China Digital Licensing (Group) Limited
中國數碼版權(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

Annual Report 2008

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This report, for which the directors of China Digital Licensing (Group) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to China Digital Licensing (Group) Limited. The directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman & Executive Director

Pang Hong Tao

Executive Director

Au Shui Ming, Anna

Non-executive Director

Ma She Shing, Albert

Independent Non-executive Directors

Hsu William Shiu Foo
Kwok Chi Sun, Vincent
Lee Kun Hung

AUDIT COMMITTEE

Hsu William Shiu Foo
Kwok Chi Sun, Vincent
Lee Kun Hung

REMUNERATION COMMITTEE

Kwok Chi Sun, Vincent
Au Shui Ming, Anna
Lee Kun Hung

COMPANY SECRETARY

Au Shui Ming, Anna

COMPLIANCE OFFICER

Au Shui Ming, Anna

AUTHORISED REPRESENTATIVES

Pang Hong Tao
Au Shui Ming, Anna

AUDITORS

Vision A. S. Limited

REGISTERED OFFICE

Caledonian Bank & Trust Limited
Caledonian House
P.O. Box 1043
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1601, Ruttonjee House
Rutionjee Centre
11 Duddell Street, Central
Hong Kong

SHARE REGISTRAR

Standard Registrars Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

WEBSITE ADDRESS

www.chinadigitallic.com

STOCK CODE

8175

FINANCIAL HIGHLIGHTS

	For the year ended 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
RESULTS					
Turnover	4,320	4,472	6,622	21,238	**10,044**
Profit/(Loss) attributable to:					
Equity holders of the Company	(8,950)	(4,913)	(6,273)	(2,470)	**(66,159)**
Minority interests	–	–	–	3,176	**(4,246)**
	(8,950)	(4,913)	(6,273)	706	**(70,405)**

ASSETS AND LIABILITIES

	As at 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Total assets	6,179	4,394	27,565	135,776	**101,184**
Total liabilities	(3,630)	(3,643)	(5,284)	(18,101)	**(61,195)**
Minority interests	–	–	–	(18,019)	**(672)**
Net assets	2,549	751	22,281	99,656	**39,317**

Note:

The Company was incorporated in the Cayman Islands on 10 October 2002 and became the holding company of the Group on 15 January 2003 as a result of the Group Reorganisation.

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), we hereby present the Annual Report of China Digital Licensing (Group) Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2008.

OPERATION REVIEW

The year 2008 was difficult for the Group during which painful restructuring was undertaken with the disposals of agricultural related and language related software businesses. As a result, the Group recorded substantial loss during the period. The Group re-focused its business to e-Learning and digital licensing and copyrights management through the acquisitions of related businesses during the year.

The Directors are of the view that quality education is the on-going pursuit in the Greater China Region, in particular, the PRC, with its growing economy and improving living standard and Internet is the most common platform and media of global communication nowadays, especially for the young generations. Thus, provision of e-Learning is of high profitability potential in the PRC.

The digital licensing and copyright business engages in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC. In view of the increasing emphasis on anti-privacy placed by the PRC Government following the entry into the World Trade Organization in 2001, the Directors are of the view that the provision of legal and copyright protected items in particular, the on-line entertainment and media related items, are in high demand in telecommunication industry, music and entertainment industry as well as media industry in the PRC. In addition, with the established leading status of e-License Inc. (Japan) in the digital media industry and the strategic business relationship between the Group and e-License Inc. (Japan), the Directors believe that the Group is well positioned to become the pioneer in the provision of legal copyright protected on-line entertainment and media related items and the related copyright management and digital content licensing solutions in the PRC.

PROSPECTS

Despite at very high and painful costs, the Group has, once and for all, wrote off and disposed all the unpromising businesses and paved the way for the developments of the e-Learning and digital licensing and copyrights management businesses, which the Group believes will have promising future and generate significant profitability in medium to long term.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to all members of the Board and staff for their dedication and contribution to the Group. I would also like to extend my warmest appreciation to our shareholders and business partners for their continuous support.

