCF Group (the “Discontinued Operations”) are presented below:

	2009	SCC Group	SCF Group[#]
	2008	2008	2008
	HK\$'000	HK\$'000	HK\$'000
			(Restated)
Revenue	633,472	1,928,515	81,488
Cost of sales	(538,533)	(1,667,552)	–
Other income and gains	10,277	11,421	4,700
Other operating expenses, net	(82,059)	(178,290)	(273,959)
Finance costs	(10,647)	(26,850)	(3,789)
Less: Finance costs capitalised in properties under development	2,739	5,348	–
Profit/(loss) before tax from discontinued operations	15,249	72,592	(191,560)
Tax	(4,685)	(17,910)	4,993
Profit/(loss) for the year from discontinued operations	10,564	54,682	(186,567)
Earnings/(loss) per share:	HK cents	HK cents	HK cents
Basic, from discontinued operations	1.0	2.6	(7.5)
Diluted, from discontinued operations	N/A	N/A	N/A

[#] As further detailed in note 12(i) to the financial statements, the Group discontinued its property investment operation upon the completion of the 2009 Distribution. Accordingly, the comparative figures of SCF Group have been restated in accordance with HKFRS 5.

(b) The net cash flows incurred by the Discontinued Operations are presented below:

	2009	SCC Group	SCF Group
	2008	2008	2008
	HK\$'000	HK\$'000	HK\$'000
Operating activities	(116,648)	(277,883)	90,331
Investing activities	(107,776)	191,250	(1,998)
Financing activities	111,553	90,031	(39,966)
Net cash inflow/(outflow)	(112,871)	3,398	48,367

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12. DISCONTINUED OPERATIONS (continued)

- (c) The Group's profit/(loss) before tax from the Discontinued Operations is arrived at after charging/(crediting):

	Note	SCC Group		SCF Group
		2009 HK\$'000	2008 HK\$'000	2008 HK\$'000 (Restated)
Cost of inventories sold		538,533	1,667,552	—
Cost of services provided		—	—	26,266
Depreciation	16	19,590	43,477	3,129
Less: Depreciation capitalised in properties under development		(12)	(11)	—
Depreciation charged to the consolidated income statement		19,578	43,466	3,129
Auditors' remuneration		—	2,620	850
Employee benefit expense (including directors' remuneration):				
Wages and salaries and other benefits		210,857	550,837	43,268
Less: Wages and salaries capitalised in properties under development/ construction in progress		(877)	(1,179)	—
		209,980	549,658	43,268
Equity-settled share option expense		4,492	21,533	4,084
Pension scheme contributions		17,627	17,374	1,643
Less: Forfeited contributions		—	(249)	(676)
Net pension scheme contributions		17,627	17,125	967
Total employee benefit expenses		232,099	588,316	48,319
Excess over the cost of business combination		—	(172,831)	—
Minimum lease payments under operating leases in respect of land and buildings		8,001	11,115	16,403
Gross rental income		(22,687)	(46,129)	(1,925)
Less: Direct operating expenses		1,833	4,127	—
Rental income on investment properties less direct operating expenses		(20,854)	(42,002)	(1,925)

12. DISCONTINUED OPERATIONS (continued)

- (c) The Group's profit/(loss) before tax from the Discontinued Operations is arrived at after charging/(crediting): (continued)

	Note	SCC Group		SCF Group
		2009 HK\$'000	2008 HK\$'000	2008 HK\$'000 (Restated)
Decrease in biological assets due to harvest		–	895	–
Fair value gains on biological assets		–	(5,893)	–
Fair value losses/(gain) of financial assets at fair value through profit or loss		(1,909)	27,771	116,264
Gain on disposal of financial assets at fair value through profit or loss		(594)	–	–
Impairment of trade and other receivables, net		2,072	580	8,138
Amortisation of prepaid land lease payments	18	2,385	1,484	–
Provision/(reversal of provision) against obsolete inventories (included in cost of sales)		14,686	(17,357)	–
Write off of trade payables		(5,451)	–	–
Loss/(gains) on disposal of items of property, plant and equipment, net		(286)	(294)	27
Fair value loss/(gains) on investment properties		(44,500)	(22,748)	46,215
Gains on disposal of investment properties		(4,372)	(1,424)	–
Gain on disposal of subsidiaries		–	(319)	–
Bank interest income		(79)	(794)	(132)
Interest income from an associate		(8)	(40)	–
Interest income from margin financing and money lending operations		–	–	(28,236)
Net loss from securities, bullion and commodities trading		–	–	19,683
Provision/(reversal of provision) for a financial guarantee in respect of an associate		(14,700)	14,700	–
Impairment of advances to an associate		15,116	14,236	–
Write-back of advances to associates written off in prior years		–	(630)	–
Share of profits and losses of associates		(14,585)	724	–
Dividend income from listed investments		(81)	(430)	(2,705)

13. DIVIDENDS AND DISTRIBUTION

	2009 HK\$'000	2008 HK\$'000
Special interim distribution, declared and paid of SCC Shares (2008: SCF Shares) and SCC Warrants (2008: Nil) per 100 ordinary shares (2008: 1 ordinary share) (note 12)	1,552,809	127,638
Proposed final – Nil (2008: HK\$0.11 cents per ordinary share)	–	2,006
	1,552,809	129,644

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14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share for the year is based on the profit for the year attributable to owners of the Company of HK\$83,746,000 (2008: loss of HK\$65,129,000) and the weighted average number of ordinary shares of 1,823,401,000 (2008: 1,823,401,000) in issue during the year.

The calculation of the diluted earnings/(loss) per share amount for the year is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issued during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2009 HK\$'000	2008 HK\$'000
Earnings/(loss)		
Profit/(loss) attributable to owners of the Company, used in the basic earnings/(loss) per share calculation	83,746	(65,129)
Profit/(loss) attributable to owners of the Company, used in the diluted earnings/(loss) per share calculation:		
From continuing operations	66,540	23,597
From discontinued operations	17,206	(88,726)
	83,746	(65,129)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings/(loss) per share calculations	1,823,401,000	1,823,401,000

The Company's share options have no dilutive effect for the two years ended 31 December 2009 and 2008 because the exercise price of the Company's share options was higher than the average market price for shares for the two years ended 31 December 2009 and 2008.

31 December 2009

15. BIOLOGICAL ASSETS

	Group	
	2009	2008
	HK\$'000	HK\$'000
Lychee fruit trees:		
Carrying amount at 1 January	49,950	53,563
Loss arising from changes in fair value less estimated point-of-sale costs	—	(7,231)
Decrease due to harvest	—	(819)
Disposal of subsidiaries (note 43)	(49,950)	—
Exchange realignment	—	4,437
Carrying amount at 31 December	—	49,950
Longan fruit trees:		
Carrying amount at 1 January	16,452	17,437
Loss arising from changes in fair value less estimated point-of-sale costs	—	(2,354)
Decrease due to harvest	—	(76)
Disposal of subsidiaries (note 43)	(16,452)	—
Exchange realignment	—	1,445
Carrying amount at 31 December	—	16,452
Winter date fruit trees:		
Carrying amount at 1 January	18,502	—
Reclassified from inventories	—	2,544
Transferred from construction in progress (note 19)	—	110
Gain arising from changes in fair value less estimated point-of-sale costs	—	15,478
Disposal of subsidiaries (note 43)	(18,502)	—
Exchange realignment	—	370
Carrying amount at 31 December	—	18,502
Total carrying amount at 31 December	—	84,904

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15. BIOLOGICAL ASSETS (continued)

Quantities of fruit trees:

	Group	
	2009	2008
	Number	Number
	of trees	of trees
	'000	'000
Lychee fruit trees	—	333
Longan fruit trees	—	108
Winter date fruit trees	—	481
	—	922

The fair values and saleable output of lychee, longan and winter date fruits at the point of harvest are analysed as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Fair value less estimated point-of-sale costs:		
Lychee fruits	—	819
Longan fruits	—	76
	—	895
	Tons	Tons
Saleable output:		
Lychee fruits	—	163
Longan fruits	—	33
	—	196

At 31 December 2008, significant assumptions made in determining the fair values of the biological assets were as follows:

- (a) the fruit trees would continue to be competently managed and remain free from irremediable diseases in their remaining estimated useful lives;
- (b) the expected prices of winter date, lychee and longan fruits were based on the past actual average district prices; and
- (c) the future cash flows had been discounted at the target rate of return on equity of the agricultural and woods segment.