Pang Hong Tao
Chairman

Hong Kong, 30 March 2009

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Disposal of agricultural related businesses

The unprecedented natural disasters occurred in the PRC during 2008, coupled with certain management problems at the operation level, led to the failure on executions of the business plans of the water supply and fertilizer businesses and accordingly, these businesses were disposed during the year.

Disposal of language related software business

The Hong Kong based language related software business had been in loss making positions in the past and hence was disposed during the year.

Acquisition of the e-Learning business

The business engages in the provision and development of e-Learning programs, through its platform to provide languages (English and Chinese) and mathematics e-Learning programs to students in secondary and primary schools in the Greater China Region.

The Directors are of the view that quality education is the on-going pursuit in the Greater China Region, in particular, the PRC, with its growing economy and improving living standard and Internet is the most common platform and media of global communication nowadays, especially for the young generations. Thus, provision of e-Learning is of high profitability potential in the PRC.

The business has achieved significant steps forward during the year.

Over 400 schools in Hong Kong and Macao have subscribed to the Group's online e-Learning programs. The Group will replicate the successes in Hong Kong and Macao into the PRC during 2009 with Shenzhen as the first target city.

In addition to the co-operation agreement with a reputable telecommunication provider in Jiangsu, the PRC, the Group entered into a service agreement with the Education and Youth Affairs Bureau in Macao through which the Group will provide its e-Learning programs to all the primary and secondary schools in Macao. As part of a series of promotional activities for the e-Learning business in the PRC, the Group is holding a nationwide English storytelling contest in the PRC with Cambridge University Press as one of the partners of the contest.

The Group is engaged in research and development for the educational contents and applications suitable for the mobile phone markets in the PRC and South East Asia.

MANAGEMENT DISCUSSION AND ANALYSIS

Investment in digital licensing and copyright management business

The business engages in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC.

e-License Inc. (Japan) is the 50% shareholder of e-License Beijing, the company which the Group is invested in. e-License Inc. (Japan) is a pioneer in the development of copyright management and digital licensing technologies in Japan and is one of the leading Japan based copyright management companies specialized in the digital media industry to provide international copyright management solution and consultancy services with Google and YouTube as its clients. e-License Inc. (Japan) owns or is licensed with a large amount of copyright protected items (such as on-line entertainment and media related items) which may serve as value-added services or merchandises of mobile devices, internet, fixed line communication devices and global positioning devices. The shareholders of e-License Inc. (Japan) include Toyota Tsusho Corporation (豐田通商) and other leading Japanese corporations.

In view of the increasing emphasis on anti-privacy placed by the PRC Government following the entry into the World Trade Organization in 2001, the Directors are of the view that the provision of legal and copyright protected items in particular, the on-line entertainment and media related items, are in high demand in telecommunication industry, music and entertainment industry as well as media industry in the PRC. Moreover, the related copyright management and digital content licensing solutions are particularly vital to the practitioners of the aforesaid industries. In view of the established leading status of e-License Inc. (Japan) in the digital media industry and the strategic business relationship between the Group and e-License Inc. (Japan), the Directors believe that the Group is well positioned to become the pioneer in the provision of legal copyright protected on-line entertainment and media related items and the related copyright management and digital content licensing solutions in the PRC.

The Group is in final negotiation stage of entering into the co-operation agreements with government bodies/ enterprises in the PRC for the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) through digital networks such as KTV, mobile phone, Internet and network TV, etc.

FINANCIAL REVIEW

Results

For the year ended 31 December 2008, the Group recorded a turnover of approximately HK$10,044,000 (2007: approximately HK$21,238,000), representing a decrease of 52.7% compared to last year. The decrease in turnover was mainly attributable to the disposal of agriculture-related business which contributed 67.4% of the last year's turnover.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group reported a net loss attributable to shareholders of approximately HK$66,159,000 compared to a net loss of approximately HK$2,470,000 last year. The loss was mainly attributed to (i) an impairment of goodwill in the organic fertilizer business of approximately HK$36,000,000; (ii) the increase in legal and professional expenses associated with the acquisition and disposal of subsidiaries HK$4,139,000; (iii) impairment allowance on intangible assets and doubtful debts of approximately HK$21,315,000; (iv) the written-off of inventories of approximately HK$1,416,000; and (v) the share-based payment of approximately HK$4,354,000 arising from granting of share options.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group had current assets of approximately HK$15,926,000 (2007: HK$74,112,000) and current liabilities of approximately HK$8,527,000 (2007: HK$12,607,000). The current assets were comprised mainly of cash and bank balances of HK$12,109,000 (2007: HK$48,287,000) and trade and other receivables of HK$1,473,000 (2007: HK$24,772,000). The Group's current liabilities were comprised mainly of trade and other payables of approximately HK$2,416,000 (2007: HK$8,813,000). The Group had no bank borrowings at 31 December 2008 (2007: Nil). As at 31 December 2008, the Group had a current ratio of approximately 1.87 as compared to that of 5.88 at 31 December 2007.

The Group principally finances its operations and investing activities with its own working capital. The directors of the Company believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

Most of the trading transactions, assets and liabilities of the Group are denominated in Hong Kong dollars and Renminbi. The Group adopts a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2008, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

(a) On 6 February 2008, Rise Assets Limited ("Rise Assets"), a wholly-owned subsidiary of the Company completed the acquisition of 100% equity interest in Proud Dragon Limited with a total consideration of HK$47,600,000. The Proud Dragon Group is principally engaged in the provision of water supply in the rural areas of Anhui, the PRC.

Details of the acquisition were set out in the circular of the Company dated 18 January 2008.

(b) On 14 April 2008, Cheer Plan Limited ("Cheer Plan"), a wholly-owned subsidiary of the Company entered into a conditional agreement with Far Glory Limited ("Far Glory") in relation to the subscription of 8.26% of the entire issued share capital of Far Glory for a total consideration of HK$20,250,000 and such subscription was completed on 21 April 2008.

Following the completion of the above subscription, Cheer Plan entered into a conditional agreement with Mr. Hsu Tung Chi (the "Vendor") on 5 May 2008 in relation to the acquisition of 12% equity interest held by the Vendor in Far Glory for a maximum total consideration of HK$45,000,000. Upon the completion of the acquisition on 20 June 2008, Cheer Plan holds 20.26% equity interest in Far Glory.

Far Glory and its subsidiaries are principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC.

Details of the subscription were set out the circular of the Company dated 5 May 2008, while the details of the acquisition were set out in the circular dated 30 May 2008.

(c) On 21 April 2008, Rise Assets entered into a conditional Sales and Purchase Agreement (the "Agreement") with Mr. Lao Kuai Hong, in relation to the disposal of the 100% equity interest in Proud Dragon Group held by Rise Assets for a total consideration of HK$50,000,000. The disposal transaction was completed on 23 May 2008.

Details of the disposal were set out in the circular of the Company dated 5 May 2008.

(d) On 2 June 2008, Wonder Link Limited, a wholly-owned subsidiary of the Company entered into the conditional agreement with Smart Great International Limited in relation to the acquisition of 51% equity interest in Start Bright Limited ("Start Bright") for a maximum total consideration of HK$20,400,000 and such acquisition was completed on 24 June 2008.

Start Bright and its subsidiaries are principally engaged in the development and provision of e-Learning programs, through its self-developed websites to provide languages (English and Chinese) and mathematics learning programs.

Details of the acquisition were set out in the circular of the Company dated 23 June 2008.

(e) On 7 July 2008, Rise Assets entered into the agreement to dispose of its 100% equity interest in Silky Sky Investments Limited for a total consideration of HK$15,000,000. Such disposal was completed on 25 September 2008.

Details of the disposal were set out in the circular of the Company dated 29 August 2008.

(f) On 5 December 2008, the Company entered into the agreement to dispose of its entire equity interest in KanHan Technologies Inc. Such disposal was completed on 19 January 2009.