31 December 2009

16. PROPERTY, PLANT AND EQUIPMENT**Group**

	Leasehold land and buildings HK\$'000	Furniture and leasehold improvements HK\$'000	Machinery and equipment HK\$'000	Moulds and tools HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
31 December 2009						
At 31 December 2008 and at 1 January 2009:						
Cost or valuation	272,147	233,056	260,993	10,548	30,097	806,841
Accumulated depreciation and impairment	(73,179)	(200,149)	(206,921)	(7,705)	(21,949)	(509,903)
Net carrying amount	198,968	32,907	54,072	2,843	8,148	296,938
At 1 January 2009, net of accumulated depreciation and impairment	198,968	32,907	54,072	2,843	8,148	296,938
Additions	–	5,590	4,333	191	3,581	13,695
Disposals	–	(177)	(171)	–	–	(348)
Disposal of subsidiaries (note 43)	(182,511)	(30,094)	(45,803)	(2,542)	(8,411)	(269,361)
Depreciation provided during the year	(6,450)	(6,320)	(8,860)	(492)	(1,513)	(23,635)
Transfer from construction in progress (note 19)	–	595	–	–	–	595
Exchange realignment	–	4	4	–	–	8
At 31 December 2009, net of accumulated depreciation	10,007	2,505	3,575	–	1,805	17,892
At 31 December 2009:						
Cost	12,767	17,097	14,881	–	6,973	51,718
Accumulated depreciation	(2,760)	(14,592)	(11,306)	–	(5,168)	(33,826)
Net carrying amount	10,007	2,505	3,575	–	1,805	17,892

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

Group

	Leasehold land and buildings HK\$'000	Furniture and leasehold improvements HK\$'000	Machinery and equipment HK\$'000	Moulds and tools HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
31 December 2008						
At 1 January 2008:						
Cost or valuation	293,177	284,051	266,644	10,852	29,472	884,196
Accumulated depreciation and impairment	(51,075)	(244,487)	(200,143)	(8,541)	(23,322)	(527,568)
Net carrying amount	242,102	39,564	66,501	2,311	6,150	356,628
At 1 January 2008, net of accumulated depreciation and impairment	242,102	39,564	66,501	2,311	6,150	356,628
Additions	59	16,449	10,178	1,662	3,214	31,562
Acquisition of subsidiaries (note 42)	37,745	–	532	–	961	39,238
Disposals	–	(62)	(239)	–	(304)	(605)
Disposal of subsidiaries (note 43)	–	(6,956)	(7,008)	–	(40)	(14,004)
Reclassification	–	(71)	(148)	–	219	–
Depreciation provided during the year	(12,333)	(16,797)	(18,086)	(1,130)	(2,257)	(50,603)
Transfer to investment properties, net (note 17)	(100,087)	–	–	–	–	(100,087)
Fair value adjustment	27,340	–	–	–	–	27,340
Transfer from construction in progress (note 19)	–	547	–	–	–	547
Exchange realignment	4,142	233	2,342	–	205	6,922
At 31 December 2008, net of accumulated depreciation and impairment	198,968	32,907	54,072	2,843	8,148	296,938
At 31 December 2008:						
Cost or valuation	272,147	233,056	260,993	10,548	30,097	806,841
Accumulated depreciation and impairment	(73,179)	(200,149)	(206,921)	(7,705)	(21,949)	(509,903)
Net carrying amount	198,968	32,907	54,072	2,843	8,148	296,938
Analysis of cost or valuation:						
At cost	224,638	233,056	260,993	10,548	30,097	759,332
At 31 December 1988 valuation	31,112	–	–	–	–	31,112
At 31 December 1989 valuation	5,220	–	–	–	–	5,220
At 31 December 1992 valuation	204	–	–	–	–	204
At 31 December 1994 valuation	10,973	–	–	–	–	10,973
	272,147	233,056	260,993	10,548	30,097	806,841

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

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

	Group	
	2009	2008
	HK\$'000	HK\$'000
Hong Kong:		
Medium term leases	–	62,170
Mainland China:		
Medium term land use rights	10,007	65,225
In the process of applying land use rights	–	71,573
	10,007	198,968

At 31 December 2009, certain of the Group's leasehold land and buildings and machinery and equipment with a net book value of approximately HK\$10,007,000 (2008: HK\$78,866,000), were pledged to secure banking facilities granted to the Group (note 31).

At 31 December 2008, the Group transferred certain leasehold land and buildings of HK\$100,087,000, at fair value, to investment properties, which was revalued by BMI Appraisals Limited, independent professionally qualified valuers, at HK\$100,087,000 on an open market, existing use basis. The resulting fair value gain of HK\$27,340,000 was recorded in the asset revaluation reserve upon transfer.

At 31 December 2008, the net book value of the Group's machinery and equipment and motor vehicles held under finance leases and hire purchase contracts included in the total amount of machinery and equipment and motor vehicles amounted to HK\$3,192,000.

At 31 December 2008, certain of the Group's land and buildings were revalued on and before 31 December 1994. The land and buildings were revalued at open market value, based on their existing use. Since 1995, no further revaluations of the Group's land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions in paragraph 80A of HKAS 16, from the requirement to carry out future revaluations of property, plant and equipment which were stated at valuation at that time.

Had all land and buildings been carried at cost less accumulated depreciation and impairment losses, the net book value of the Group's land and buildings at 31 December 2008 would have been approximately HK\$195,518,000.

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17. INVESTMENT PROPERTIES

	Group	
	2009	2008
	HK\$'000	HK\$'000
Carrying amount at 1 January	1,605,674	1,229,827
Disposals	(38,200)	(1,135)
Acquisition of subsidiaries (note 42)	–	404,128
Disposal of subsidiaries (note 43)	(1,586,757)	(161,700)
Net profit/(loss) from a fair value adjustment	44,500	(23,467)
Transfer from leasehold land and buildings (note 16)	–	100,087
Exchange realignment	(217)	57,934
Carrying amount at 31 December	25,000	1,605,674

The Group's investment property is situated in Hong Kong and is held under the following lease terms:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Hong Kong:		
Medium term leases	25,000	217,200
Long term leases	–	247,038
	25,000	464,238
Mainland China:		
Medium term leases	–	1,116,049
Taiwan:		
Freehold	–	25,387
	25,000	1,605,674

The Group's investment property was revalued on 31 December 2009 by BMI Appraisals Limited, independent professionally qualified valuers, at HK\$25,000,000 (2008: HK\$1,605,674,000) on an open market, existing use basis. At 31 December 2008, certain investment properties were leased to third parties under operating leases. Further summary details of which are included in note 47(a) to the financial statements.

At 31 December 2008, the Group's investment properties with a value of HK\$478,237,000 were pledged to secure general banking facilities granted to the Group (note 31).

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

Further particulars of the Group's investment property are included on page 118.

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18. PREPAID LAND LEASE PAYMENTS

	Group	
	2009	2008
	HK\$'000	HK\$'000
Carrying amount at 1 January	49,808	20,513
Additions	11,615	3,249
Acquisition of subsidiaries (note 42)	–	26,261
Disposal of subsidiaries (note 43)	(48,567)	–
Recognised during the year (note 12)	(2,385)	(1,484)
Exchange realignment	–	1,269
Carrying amount at 31 December	10,471	49,808
Current portion included in other receivables	(134)	(1,485)
Non-current portion	10,337	48,323

The leasehold land is held under medium term leases and is situated in Mainland China.

19. CONSTRUCTION IN PROGRESS

	Group	
	2009	2008
	HK\$'000	HK\$'000
Carrying amount at 1 January	27,279	263,444
Exchange realignment	–	1,226
Acquisition of subsidiaries (note 42)	–	1,352
Disposal of subsidiaries (note 43)	(27,204)	–
Additions	520	3,423
Transfer to properties under development (note 25)	–	(241,509)
Transfer to property, plant and equipment (note 16)	(595)	(547)
Transfer to biological assets (note 15)	–	(110)
Carrying amount at 31 December	–	27,279

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20. INTERESTS IN SUBSIDIARIES

	Company	
	2009 HK\$'000	2008 HK\$'000
Unlisted shares, at cost	181,712	527,702
Due from a subsidiary	—	147,788
	181,712[#]	675,490

[#] The Company's interest in certain subsidiaries were written down to their costs upon the 2009 Distributions (note 12(i)).

The amount due from a subsidiary was unsecured, interest-free and had no fixed terms of repayment. In the opinion of the directors, the amount due from a subsidiary was not repayable within 12 months from the end of the reporting period and was therefore shown in the statement of financial position as non-current. In the opinion of the directors, the amount due from a subsidiary approximated to its fair value.

Details of the Company's principal subsidiaries are set out in note 55 to the financial statements.

21. INTERESTS IN ASSOCIATES

	Group	
	2009 HK\$'000	2008 HK\$'000
Share of net assets:		
Unlisted associates	720	296,837
Advances to associates	—	41,748
Provision for impairment [#]	—	(25,436)
	—	16,312
Provision for financial guarantee provided to an associate	—	(14,700)
	720	298,449

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

As at 31 December 2008, the Group had given guarantees with an amount of HK\$396,000,000 to secure banking facilities granted to Firm Wise Investment Limited ("FWIL"), of which HK\$379,800,000 was utilised. The banking facilities were due to be mature in November 2010. The guarantees given were used on refinancing an investment property in Hong Kong.