Details of the disposal were set out in the circular of the Company dated 31 December 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

DISTRIBUTABLE RESERVES

As at 31 December 2008, the accumulated losses of the Company exceeded the aggregate of share premium and contributed surplus, thus the Company did not have any reserve available for distribution.

FOREIGN EXCHANGE RISK

Since almost all transactions of the Group are denominated either in Renminbi and Hong Kong dollars and most of the bank deposits are being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risk, the directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2008, the Group had 40 (2007: 40) full-time employees. Employee costs for the year 2008, excluding directors' emoluments, amounted to approximately HK$8,151,000 (2007: HK$5,866,000). All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds are also provided. In addition, training and development courses are offered throughout the Group to upgrade employee skills and knowledge.

The Group also adopts an employee share option scheme to provide eligible employees performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximize the interests of shareholders during the period under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2008.

BOARD OF DIRECTORS AND BOARD MEETINGS

The board members for the year ended 31 December 2008 and up to the date of this report were:

Executive directors:

Mr. Pang Hong Tao *(Chairman)*	
Mr. Yang Pei Gen	(Resigned on 3 April 2008)
Mr. Mo Wai Ming, Lawrence	(Resigned on 19 January 2009)
Ms. Au Shui Ming, Anna	

Non-executive director:

Mr. Ma She Shing, Albert

Independent non-executive directors:

Mr. Hsu William Shiu Foo
Mr. Lee Kun Hung
Mr. Kwok Chi Sun, Vincent

The board of directors (the "Board") is responsible for the Group's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives formulated by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

CORPORATE GOVERNANCE REPORT

The directors' biographical information is set out on page 15 of this Annual Report. All executive directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. There is no relationship among the members of the Board.

The Company appointed three independent non-executive directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. All of them have been appointed for a term of one year commencing from the date of appointment and will continue thereafter until terminated by either party giving each other not less than one month's notice. Each director should be subject to retirement by rotation at least once every three years.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmation from each independent non-executive director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive directors to be independent.

The Company does not presently have any officer with the title of chief executive officer ("CEO"). At present, Mr. Pang Hong Tao, being the Chairman and an executive Director of the Company, is assuming the role of the CEO of the Company and is responsible for the strategic planning and corporate policy of the Group.

The Directors believe that vesting the roles of the chairman and CEO in the same person provides consistent and sustainable development of the Group, strong and consistent leadership in the Company's decision making and operational efficiency.

The Board held a full board meeting for each quarter.

Details of the attendance of the meetings of the Board are as follows:

Directors		**Attendance**
Mr. Pang Hong Tao		4/4
Mr. Yang Pei Gen	(Resigned on 3 April 2008)	0/4
Mr. Mo Wai Ming, Lawrence	(Resigned on 19 January 2009)	2/4
Ms. Au Shui Ming, Anna		4/4
Mr. Ma She Shing, Albert		2/4
Mr. Hsu William Shiu Foo		3/4
Mr. Kwok Chi Sun, Vincent		3/4
Mr. Lee Kun Hung		2/4

Apart from the above regular board meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required.

Non-executive Director

Code provision A.4.1 provides that non-executive director should be appointed for a specific term and subject to re-election. The Company's non-executive director has been appointed for specific term and subject to re-election.

REMUNERATION OF DIRECTORS

The remuneration committee was established in June 2005 with written terms of reference in compliance with the code provision. The remuneration committee consists of three members, of which two are independent non-executive directors, namely Mr. Kwok Chi Sun, Vincent and Mr. Lee Kun Hung, and one is executive director being Ms. Au Shui Ming, Anna. The chairman of the committee is Mr. Kwok Chi Sun, Vincent. Mr. Mo Wai Ming, Lawrence resigned on 19 January 2009 and was replaced by Ms. Au Shui Ming, Anna.

The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors.