21. INTERESTS IN ASSOCIATES *(continued)*

As at 31 December 2008, the Group had given guarantees with a total amount of HK\$20,000,000 to secure banking facilities granted to Nority Limited ("Nority"), of which HK\$14,700,000 was utilised as at 31 December 2008. The banking facilities were due on demand. The advances to Nority were used and the banking facilities were utilised to finance its trading and manufacturing operation. In the opinion of the directors, as Nority's financial ability to repay the loans drawn under banking facilities was uncertain. As such, a provision of HK\$14,700,000 was made for the Group's liability under the abovementioned guarantee which had been included in impairment of advances to associates in the consolidated income statement.

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

	Group	
	2009	2008
	HK\$'000	HK\$'000
At 1 January	25,436	11,200
Impairment losses recognised	15,116	14,236
Disposal of subsidiaries	(40,552)	—
At 31 December	—	25,436

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

	2008
	HK\$'000
Assets	2,551,759
Liabilities	1,545,404
Revenue	137,220
Profit	5,209

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

Other associates

	2009	2008
	HK\$'000	HK\$'000
Assets	2,605	92,580
Liabilities	31	82,518
Revenue	3,471	165,907
Profit/(loss)	159	(16,761)

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22. GOODWILL

	Group	
	2009	2008
	HK\$'000	HK\$'000
At 1 January:		
Cost	12,666	10,507
Accumulated impairment	(625)	(625)
Net carrying amount	12,041	9,882
Carrying amount at 1 January	12,041	9,882
Acquisition of minority interest in a subsidiary	–	2,130
Disposal of subsidiaries (note 43)	(6,473)	–
Exchange realignment	–	29
Carrying amount at 31 December	5,568	12,041

	Group	
	2009	2008
	HK\$'000	HK\$'000
At 31 December:		
Cost	6,193	12,666
Accumulated impairment	(625)	(625)
Net carrying amount	5,568	12,041

The amount of goodwill remaining in the consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was HK\$1,238,000 as at 31 December 2008.

Impairment testing of goodwill

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

- Travel business cash-generating unit; and
- Information technology business cash-generating unit.
- Property investment and development cash-generating unit;
- Toy and footwear products cash-generating unit;

Travel business cash-generating unit

The recoverable amount of the travel business cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 9% (2008: 9%). The growth rate used to extrapolate the cash flows of the travel business unit beyond the five-year period is 3% (2008: 3%) which is the same as the long term average growth rate of the travel business industry.

22. GOODWILL *(continued)***Impairment testing of goodwill** *(continued)**Information technology business cash-generating unit*

The recoverable amount of the information technology business cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11% (2008: 11%). The growth rate used to extrapolate the cash flows of the information technology business unit beyond the five-year period is 5% (2008: 5%) which is the same as the long term average growth rate of the information technology business industry.

Property investment and development cash-generating unit

At 31 December 2008, the recoverable amount of the property investment and development cash-generating unit had been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections was 10% and cash flows beyond the five-year period were extrapolated using a growth rate of 5% which was the same as the long term average growth rate of the property investment and development industry.

Toy and footwear products cash-generating unit

At 31 December 2008, the recoverable amount of the toy manufacturing cash-generating unit had been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections was 17% and cash flows beyond the five-year period were extrapolated using a growth rate of 2% which was the same as the long term average growth rate of the toy products industry.

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

	2009 HK\$'000	2008 HK\$'000
Cash-generating units:		
Travel business	2,994	2,994
Information technology business	2,574	3,533
Property investment and development	–	4,140
Toy and footwear manufacturing	–	1,374
	5,568	12,041

Key assumptions were used in the value in use calculation of travel business, information technology business, property investment and development business and toy and footwear manufacturing cash-generating units for the years ended 31 December 2009 and 2008. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

Notes to the Financial Statements

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23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2009 HK\$'000	2008 HK\$'000
Club debentures and membership	461	44,216
Listed equity investments, at market value	37,194	525
	37,655	44,741

During the year, the fair value gain in respect of the Group's listed equity securities recognised in other comprehensive income amounting to HK\$22,781,000 (2008: HK\$9,100,000) of which nil (2008: Nil) was reclassified from other comprehensive income to the income statement and no impairment was recognised in the income statement (2008: Nil).

The above investments consist of investments in club debentures and memberships which have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices. The fair values of club debentures and membership have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected proceeds on subsequent disposal. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

24. OTHER NON-CURRENT ASSETS

	Group	
	2009 HK\$'000	2008 HK\$'000
Land development costs	19,994	19,994
Deposit for acquisition of properties	6,622	6,622
Berths	—	16,666
Others	—	4,883
	26,616	48,165

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25. PROPERTIES UNDER DEVELOPMENT

	Group	
	2009	2008
	HK\$'000	HK\$'000
Carrying amount at 1 January	448,734	–
Additions	60,154	182,175
Interest capitalised in properties under development	2,497	5,348
Transferred from construction in progress (note 19)	–	241,509
Disposal of subsidiaries (note 43)	(511,385)	–
Exchange realignment	–	19,702
Carrying amount at 31 December	–	448,734
Portion classified as current assets	–	(448,734)
Non-current portion	–	–

At 31 December 2008, all properties under development were held under medium term leases and situated in Mainland China.

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

At 31 December 2008, leasehold interests in land located in Mainland China with a net carrying amount of approximately HK\$3,134,000 was in the process of applying for the land use right certificate up to the approval date of these financial statements. The directors did not expect any legal obstacles for the Group in obtaining the relevant title certificate.

Notes to the Financial Statements

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26. INVENTORIES

	Group	
	2009 HK\$'000	2008 HK\$'000
Raw materials	4,063	168,270
Work in progress	23,044	99,086
Finished goods	13,792	109,012
	40,899	376,368
Provision against obsolete inventories	(124)	(53,890)
	40,775	322,478

The Group's inventories with a value of HK\$15,198,000 (2008: HK\$152,917,000) were pledged to secure general banking facilities granted to the Group (note 31).

Included in work in progress is construction contracts amounted to HK\$22,905,000 (2008: HK\$14,888,000).

	Group	
	2009 HK\$'000	2008 HK\$'000
Gross amount due from contract customers	33,190	24,231
Gross amount due to contract customers included in other payables	(10,285)	(9,343)
	22,905	14,888
Contract costs incurred plus recognised profits less recognised losses to date	33,190	24,231
Less: Progress billings	(10,285)	(9,343)
	22,905	14,888

27. TRADE AND OTHER RECEIVABLES

	Group	
	2009 HK\$'000	2008 HK\$'000
Trade receivables	138,032	356,762
Impairment	(4,540)	(61,683)
	133,492	295,079

27. TRADE AND OTHER RECEIVABLES *(continued)*

The Group's trading terms with its customers are on credit with credit periods ranging from one to three months (2008: one to three months), depends on a number of factors including trade practices, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

None of the other receivables is either past due or impaired. The financial assets included in these balances relate to receivables for which there was no recent history of default.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Within 90 days	125,218	263,901
91 to 180 days	8,049	21,505
181 to 365 days	225	4,395
Over 365 days	—	5,278
	133,492	295,079

The movements in impairment of trade receivables are as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
At 1 January	61,683	73,975
Impairment losses recognised	3,687	7,340
Impairment loss reversed	—	(1,063)
Amount written off as uncollectible	(1,195)	(66)
Disposal of subsidiaries	(59,635)	(18,674)
Exchange realignment	—	171
At 31 December	4,540	61,683

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$4,540,000 (2008: HK\$61,683,000) with a carrying amount before provision of HK\$4,540,000 (2008: HK\$61,683,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

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27. TRADE AND OTHER RECEIVABLES *(continued)*

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

	Group	
	2009	2008
	HK\$'000	HK\$'000
Within 90 days	132,085	273,677
91 to 180 days	1,337	12,015
181 to 365 days	70	4,109
Over 365 days	—	5,278
	133,492	295,079

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2009	2008
	HK\$'000	HK\$'000
Listed equity investments, at market value:		
Hong Kong	67,977	10,245
Mainland China	—	700
	67,977	10,945

The above financial assets at 31 December 2009 were classified as held for trading. The market value of the Group's listed equity investments at the date of approval of these financial statements was approximately HK\$61,114,000 (2008: HK\$13,506,000).

29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Note	Group		Company	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Cash and bank balances		58,007	193,072	116	108
Time deposits		14,625	14,342	—	—
		72,632	207,414	116	108
Less: Pledged for bank overdraft facilities	31	(14,625)	(14,342)	—	—
Cash and cash equivalents		58,007	193,072	116	108

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$38,386,000 (2008: HK\$92,150,000). RMB is not freely convertible into other currencies. However, under the PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

30. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK\$129,022,000 (2008: HK\$362,374,000) and their aged analysis based on the invoice date is as follows:

	Group	
	2009 HK\$'000	2008 HK\$'000
Within 90 days	125,365	281,295
91 to 180 days	137	26,534
181 to 365 days	3,391	3,166
Over 365 days	129	51,379
	129,022	362,374

The trade payables are non-interest-bearing and are normally settled on 15 to 90 days’ terms (2008: 15 to 210 days).

Other payables are non-interest-bearing and have an average term of three months.

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31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective Interest rate (%)	Maturity	2009 HK\$'000	Group 2008 HK\$'000
Current				
Finance lease payables (note 32)	1.8 – 5.3	2009	–	1,439
Bank overdrafts – unsecured	4.8 – 5.5	On demand	35,097	15,100
Bank overdrafts – secured	5.3 – 6.3	On demand	–	873
Bank loans – unsecured	3.75 – 9.6	2010	50,000	63,371
Bank loans – secured	1.1 – 9.3	2010	20,090	263,835
Trust receipt loans	1.9 – 5.7	2010	–	142,988
			105,187	487,606
Non-current				
Bank loans – secured	1.1 – 7.7	2010 – 2017	–	281,845
			105,187	769,451
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand			105,187	486,167
In the second year			–	141,823
In the third to fifth years, inclusive			–	104,106
Over five years			–	35,916
			105,187	768,012
Other borrowings repayable within one year or on demand			–	1,439
			105,187	769,451

Notes:

- (a) At the end of the reporting period, the Group's bank loans facilities amounting to approximately HK\$76,991,000 (2008: overdraft facilities of HK\$16,000,000 and bank facilities of HK\$1,022,810,000) are secured by:
- (i) the pledge of certain of the Group's time deposits amounting to HK\$14,625,000 (2008: HK\$14,342,000) (note 29);
 - (ii) a charge over the Group's certain leasehold land and buildings and machinery and equipment which had an aggregate carrying value at the end of the reporting period of approximately HK\$10,007,000 (2008: HK\$78,866,000) (note 16);
 - (iii) the pledges over the Group's inventories which had an aggregate carrying value at the end of the reporting period of approximately HK\$15,198,000 (2008: HK\$152,917,000) (note 26);
 - (iv) at 31 December 2008, a charge over the Group's investment properties situated in Hong Kong and Mainland China, which had an aggregate carrying value at the end of the reporting period of approximately HK\$478,237,000 (note 17); and

31. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*Notes: *(continued)*(a) *(continued)*

(v) at 31 December 2008, pledges over the Group's properties under development situated in Mainland China with net carrying amounts of approximately HK\$154,632,000 (note 25);

(b) All other borrowings are in Hong Kong dollars, except the secured bank loans of HK\$20,090,000 (2008: HK\$69,676,000) which are denominated in Renminbi.

The carrying amounts of the Group's bank and other borrowings approximate to their fair values. The fair values of the bank and other borrowings are the present values of future cash flows, discounted at prevailing interest rates at 31 December 2009.

32. FINANCE LEASE PAYABLES

Group	Minimum lease payments		Present value of minimum lease payments	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Amounts payable:				
Within one year	—	1,460	—	1,439
In the second year	—	—	—	—
In the third year to fifth years, inclusive	—	—	—	—
Total minimum finance lease payments	—	1,460	—	1,439
Future finance charges	—	(21)		
Total net finance lease payables	—	1,439		
Portion classified as current liabilities	—	(1,439)		
Non-current portion	—	—		

At 31 December 2009, the Group had no obligation under finance leases.

At 31 December 2008, the Group had certain leases of its plant and machinery and motor vehicles for its manufacturing businesses. These leases were classified as finance leases and had remaining lease terms within one year.

33. ADVANCES FROM SHAREHOLDERS

The advances from shareholders are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within 12 months from the end of the reporting period and are therefore shown in the statement of financial position as non-current.

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34. ADVANCES FROM/TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The advances from/to minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment. At 31 December 2008, in the opinion of the directors, the advances from minority shareholders of subsidiaries amounted to HK\$29,226,000 in prior year would not be repayable within 12 months from the end of the reporting period and were therefore presented in the statement of financial position as non-current.

35. DUE FROM/TO AFFILIATES

Due from affiliates

	Group	
	2009 HK\$'000	2008 HK\$'000
Due from related companies [#]	—	457

Due to affiliates

	Group	
	2009 HK\$'000	2008 HK\$'000
Due to related companies [#]	4,478	334
Due to an associate (note 21)	—	1,846
	4,478	2,180

[#] A substantial beneficial shareholder of the related companies are also a substantial shareholder of the Company.

Except for an amount due to a related company of HK\$1,017,000 which is interest-bearing at Hong Kong dollar prime rate per annum (2008: Nil), the amounts due from/to affiliates are unsecured, interest-free and are repayable on demand.

36. OTHER NON-CURRENT LIABILITIES

	Group	
	2009 HK\$'000	2008 HK\$'000
Provision for severance payments	—	76,866
Others	—	8,553
	—	85,419

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36. OTHER NON-CURRENT LIABILITIES *(continued)*

The movements in the provision for severance payments are as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
At 1 January	76,866	41,259
Acquisition of subsidiaries (note 42)	—	31,856
Disposal of subsidiaries	(76,632)	—
Amounts utilised during the year	(234)	(623)
Exchange realignment	—	4,374
At 31 December	—	76,866
Portion classified as current liabilities	—	—
Non-current portion	—	76,866

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

37. DEFERRED TAX

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

Group**Deferred tax liabilities**

	2009				
	Losses available for offsetting against future taxable profits HK\$'000	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of properties HK\$'000	Withholding tax HK\$'000	Total HK\$'000
At 1 January 2009	324	9,001	222,754	—	232,079
Deferred tax charged to the income statement during the year	43	1,227	1,502	365	3,137
Disposal of a subsidiary (note 43)	(376)	(10,228)	(221,748)	(365)	(232,717)
At 31 December 2009	(9)	—	2,508	—	2,499

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37. DEFERRED TAX (continued)

Group

Deferred tax liabilities

	Losses available for offsetting against future taxable profits HK\$'000	2008 Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 January 2008	(14,889)	15,749	149,401	150,261
Deferred tax charged/(credited) to the income statement during the year (note 10)	10,350	(2,326)	(5,617)	2,407
Acquisition of subsidiaries (note 42)	–	–	74,947	74,947
Disposal of a subsidiary (note 43)	4,863	(3,973)	(6,888)	(5,998)
Exchange realignment	–	(449)	10,911	10,462
At 31 December 2008	324	9,001	222,754	232,079

Deferred tax assets

	Losses available for offsetting against future taxable profits HK\$'000	2008 Provision HK\$'000	Depreciation allowance in excess of related depreciation HK\$'000	Total HK\$'000
At 1 January 2008	473	2,765	17	3,255
Deferred tax charged to the income statement during the year (note 10)	(473)	(2,765)	(7)	(3,245)
Disposal of a subsidiary (note 43)	–	–	(10)	(10)
At 31 December 2008	–	–	–	–

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

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Tax losses	190,632	574,795	5,621	5,621

37. DEFERRED TAX *(continued)*

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Mainland China of HK\$29,687,000 (2008: HK\$106,342,000) that will expire in one to five years for offsetting against future taxable profit. A deferred tax asset has not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

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

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

38. PROMISSORY NOTES

	Effective interest rate (%)	Group 2009 HK\$'000	2008 HK\$'000
Issued to a substantial shareholder	2.0	—	97,079

At 31 December 2008, the Group issued an additional promissory note with a principal amount of HK\$1,120,000 to a substantial shareholder of the Group in respect of the acquisition of an additional 0.79% equity interest in a subsidiary. The promissory notes were unsecured, bore interest at 2% per annum and were wholly repayable on 17 June 2010 and 8 July 2010. The carrying amount of the promissory notes approximated to its fair values.

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39. SHARE CAPITAL

Shares

	2009 HK\$'000	2008 HK\$'000
Authorised:		
4,000,000,000 (2008: 4,000,000,000) ordinary shares of HK\$0.025 (2008: HK\$0.025) each	100,000	100,000
Issued and fully paid:		
1,823,401,376 (2008: 1,823,401,376) ordinary shares of HK\$0.025 (2008: HK\$0.025) each	45,584	45,584

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 40 to the financial statements.

40. SHARE OPTION SCHEME

The directors and employees of the Group are entitled to participate in share option scheme operated by the Company (the "Share Option Scheme"). Details of the Share Option Scheme are as follows:

(a) Purpose of the Share Option Scheme

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

(b) Participants of the Share Option Scheme

According to the Share Option Scheme, the board may, at its discretion, grant options to any person belonging to any of the following classes of participants to subscribe for shares: -

- (i) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group or any Invested Entity or substantial shareholder;
- (ii) any non-executive director (including any independent non-executive director) of any member of the Group or any Invested Entity or substantial shareholder;
- (iii) any individual for the time being seconded to work for any member of the Group or any Invested Entity or substantial shareholder;
- (iv) any shareholder of any member of the Group or any Invested Entity or substantial shareholder or any holder of any securities issued by any member of the Group or any Invested Entity or substantial shareholder;
- (v) any business partner, consultant or contractor of any member of the Group or any Invested Entity or substantial shareholder;

40. SHARE OPTION SCHEME *(continued)***(b) Participants of the Share Option Scheme** *(continued)*

- (vi) any supplier of goods or services to any member of the Group or any Invested Entity or substantial shareholder;
- (vii) any customer of the Group or any Invested Entity or substantial shareholder;
- (viii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any Invested Entity or substantial shareholder; and
- (ix) any person wholly-owned by one or more persons belonging to any of the above classes of participants.