During the period under review, a meeting of the remuneration committee was held in December 2008. Details of the attendance of the meeting of the remuneration committee are as follows:

Members	Attendance
Mr. Kwok Chi Sun, Vincent	1/1
Mr. Mo Wai Ming, Lawrence	0/1
Mr. Lee Kun Hung	1/1
Ms. Au Shui Ming, Anna	0/1

NOMINATION OF DIRECTORS

The Board does not establish a nomination committee in consideration of the size of the Group. The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy on or as an additional member of the Board. Suitable candidates will be proposed to the Board for consideration, and the Board will review the qualifications of the relevant candidate for determining the suitability to the Group on the basis of his qualifications, experience and background.

AUDITORS' REMUNERATION

The Company has appointed Vision A. S. Limited as the auditors of the Group (the "Auditors"). The Board is authorized in the annual general meeting to determine the remuneration of the auditors. During the year, the Auditors performed the work of statutory audit for the year 2008 and involved non-audit assignment of the Group. The Auditors received approximately HK$268,000 and HK$984,000 for audit service and non-audit service respectively.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group and provide advice and comments on the Company's draft annual reports and accounts, interim reports and quarterly reports to directors. The audit committee comprises three members, Mr. Kwok Chi Sun, Vincent, Mr. Hsu William Shiu Foo and Mr. Lee Kun Hung, all of them are independent non-executive directors. The chairman of the audit committee is Mr. Kwok Chi Sun, Vincent.

The audit committee held four meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Attendance**
Mr. Kwok Chi Sun, Vincent	4/4
Mr. Hsu William Shiu Foo	4/4
Mr. Lee Kun Hung	3/4

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

INTERNAL CONTROLS

The Board is responsible for maintaining the Group's internal controls and for reviewing the effectiveness of these controls. Internal control systems are designed to meet the particular needs of the Group and the risk to which it is exposed.

In consideration of the size of the Group, the Board does not consider to establish an internal audit team at present. However, the key control procedures established by the Group are day-to-day supervision of the business by the executive directors, supported by the managers responsible for the operation and the key division support functions of finance, information system and human resources. Key elements of internal controls described below have been in place throughout the year under review:

– procedures for the approval of capital expenditure and payments;

– regular financial information provided to management for reviewing the Group's performance;

– clearly defined management structure and lines of responsibility.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the financial statements, which give a true and fair view. The auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the directors and report the opinion solely to the shareholders of the Company.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Pang Hong Tao, Chairman, aged 39, holds a bachelor's degree in economics from Nankai University, the People's Republic of China ("PRC") and a master degree in economics from the Renmin University of China. Mr. Pang is the chairman of Finance Committee of ShanDong-HongKong SME Association. He is a member of Chinese Institute of Certified Public Accountants, China Appraisal Society, Shan Dong Certified Consultant Expert Society and China Enterprise Risk Management Society. Mr. Pang has over ten years of experience in financial management, risk management, financial budgeting and corporate finance. He has worked as a chief accountant in an international five-star hotel, the deputy general manager in a management consultancy company and the partner in a Certified Public Accountants firm. Mr. Pang is currently the partner and deputy general manager of a Certified Public Accountants firm in the PRC.

Ms. Au Shui Ming, Anna, aged 44, holds a bachelor degree in commerce, majoring in accounting, from the University of Wollongong in Australia. She is a Certified Practising Accountant of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Ms. Au has extensive experience in the finance and accounting fields. She is currently the Company Secretary and the remuneration committee member of the Company.

NON-EXECUTIVE DIRECTOR

Mr. Ma She Shing, Albert, aged 48, has over 19 years of corporate banking and private banking experience in major US and European institutions. He was previously a vice president in a renowned US investment bank in Hong Kong. Mr. Ma holds a Bachelor of Arts degree in Economics from Pomona College, California, US.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hsu William Shiu Foo, aged 58, an audit committee member of the Company, has over 10 years of global business experience in tourism and service-oriented related fields in various international corporations. Mr. Hsu holds a Bachelor's degree in Arts from Brigham Young University, Hawaii and a Master's degree in Hotel Administration from Cornell University, New York.