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

The maximum number of shares in respect of which share options may be granted shall not exceed 10% of the shares in issue as at the date of approval of the Share Option Scheme, ie a total of 182,340,137.

As at 31 December 2009, the total number of shares available for issue pursuant to the grant of further share options under the Share Option Scheme is 81,540,137, representing approximately 4.47% of the issued share capital of the Company as at the date of this Annual Report.

(d) Maximum entitlement of each participant

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

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

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

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

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

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

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

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40. SHARE OPTION SCHEME *(continued)*

(h) Basis of determining the exercise price options

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

(i) Remaining life of the Share Option Scheme

Subject to early termination of the Share Option Scheme pursuant to the terms thereof, the Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became unconditional on 28 June 2002.

Saved as disclosed in note 43 to the financial statements, SCC and SCL, the then subsidiaries of the Group had been disposed of during the year ended 31 December 2009 after the 2009 Distribution and the Group has withdrawn from the SCC's and SCL's share option schemes.

The following share options were outstanding under the Share Option Scheme during the year:

	2009		2008	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	2	101,800	2	103,800
Granted during the year	—	—	—	—
Lapsed during the year	2	(1,000)	2	(2,000)
Exercised during the year	—	—	—	—
At 31 December	2	100,800	2	101,800

40. SHARE OPTION SCHEME *(continued)*

Particulars and movements during the year of the outstanding share options granted under the Share Option Scheme were as follows:

Name or category of participants	Number of share options						Outstanding as at 31 December 2009	Date of grant of share options (DD/MM/YYYY) (Note 2)	Exercise period of share options (DD/MM/YYYY)	Exercise price per share HK\$ (Note 3)
	Outstanding as at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Re-classified (Note 1)				
Cheung Choi Ngor	6,000,000	-	-	-	-	-	6,000,000	18/09/2007	18/09/2008 – 17/09/2017	2.00
	6,000,000	-	-	-	-	-	6,000,000	18/09/2007	18/09/2009 – 17/09/2017	2.00
	6,000,000	-	-	-	-	-	6,000,000	18/09/2007	18/09/2010 – 17/09/2017	2.00
Richard Howard Gorges	6,000,000	-	-	-	-	-	6,000,000	18/09/2007	18/09/2008 – 17/09/2017	2.00
	6,000,000	-	-	-	-	-	6,000,000	18/09/2007	18/09/2009 – 17/09/2017	2.00
	6,000,000	-	-	-	-	-	6,000,000	18/09/2007	18/09/2010 – 17/09/2017	2.00
Ng Yuk Mui, Jessica	6,000,000	-	-	-	-	-	6,000,000	18/09/2007	18/09/2008 – 17/09/2017	2.00
	6,000,000	-	-	-	-	-	6,000,000	18/09/2007	18/09/2009 – 17/09/2017	2.00
	6,000,000	-	-	-	-	-	6,000,000	18/09/2007	18/09/2010 – 17/09/2017	2.00
Ng Yuk Fung, Peter	6,000,000	-	-	-	-	-	6,000,000	18/09/2007	18/09/2008 – 17/09/2017	2.00
	6,000,000	-	-	-	-	-	6,000,000	18/09/2007	18/09/2009 – 17/09/2017	2.00
	6,000,000	-	-	-	-	-	6,000,000	18/09/2007	18/09/2010 – 17/09/2017	2.00
Sub-total :	72,000,000	-	-	-	-	-	72,000,000			
Employees										
In aggregate	9,933,332	-	-	(333,333)	-	(3,599,999)	6,000,000	18/09/2007	18/09/2008 – 17/09/2017	2.00
	9,933,333	-	-	(333,333)	-	(3,600,000)	6,000,000	18/09/2007	18/09/2009 – 17/09/2017	2.00
	9,933,335	-	-	(333,334)	-	(3,600,001)	6,000,000	18/09/2007	18/09/2010 – 17/09/2017	2.00
Sub-total :	29,800,000	-	-	(1,000,000)	-	(10,800,000)	18,000,000			
Others										
In aggregate	-	-	-	-	-	3,599,999	3,599,999	18/09/2007	18/09/2008 – 17/09/2017	2.00
	-	-	-	-	-	3,600,000	3,600,000	18/09/2007	18/09/2009 – 17/09/2017	2.00
	-	-	-	-	-	3,600,001	3,600,001	18/09/2007	18/09/2010 – 17/09/2017	2.00
Sub-total :	-	-	-	-	-	10,800,000	10,800,000			
Total	101,800,000	-	-	(1,000,000)	-	-	100,800,000			

Notes to the Financial Statements

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40. SHARE OPTION SCHEME (continued)

Notes:

1. Due to internal re-organisation, certain employees holding options under the Share Option Scheme had been re-classified. Consequently, 10,800,000 options were re-classified from "Employees" to "Others".
2. All share options granted are subject to a vesting period and become exercisable in whole or in part in the following manner:

From the date of grant of share options	Exercisable percentage %
Within 12 months	Nil
13th month – 24th month	not more than $33\frac{1}{3}$
25th month – 36th month	not more than $66\frac{2}{3}$
37th month – 120th month	100

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

No share options have been granted, exercised or cancelled during the year ended 31 December 2009. The Company recognised a share option expense of HK\$12,214,000 (2008: HK\$27,840,000) during the year ended 31 December 2009.

At the end of the reporting period the Company had 100,800,000 share options outstanding under the scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 100,800,000 additional ordinary shares of the Company with additional share capital of HK\$2,520,000 and share premium of HK\$199,080,000 (before issue expenses).

The fair value of equity-settled share options granted during the year ended 31 December 2007 was estimated as at the date of grant using a trinomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2007
Dividend yield (%)	0.00
Average expected volatility (%)	68.57
Average historical volatility (%)	68.57
Average risk-free interest rate (%)	3.96
Expected life of options (year)	3 – 5
Weighted average share price (HK\$)	1.374

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

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

No share option was exercised during the year.

40. SHARE OPTION SCHEME *(continued)***Share Option Scheme of SCC**

As disclosed in note 43 to the financial statements, SCC, a then subsidiary of the Group, was disposed of in June 2009 upon the 2009 Distribution. Subsequent to the 2009 Distribution, the share option scheme of SCC ceased to be a share option scheme operated by the Group.

The following share options were outstanding under the share option scheme of SCC during the period from 1 January 2009 to the date of the 2009 Distribution:

	Period from 1 January 2009 to the date of 2009 Distribution		Year ended 31 December 2008	
	Weighted average exercise price** HK\$ per share	Number of options* '000	Weighted average exercise price** HK\$ per share	Number of options* '000
At 1 January	1.5	101,800	1.5	114,500
Forfeited during the period/year	1.5	(1,000)	1.5	(12,700)
At end of period/year	1.5	100,800	1.5	101,800

Notes:

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

From the date of grant of share options	Exercisable percentage
Within 12 months	Nil
13th – 24th month	not more than 33 ¹ / ₃ %
25th – 36th month	not more than 66 ² / ₃ %
37th – 120th month	100%

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

SCC recognised a share option expenses of HK\$4,199,000 (2008: HK\$20,219,000) during the year ended 31 December 2009.

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40. SHARE OPTION SCHEME (continued)

Share Option Scheme of SCC (continued)

The fair value of equity-settled share options granted during the year ended 31 December 2007 estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted by using a trinomial model amounted to HK\$62,481,000. The following table lists the inputs to the model used:

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

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

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

Share option scheme of SCL

As disclosed in note 43 to the financial statements, SCL, a then subsidiary of the Group, was disposed of in June 2009 upon the 2009 Distribution. Subsequent to the 2009 Distribution, the share option scheme of SCL ceased to be a share option scheme operated by the Group.

The following share options were outstanding under the Share Option Scheme of SCL during the period from 1 January 2009 to the date of 2009 Distribution:

	Period from 1 January 2009 to the date of 2009 Distribution		Year ended 31 December 2008	
	Weighted average exercise price** HK\$ per share	Number of options* '000	Weighted average exercise price** HK\$ per share	Number of options* '000
At 1 January	0.247	16,000	0.247	16,000
Exercised during the period/year	0.279	(2,000)	—	—
At end of period/year	0.242	14,000	0.247	16,000

40. SHARE OPTION SCHEME *(continued)***Share option scheme of SCL** *(Continued)*

Notes:

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

From the date of grant of share options	Exercisable percentage %
Within 12 months	Nil
13th month – 24th month	33 ¹ / ₃
25th month – 36th month	66 ² / ₃
37th month – 60th month	66 ² / ₃

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

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

The fair value of the share options of SCL granted during the year ended 31 December 2007 was HK\$3,765,000. SCL recognised a share option expense of HK\$292,000 during the period from 1 January 2009 to the date of the 2009 Distribution (year ended 31 December 2008: HK\$1,314,000).

The fair value of equity-settled share options granted during the year ended 31 December 2007 was estimated as at the date of grant using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

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

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

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

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41. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 26 to 27 of the financial statements.

(b) Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2008	253,234	56	286,429	11,138	180,253	731,110
Equity-settled share option arrangements	—	—	—	27,840	—	27,840
Total comprehensive income for the year	—	—	—	—	(16,568)	(16,568)
Effect in distribution of specie	—	—	—	—	(112,429)	(112,429)
Proposed final 2008 dividend	—	—	—	—	(2,006)	(2,006)
At 31 December 2008 and 1 January 2009	253,234	56	286,429	38,978	49,250	627,947
Equity-settled share option arrangements	—	—	—	12,214	—	12,214
Total comprehensive income for the year	—	—	—	—	261,230	261,230
Effect in distribution of specie	—	—	—	—	(765,210)	(765,210)
Transfer to retained earnings	(198,818)	(56)	(286,429)	(51,192)	536,495	—
At 31 December 2009	54,416	—	—	—	81,765	136,181

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation in 1992.

The Company's reserves available for distribution represent the share premium account, capital redemption reserve, contributed surplus, share option reserve and retained profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2009 amounted to approximately HK\$136,181,000 (2008: HK\$627,947,000).

42. BUSINESS COMBINATION

On 15 January 2008, SCC completed the following acquisitions:

- (a) acquired a 85% interest in Nanjing Hydraulic Press from the holding company of a joint venture partner of SC Sanda, a former 51% owned associate. Nanjing Hydraulic Press holds certain properties, and is engaged in property investment and manufacturing of hydraulic press. The purchase consideration for the acquisition was in the form of cash of RMB1,994,000 which was paid 31 December 2007. Subsequent to the acquisition, the Subsidiary of SCC has control on SC Santa with an effective interest of 92.7%.
- (b) acquired the entire interest in Nanjing Compressor from the holding company of a joint venture partner of SC Hua Guan, a former 51% owned associate. Nanjing Compressor is engaged in property investment and manufacturing of compressor. The purchase consideration for the acquisition was in the form of cash of RMB28,528,000 which was paid in December 2007. Subsequent to the acquisition, the SC Hua Guan becomes a wholly-owned subsidiary of the Subsidiary of SCC.
- (c) acquired the entire interest in Nanjing Power Machinery from the holding company of a joint venture partner of SC Sanda, a former 51% owned associate. Nanjing Power Machinery holds certain properties, and is engaged in property investment and trading of flowers. The purchase consideration for the acquisition was in the form of cash of RMB25,261,000 which was paid in December 2007. Subsequent to the acquisition, SC Sanda becomes a wholly-owned subsidiary of the Subsidiary of SCC.

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42. BUSINESS COMBINATIONS (continued)

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

	Fair value recognised on acquisition of Nanjing Compressor HK\$'000	Fair value recognised on acquisition of Nanjing Power Machinery HK\$'000	Fair value recognised on acquisition of Nanjing Hydraulic Press HK\$'000	Total HK\$'000	Carrying amount of Nanjing Compressor HK\$'000	Carrying amount of Nanjing Power Machinery HK\$'000	Carrying amount of Nanjing Hydraulic Press HK\$'000
Property, plant and equipment (note 16)	340	5,853	33,045	39,238	2,002	2,274	23,377
Investment properties (note 17)	110,959	155,902	137,267	404,128	26,031	43,610	34,697
Prepaid land lease payments (note 18)	—	10,196	16,065	26,261	—	10,790	4,755
Construction in progress (note 19)	—	—	1,352	1,352	—	—	1,352
Interests in associates	11,929	—	—	11,929	11,929	—	—
Available-for-sale financial asset	471	—	—	471	471	—	—
Inventories	4,414	26	6,285	10,725	9,538	26	7,464
Financial assets at fair value through profit or loss	—	—	1,599	1,599	—	—	1,599
Trade receivables	707	16	5,929	6,652	4,273	16	8,420
Prepayments, deposits and other receivables	9,751	127	720	10,598	22,275	338	1,152
Amounts due from fellow subsidiaries	2,083	—	—	2,083	2,083	—	—
Amount due from/(to) a minority shareholder	6,781	(3,958)	(21,371)	(18,548)	6,781	(3,958)	(21,371)
Cash and bank balances	4,449	1,523	226	6,198	4,449	1,523	226
Trade payables	(10,422)	(35)	(34,111)	(44,568)	(10,422)	(35)	(34,111)
Other payables and accruals	(12,644)	(17,189)	(33,151)	(62,984)	(12,644)	(17,189)	(33,151)
Amount due to a fellow subsidiary	(3,649)	(1,615)	(15,159)	(20,423)	(3,649)	(1,615)	(15,159)
Amount due to an immediate holding company	(4,115)	—	—	(4,115)	(4,115)	—	—
Interest-bearing bank and other borrowings	—	(652)	(543)	(1,195)	—	(652)	(543)
Tax payable	(5,560)	—	—	(5,560)	(5,560)	—	—
Provision for severance payments (note 36)	(8,327)	(11,196)	(12,333)	(31,856)	(8,327)	(11,196)	(12,333)
Deferred tax liabilities (note 37)	(21,232)	(28,073)	(25,642)	(74,947)	—	—	—
Minority interests	(489)	—	(10,971)	(11,460)	(489)	—	4,811
Other non-current liabilities	(570)	—	(7,602)	(8,172)	(570)	—	(7,602)
	84,876	110,925	41,605	237,406	44,056	23,932	(36,417)
Excess over the cost of business combinations	(49,531)	(83,833)	(39,467)	(172,831)			
	35,345	27,092	2,138	64,575			
Satisfied by:							
Prepayment for acquisition of subsidiaries	30,595	27,092	2,138	59,825			
Reclassification from interests in associate to interests in subsidiaries	4,750	—	—	4,750			
	35,345	27,092	2,138	64,575			

42. BUSINESS COMBINATIONS *(continued)*

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

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

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

- (i) Since the acquisition on 15 January 2008, Nanjing Compressor' contributed a profit of HK\$5,731,000 to the Group's consolidated loss for the year ended 31 December 2008.
- (ii) Since the acquisition on 15 January 2008, Nanjing Power Machinery contributed a profit of HK\$5,252,000 to the Group's consolidated loss for the year ended 31 December 2008.
- (iii) Since the acquisition on 15 January 2008, Nanjing Hydraulic Press contributed a profit of HK\$9,320,000 to the Group's consolidated loss for the year ended 31 December 2008.

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43. DISPOSAL OF INTERESTS IN SUBSIDIARIES

(a) For the year ended 31 December 2009

Further to note 12 to the financial statements, the Group disposed of its interest in SCC upon the 2009 Distribution in June 2009.

	HK\$'000
Net assets/(liabilities) disposed of:	
Property, plant and equipment (note 16)	269,361
Investment properties (note 17)	1,586,757
Prepaid land lease payments (note 18)	48,567
Construction in progress (note 19)	27,204
Interest in associates	318,113
Biological assets (note 15)	84,904
Available-for-sale financial assets	44,280
Other non-current asset	156,259
Goodwill (note 22)	6,473
Properties under development (note 25)	511,385
Inventories	326,752
Trade and other receivables	304,442
Financial assets at fair value through profit or loss	9,834
Advances to minority shareholders of subsidiaries	28,229
Tax recoverable	5,393
Cash and bank balances	111,352
Trade and other payables	(573,092)
Interest-bearing bank and other borrowings	(877,784)
Advances from minority shareholders of subsidiaries	(49,472)
Due to affiliates	(3,616)
Tax payable	(26,254)
Other non-current liabilities	(85,185)
Promissory notes	(97,079)
Deferred tax liabilities (note 37)	(232,717)
Minority interests	(556,976)
Release of capital reserve	(1,927)
Release of merger reserve	(123,053)
Release of available-for-sale financial asset revaluation reserve	(34,603)
Release of share option reserve	(28,150)
Release of asset revaluation reserve	(36,354)
Release of PRC statutory reserve	(6,956)
Release of exchange fluctuation reserve	(59,534)
	1,046,553
Excess of the net asset value over the fair value of SCC	506,256
	1,552,809
	HK\$'000
Satisfied by:	
Special interim distribution (note 13)	1,552,809

43. DISPOSAL OF INTERESTS IN SUBSIDIARIES *(continued)***(a) For the year ended 31 December 2009** *(continued)*

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

	HK\$'000
Cash and bank balances disposed of	(111,352)
Bank overdraft of SCC Group	74,599
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(36,753)

(b) For the year ended 31 December 2008

In February 2008, the Group disposed of its entire interest in South China Media Limited ("SCM") and the shareholders' loan to Broaden Base Investments Limited ("BBIL"), a BVI incorporated company of which a director of the Company is the controlling shareholder, for a consideration of HK\$30 million payable in cash. Details of which are disclosed in the circular of the Company dated 16 January 2008.

Further to note 12 to the financial statements, the Group disposed of its interest in SCF upon the 2008 Distribution in December 2008.