Mr. Kwok Chi Sun, Vincent, aged 46, a member of the audit committee and remuneration committee of the Company, is a sole proprietor of Vincent Kwok & Co. and is a Certified Public Accountant. He is also an independent non-executive director of five other listed companies in Hong Kong, i.e. Shun Ho Resources Holdings Limited, Shun Ho Technology Holdings Limited, Magnificent Estates Limited, Emperor Capital Group Limited and Palmpay China (Holdings) Limited, the former four names companies are listed on main board of the Stock Exchange while the last named company is listed on GEM.

Mr. Lee Kun Hung, aged 43, a member of the audit committee and remuneration committee of the Company, has over 15 years of manufacturing experience in the watch industry. Mr. Lee holds a Bachelor of Arts degree from Boston College, Massachusetts, US.

DIRECTORS' REPORT

The directors present the annual report and the audited financial statements of the Group for the year ended 31 December 2008.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at an extraordinary general meeting held on 16 January 2008, the name of the Company was changed from KanHan Technologies Group Limited (看漢科技集團有限公司) to Shen Nong China (Group) Limited (神農中國（集團）有限公司). The Company was renamed as China Digital Licensing (Group) Limited (中國數碼版權（集團）有限公司) following the passing of a special resolution at the Company's extraordinary general meeting held on 22 September 2008.

DATE OF INCORPORATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 10 October 2002 under the Companies Law (Revised) of the Cayman Islands.

The shares of the Company were listed on the GEM of the Hong Kong Stock Exchange on 25 February 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

Details of the principal activities of its subsidiaries are set out in note 21 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on pages 25 and 26.

The directors do not recommend the payment of a dividend.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2008 are set out in the consolidated statement of changes in equity on page 29.

PROPERTY, PLANT AND EQUIPMENT

Details of significant changes in the property, plant and equipment of the Group during the year are set out in note 19 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 33 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Mr. Pang Hong Tao	
Mr. Yang Pei Gen	(Resigned on 3 April 2008)
Mr. Mo Wai Ming, Lawrence	(Resigned on 19 January 2009)
Ms. Au Shui Ming, Anna	

Non-executive director:

Mr. Ma She Shing, Albert

Independent non-executive directors:

Mr. Hsu William Shiu Foo
Mr. Lee Kun Hung
Mr. Kwok Chi Sun, Vincent

In accordance with Articles 108 (a) and (b) of the Company's Articles of Association, Mr. Hsu William Shiu Foo and Mr. Lee Kun Hung and shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors, non-executive director and independent non-executive directors of the Company has entered into a letter of appointment with the Company for a term of one year commencing from the date of appointment, which will continue thereafter until terminated by either party by giving to the other not less than one month's notice in writing.

The Board has obtained written confirmations from all independent non-executive directors of the Company concerning their independence in accordance with Rule 5.09 of the GEM Listing Rules. The Board believes that the existing independent non-executive directors are independent based on the guidelines set out in Rule 5.09 of the GEM Listing Rules.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2008, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in Shares

Name of director	Nature of interest	Number of shares held	Approximate percentage of issued share capital of the Company
Mr. Pang Hong Tao	Beneficial	10,500,000	0.79%
Mr. Ma She Shing, Albert	Beneficial	870,000	0.07%
Mr. Mo Wai Ming, Lawrence (resigned on 19 January 2009)	Beneficial	21,385,920	1.61%
Ms. Au Shui Ming, Anna	Beneficial	22,500,000	1.69%

Save as disclosed above, as at 31 December 2008, none of the directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 24 January 2003 pursuant to a written resolution of the Company. Details of the movements in the number of share options during the year under the Scheme are as follows:

Categories of grantees	As at 1 January 2008	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31 December 2008	Exercise price	Grant date	Exercisable period
						HK$		
Directors								
Mr. Pang Hong Tao	–	6,300,000	–	–	6,300,000	0.151	21/12/2007	18/1/2008 – 20/12/2017
	–	7,000,000	–	–	7,000,000	0.101	28/8/2008	16/9/2008 – 27/8/2018
Ms. Au Shui Ming, Anna	–	6,000,000	–	–	6,000,000	0.151	21/12/2007	18/1/2008 – 20/12/2017
	–	7,000,000	–	–	7,000,000	0.101	28/8/2008	16/9/2008 – 27/8/2018
Mr. Ma She Shing, Albert	–	10,000,000	–	–	10,000,000	0.101	28/8/2008	16/9/2008 – 27/8/2018
Employees	–	36,300,000	–	(36,300,000)	–	0.151	21/12/2007	18/1/2008 – 20/12/2017
	–	31,000,000	–	–	31,000,000	0.101	28/8/2008	16/9/2008 – 27/8/2018
	–	103,600,000	–	(36,300,000)	67,300,000			

Particulars of the Company's share option scheme are set out in note 35 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those transaction as disclosed in note 42 to the financial statement, no director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 31 December 2008, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholder	Nature of interest	Number of shares held	Approximate percentage of issued share capital of the Company
Mr. Lau Kim Hung, Jack *(Note 1)*	Interest of controlled corporation	299,478,238(L)	22.51%
Ms. Chan Yiu Kan Katie *(Note 1)*	Deemed	299,478,238(L)	22.51%
Manciple Enterprises Limited *(Note 1)*	Beneficial	299,478,238(L)	22.51%
Ms. Wong Chau Wan, Sanny *(Note 2)*	Beneficial	1,210,000(L)	9.56%
	Deemed	125,944,400(L)	
Mr. Wong Ming Kerry *(Note 2)*	Beneficial	11,474,400(L)	9.56%
	Interest of controlled corporation	114,470,000(L)	
	Deemed	1,210,000(L)	
Digital Epoch Profits Limited *(Note 2)*	Beneficial	114,470,000(L)	8.60%
Mr. Hsu Tung Chi *(Note 3)*	Beneficial	222,222,222(L)	16.70%
Ms. Chuang Meng Hua *(Note 3)*	Deemed	222,222,222(L)	16.70%

(L) denotes long position

Notes:

1. Manciple Enterprises Limited ("Manciple") is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("Mr. Lau"). Manciple beneficially owns 299,478,238 shares. Under the SFO, Mr. Lau is deemed to be interested in 299,478,238 shares. Ms. Chan Yiu Kan Katie, the wife of Mr. Lau, is also deemed to be interested in 299,478,238 shares.

2. Digital Epoch Profits Limited ("Digital Epoch") is wholly and beneficially owned by Mr. Wong Ming Kerry ("Mr. Wong"). Digital Epoch beneficially owns 114,470,000 shares. Under the SFO, Mr. Wong is deemed to be interested in the said 114,470,000 shares.

   Mr. Wong is personally interested in 11,474,400 shares, and his wife, Ms. Wong Chau Wan, Sanny ("Ms. Wong"), also beneficially owns 1,210,000 shares. Being spouses, Mr. Wong and Ms. Wong are deemed to be interested in their respective shareholding in the Company under the SFO.

3. According to the sale and purchase agreement entered into among Cheer Plan Limited, a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi ("Mr. Hsu") and Mr. Hsu Tung Sheng on 5 May 2008, subject to the fulfillment of certain conditions, the Company will allot a maximum of 222,222,222 convertible bonds to Mr. Hsu.

   Ms. Chuang Meng Hua is deemed to be interested in 222,222,222 convertible bonds of the Company by virtue of her being the spouse of Mr. Hsu.

Save as disclosed above, as at 31 December 2008, the directors were not aware of any other person (other than the directors and the chief executive the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

COMPETING INTERESTS

The directors believe that none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Share Option Scheme" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' REPORT

CONNECTED TRANSACTION

On 5 December 2008, the Company entered into an agreement with Mr. Mo Wai Ming, Lawrence, an executive director of the Company, for the disposal of the entire equity interest in KanHan Technologies Inc. at a consideration of HK$1,000,000.