During the year ended 31 December 2008, SCC disposed of its entire interest in Sino Cosmo International Ltd. ("Sino Cosmo") and 南京大地水射流有限公司 ("水射流") to outside third parties.

	2008				
	Sino Cosmo HK\$'000	水射流 HK\$'000	SCM HK\$'000	SCF HK\$'000	Total HK\$'000
Net assets/(liabilities) disposed of:					
Property, plant and equipment (note 16)	–	–	10,040	3,964	14,004
Investment properties (note 17)	–	–	–	161,700	161,700
Intangible assets (note 24)	–	–	–	836	836
Available-for-sale financial assets	–	2,435	–	1,570	4,005
Loans receivable	–	–	–	90,659	90,659
Deferred tax assets (note 37)	–	–	–	10	10
Financial assets at fair value through profit or loss	–	–	–	80,060	80,060
Trade and other receivables	13	1,059	38,844	147,652	187,568
Due from related companies	–	–	4,940	–	4,940
Pledged deposits	–	–	–	5,750	5,750
Cash held on behalf of clients	–	–	–	319,071	319,071
Cash and bank balances	–	–	7,327	127,911	135,238
Interest-bearing bank and other borrowings	–	–	(24,658)	(186,723)	(211,381)
Client deposits	–	–	–	(308,761)	(308,761)
Trade, accruals and other payables	(9)	(204)	(110,172)	(110,563)	(220,948)
Due to related companies	–	–	(22,744)	–	(22,744)
Deferred tax liabilities (note 37)	–	–	–	(5,998)	(5,998)
Minority interests	–	–	–	(89,678)	(89,678)
Release of available-for-sale financial asset revaluation reserve	–	–	–	(881)	(881)
Release of share option reserve	–	–	–	(12,660)	(12,660)
Release of capital reserve	–	–	–	(1,165)	(1,165)
	4	3,290	(96,423)	222,754	129,625
Exchange reserve realised	–	(515)	–	–	(515)
Gain/(loss) on disposal of subsidiaries	996	(677)	34,530	–	34,849
Excess of the net assets value over the fair value of SCF	–	–	–	(95,116)	(95,116)
	1,000	2,098	(61,893)	127,638	68,843

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43. DISPOSAL OF INTERESTS IN SUBSIDIARIES *(continued)*

(b) For the year ended 31 December 2008 *(continued)*

	2008				
	Sino Cosmo HK\$'000	水射流 HK\$'000	SCM HK\$'000	SCF HK\$'000	Total HK\$'000
Satisfied by:					
Cash consideration	1,000	2,098	30,000	–	33,098
Liabilities of SCM undertaken by the Group	–	–	(69,344)	–	(69,344)
Assignment of shareholders' loan	–	–	(17,549)	–	(17,549)
Liabilities undertaken by the controlling shareholder of BBIL	–	–	(5,000)	–	(5,000)
Special interim distribution (note 13)	–	–	–	127,638	127,638
	1,000	2,098	(61,893)	127,638	68,843

	2008				
	Sino Cosmo HK\$'000	水射流 HK\$'000	SCM HK\$'000	SCF HK\$'000	Total HK\$'000
Cash consideration	1,000	2,098	30,000	–	33,098
Liabilities of SCM settled by the Group	–	–	(69,344)	–	(69,344)
Cash and bank balances disposed of	–	–	(7,327)	(133,661)	(140,988)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	1,000	2,098	(46,671)	(133,661)	(177,234)

44. MAJOR NON-CASH TRANSACTIONS

- (i) As further detailed in notes 12 and 43 to these financial statements, the Company disposed of the SCC Group through the 2009 Distribution on 19 June 2009.
- (ii) On 18 August 2009, the Group received dividend of HK\$82,075,000 from SCC, a then subsidiary of the Group, of which a substantial shareholder is also a substantial shareholder of the Company. The dividend is satisfied by distribution in species. The Group classified these shares as financial assets at fair value through profit or loss. Further details can be found in the announcement of SCC dated 9 July 2009.

45. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in connection with banking facilities granted to:				
FWIL	—	396,000	—	—
Nority	—	5,300	—	—
Subsidiaries	—	—	166,450	160,500
Undertaking given to a former associate for banking facilities utilised by the former associate	—	13,526	—	—
	—	414,826	166,450	160,500

As at 31 December 2009, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$85,097,000 (2008: HK\$111,366,000).

At 31 December 2008, the banking facilities guaranteed by the Group to FWIL and Nority were utilised to the extent of approximately HK\$379,800,000 and HK\$14,700,000, respectively, of which HK\$14,700,000 had been provided for. Further details are set out in note 21 to the financial statements.

46. PLEDGES OF ASSETS

At the end of the reporting period, certain of the Group's assets were pledged to secure the banking facilities granted to the Group and are analysed as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Net book values of the pledged assets:		
Investment properties	—	478,237
Properties under development	—	154,632
Property, plant and machinery	10,007	78,866
Inventories	15,198	152,917
Bank deposits	14,625	14,342
	39,830	878,994

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47. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Within one year	—	49,506
In the second to fifth years, inclusive	—	89,667
Over five years	—	10,169
	—	149,342

(b) As lessee

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

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Within one year	6,727	15,053
In second to fifth years, inclusive	2,352	33,387
Over five years	—	55,219
	9,079	103,659

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48. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 47(b) above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Contracted, but not provided for:		
Machinery and equipment	—	5,699
Land use rights	—	3,099
	—	8,798
Authorised, but not contracted for:		
Property, plant and equipment	—	478

At the end of the reporting period, the Company did not have any significant capital commitments (2008: Nil).

49. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transaction	Notes	2009	2008
			HK\$'000	HK\$'000
Associate	Interest income	(i)	(8)	(40)
Associate	Rental income	(ii)	(1,534)	(2,981)
Directors and companies in which certain directors have beneficial interests ^{*/**}	Photo processing income	(i)	88	193
Directors and companies in which certain directors have beneficial interests ^{*/**}	Rental income	(ii)	(1,931)	(3,483)
Directors and companies in which certain directors have beneficial interests ^{*/**}	Interest expense	(iii)	792	—
Director	Interest expense	(iv)	305	—

* The directors of the Company are also the directors of the related companies.

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

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49. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes:

- (i) These transactions were carried out on terms determined and agreed by both parties.
- (ii) The rental income arose from the letting of properties of the Group to an associate and a related company in accordance with the tenancy agreements.
- (iii) The interest expense was charged at the Hong Kong dollar prime rate per annum. The terms offered to the Group are at similar terms offered to clients with similar characteristics.
- (iv) The interest expense was charged at the Hong Kong dollar prime rate per annum.

(b) Outstanding balances with related parties:

Details of the balances with related parties at the end of the reporting period are included in notes 21, 33, 34 and 35 to the financial statements.

(c) Other transactions with related parties:

- (i) On 18 August 2009, the Group received a dividend of HK\$82,075,000 from SCC, a then subsidiary of the Group, of which a substantial shareholder is also a substantial shareholder of the Company. The dividend is satisfied by distribution in species. Further details can be found in the announcement of SCC dated 9 July 2009.
- (ii) On 16 December 2009, the Group acquired certain assets, including woodlands through the acquisition of 100% equity interest in Eagle Bonus Investments Limited and its subsidiaries (collectively the "Eagle Bonus Group") from Beat Time Enterprises Limited, an indirectly wholly-owned subsidiary of SCC, at a consideration of HK\$8.5 million. At the date of the acquisition, the Eagle Bonus Group had no revenue generated operation except for the holding of woodlands. Further details can be found in an announcement of the Company dated 16 December 2009.

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

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

50. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2009**Group****Financial assets**

	Financial assets at fair value through profit or loss – held for trading HK\$'000	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
Available-for-sale financial assets	–	–	37,655	37,655
Trade and other receivables	–	180,287	–	180,287
Financial assets at fair value through profit or loss	67,977	–	–	67,977
Advances to minority shareholders of subsidiaries	–	1,635	–	1,635
Pledged bank deposits	–	14,625	–	14,625
Cash and cash equivalents	–	58,007	–	58,007
	67,977	254,554	37,655	360,186

2009**Group****Financial liabilities**

	Financial liabilities at amortised cost HK\$'000
Trade and other payables	170,780
Interest-bearing bank and other borrowings	105,187
Advances from shareholders	6,029
Advances from minority shareholders of subsidiaries	408
Due to affiliates	4,478
	286,882

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50. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2008	Group			
Financial assets	Financial assets at fair value through profit or loss – held for trading HK\$'000	Loans and receivables HK\$'000	Available-for-sale financial assets HK\$'000	Total HK\$'000
Advances to associates (note 21)	–	41,748	–	41,748
Available-for-sale financial assets	–	–	44,741	44,741
Trade and other receivables	–	410,950	–	410,950
Financial assets at fair value through profit or loss	10,945	–	–	10,945
Due from affiliates	–	457	–	457
Advances to minority shareholders of subsidiaries	–	27,480	–	27,480
Pledged bank deposits	–	14,342	–	14,342
Cash and cash equivalents	–	193,072	–	193,072
	10,945	688,049	44,741	743,735
2008	Group			
Financial liabilities	Financial liabilities at amortised cost HK\$'000			
Trade and other payables	644,860			
Interest-bearing bank and other borrowings	769,451			
Advances from shareholders	7,876			
Advances from minority shareholders of subsidiaries	51,274			
Promissory notes	97,079			
Due to affiliates	2,180			
	1,572,720			

50. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

Company

Financial assets

	Loans and receivables	
	2009	2008
	HK\$'000	HK\$'000
Due from a subsidiary (note 20)	218,465	147,788
Cash and bank balances	116	108
	218,581	147,896

Financial liabilities

	Financial liabilities at amortised cost	
	2009	2008
	HK\$'000	HK\$'000
Other payables	63	61

51. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

At the end of each reporting period, the financial instruments measured at fair value held by the Group were classified as level 1.

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52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's net debt obligations with a floating interest rate. The majority of the bank borrowings bear interest at interest rates with reference to the HIBOR whereas loans to customers bear interest at interest rates with reference to the prime rate. As the prime rate in Hong Kong basically changes in line with the HIBOR, the Group's exposure to the risk of changes in market interest rates is minimal.

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

	Group Increase in basis points	Increase/ (decrease) in profit before tax HK\$'000
2009		
RMB	50	(1,122)
Hong Kong dollar	50	1,122
2008		
RMB	50	112
Hong Kong dollar	50	(2,915)

Foreign currency risk

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

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)***Foreign currency risk** *(continued)*

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

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

	Group	Increase/ (decrease) in profit before tax HK\$'000
	Change in foreign currency rate %	
2009		
If Hong Kong dollar weakens against: RMB	5%	220
If Hong Kong dollar strengthens against: RMB	5%	(220)
2008		
If Hong Kong dollar weakens against: RMB	5%	(3,396)
If Hong Kong dollar strengthens against: RMB	5%	3,396

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

The credit risk of the Group's other financial assets, which comprise of cash and cash equivalents, available-for-sale financial assets, equity investments at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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

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

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52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and other interest-bearing loans.

The maturity profile of the Group and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group	2009				
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Trade and other payables	11,066	159,112	602	–	170,780
Interest-bearing bank and other borrowings	35,097	50,000	20,090	–	105,187
Advances from shareholders	–	–	–	6,029	6,029
Advances from minority shareholders of subsidiaries	390	–	–	18	408
Due to affiliates	1,240	3,238	–	–	4,478
	47,793	212,350	20,692	6,047	286,882

Group	2008					
			3 to			
	On demand HK\$'000	Less than 3 months HK\$'000	less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Trade and other payables	74,377	390,049	180,434	—	—	644,860
Interest-bearing bank and other borrowings	24,344	317,159	146,103	245,929	35,916	769,451
Advances from shareholders	—	—	—	7,876	—	7,876
Advances from minority shareholders of subsidiaries	2,149	—	19,899	29,226	—	51,274
Promissory notes	—	—	—	97,079	—	97,079
Due to affiliates	2,180	—	—	—	—	2,180
	103,050	707,208	346,436	380,110	35,916	1,572,720

Company	Less than 3 months	
	2009 HK\$'000	2008 HK\$'000
Other payables	63	61

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)***Equity price risk**

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

	31 December 2009	High/low 2009	31 December 2008	High/low 2008
Hong Kong – Hang Seng Index	21,873	22,944/ 11,345	14,387	27,615/ 11,015

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the income statement.

	Carrying amount of equity investments HK\$'000	Change in profit before tax HK\$'000	Change in equity* HK\$'000
2009			
Investments listed in:			
Hong Kong – Held-for-trading	67,977	6,798	–
– Available-for-sale	37,194	–	3,719
2008			
Investments listed in:			
Hong Kong – Held-for-trading	10,945	1,095	–
– Available-for-sale	525	–	53

* Excluding retained earnings

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52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the two years ended 31 December 2009 and 2008.

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

Group	2009 HK\$'000	2008 HK\$'000
Interest-bearing bank borrowings	105,187	768,012
Less: Cash and cash equivalents	(58,007)	(193,072)
Net debt	47,180	574,940
Capital	196,950	1,980,486
Capital and net debt	244,130	2,555,426
Gearing ratio	19.3%	22.5%

53. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment. In addition, the comparative income statement has been re-presented as if the operations discontinued during the current year had been discontinued at the beginning of the comparative period (note 12).

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 30 March 2010.

55. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2009 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Chongqing Fortuna Information Technology Co. Ltd. (note c)	The PRC/ Mainland China	RMB3,330,000	80.80%	Information technology related business
Chongqing South China Zenith Information Technology Co. Ltd. (note c)	The PRC/ Mainland China	RMB20,000,000	60%	Information technology related business
Eagle Bonus Investments Limited	British Virgin Islands	US\$1	100%	Investment holding
Four Seas Travel (BVI) Limited	British Virgin Islands	US\$100	100%	Investment holding
Glad Light Investment Limited	Hong Kong	HK\$10,000	100%	Property investment
Greenearn Investments Limited	Hong Kong	HK\$2	100%	Investment holding
Hong Kong Four Seas Tours Limited	Hong Kong	HK\$20,800,000 Ordinary HK\$1,200,000 Non-voting deferred (note b)	100%	Sale of airline tickets and provision of travel related services
Jadeland Investment Limited	Hong Kong	HK\$2	100%	Property investment
King Link Investments Limited	Hong Kong	HK\$2	100%	Investment holding
Shenyang Shenglian Electronics Science & Technology Ltd. (note c)	The PRC/ Mainland China	RMB4,000,000	70%	Information technology related business
South China (BVI) Limited	British Virgin Islands	US\$10,000	100%	Investment holding
Southchinanet.com (BVI) Limited	British Virgin Islands	US\$1	100%	Investment holding
Splendid Enterprises Limited	British Virgin Islands	US\$1	100%	Investment holding

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55. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Super Giant Limited	British Virgin Islands	US\$1	100%	Investment holding
Tek Lee Finance and Investment Corporation Limited	Hong Kong	HK\$287,498,818	100%	Investment holding
Thousand China Investments Limited	British Virgin Islands	US\$1	100%	Investment holding
Winfound Investments Limited	Hong Kong	HK\$2	100%	Property investment

Notes:

- (a) The above principal subsidiaries, except South China (BVI) Limited, are all held indirectly by the Company.
- (b) The non-voting deferred shares have no voting rights and practically no entitlement to dividend of profit or distribution on winding up.
- (c) These are Sino-foreign equity joint ventures established in the PRC.

The above summary lists only the subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results for the year or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Save as aforesaid, none of the subsidiaries had any debt securities in issue at any time during the year or at the end of the year.

56. PARTICULARS OF PRINCIPAL ASSOCIATE

Particulars of the Group's principal associate at 31 December 2009 are as follows:

Name of associate	Place of registration and operations	Class of shares held	Percentage of equity interest indirectly held by the Group	Principal activities
重慶金通泰信息技術有限公司*	The PRC/ Mainland China	Ordinary	30%	Information technology related business

The Group's shareholdings in the associate comprises equity shares held through a non-wholly-owned subsidiary of the Company.

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

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

Summary of Financial Information

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

RESULTS

	2009 HK\$'000	Year ended 31 December			
		2008 HK\$'000 (Restated)	2007 HK\$'000 (Restated)	2006 HK\$'000 (Restated)	2005 HK\$'000 (Restated)
REVENUE	849,264	2,179,830	2,797,246	2,582,085	2,725,160
PROFIT/(LOSS) BEFORE TAX	85,933	(90,569)	591,990	306,744	212,651
TAX	(8,801)	(17,657)	(13,758)	(24,648)	(31,796)
PROFIT/(LOSS) FOR THE YEAR	77,132	(108,226)	578,232	282,096	180,855
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	83,746	(65,129)	416,809	205,318	96,574
MINORITY INTERESTS	(6,614)	(43,097)	161,423	76,778	84,281
	77,132	(108,226)	578,232	282,096	180,855

ASSETS AND LIABILITIES

	2009 HK\$'000	At 31 December			
		2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
TOTAL ASSETS	487,094	3,899,988	4,794,018	4,126,475	3,027,521
TOTAL LIABILITIES	(290,144)	(1,919,502)	(2,534,976)	(2,391,111)	(1,487,028)
TOTAL EQUITY	196,950	1,980,486	2,259,042	1,735,364	1,540,493
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	161,315	1,378,231	1,574,348	1,193,894	972,429
MINORITY INTERESTS	35,635	602,255	684,694	541,470	568,064
	196,950	1,980,486	2,259,042	1,735,364	1,540,493

Details of the Property

INVESTMENT PROPERTY

Location	Group's interest	Existing use
Hong Kong		
Lot Nos. 116-121 123-126, 127A 127P.R., 129-135 136A, 136R. P. 137, 140, 141A 141B, 141C, 143 144, 145, 146A 146R.P, 148 in D.D. No. 236 Tai Wan Tau Clearwater Bay New Territories Hong Kong	100%	Vacant