The above transaction was completed on 19 January 2009.

MAJOR CUSTOMERS AND SUPPLIERS

With reference to the Group's financial statements, in respect of the year ended 31 December 2008:

(i) The Group's largest supplier and the five largest suppliers accounted for 11.9% and 30.5% respectively, of the Group's total cost of sales.

(ii) The Group's largest customer and the five largest customers accounted for 15.7% and 37.3% respectively, of the Group's total turnover.

In the opinion of the directors, none of the directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interest in the Group's five largest suppliers or customers.

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

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

PRE-EMPTIVE RIGHTS

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

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Vision A. S. Limited, Certified Public Accountants, as auditors of the Company.

On behalf of the Board

Pang Hong Tao
CHAIRMAN

30 March 2009

INDEPENDENT AUDITOR'S REPORT

Vision A. S. Limited *Certified Public Accountants*
泓信會計師行有限公司

Room A, 15th Floor,
Fortis Tower,
77-79 Gloucester Road,
Wanchai, Hong Kong

To the members of
CHINA DIGITAL LICENSING (GROUP) LIMITED
中國數碼版權（集團）有限公司
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Digital Licensing (Group) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 98, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This 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 auditor's judgment, 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 auditor considers 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Vision A. S. Limited
Certified Public Accountants
Hong Kong
30 March 2009

Cheung Man Yau, Timothy
Practising Certificate No.: P01417

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
TURNOVER	7		
Continuing operation		**985**	–
Discountinued operations		**9,059**	21,238
		10,044	21,238
Cost of sales		**(4,849)**	(6,768)
Gross profit			
Continuing operation		**807**	–
Discontinued operations		**4,388**	14,470
Other revenue and gains	7	**1,468**	2,823
Research and development expenses		**(978)**	(1,101)
Selling and distribution costs		**(1,381)**	(1,171)
Administrative expenses		**(19,794)**	(9,694)
Other expenses	8	**(63,259)**	(951)
Finance costs	9	**(842)**	(236)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		**(79,591)**	4,140
Gain on disposal of subsidiaries	40	**5,549**	–
Share of losses from associates		**(22)**	–
PROFIT/(LOSS) BEFORE TAX	10		
Continuing operation		**(28,896)**	(3,706)
Discontinued operations		**(45,168)**	7,846
		(74,064)	4,140
Tax	13		
Continuing operation		**(77)**	–
Discontinued operations		**3,736**	(3,434)
		3,659	(3,434)

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
PROFIT/(LOSS) FOR THE YEAR			
Continuing operation		**(28,973)**	(3,706)
Discontinued operations		**(41,432)**	4,412
		(70,405)	706
ATTRIBUTABLE TO:			
Equity holders of the Company	*14*	**(66,159)**	(2,470)
Minority interests		**(4,246)**	3,176
PROFIT/(LOSS) FOR THE YEAR		**(70,405)**	706
DIVIDENDS	*17*	**–**	–
LOSS PER SHARE	*18*		
From continuing and discontinued operations			
– Basic (HK cent)		**(4.97)**	(0.27)
From continuing operation			
– Basic (HK cent)		**(2.19)**	(0.41)

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	19	**204**	9,070
Interests in associates	22	**65,228**	–
Goodwill	23	**19,826**	51,207
Other intangible assets	24	**–**	1,387
Total non-current assets		**85,258**	61,664
CURRENT ASSETS			
Inventories	25	**–**	1,053
Trade and other receivables	26	**1,473**	24,772
Due from a director	27	**20**	–
Cash and bank balances		**12,109**	48,287
Assets of a disposal group classified as held for sale	16	**2,324**	–
Total current assets		**15,926**	74,112
CURRENT LIABILITIES			
Trade and other payables	28	**2,416**	8,813
Financial assistance from government	29	**–**	268
Tax payable		**44**	3,526
Liabilities associated with assets classified as held for sale	16	**6,067**	–
Total current liabilities		**8,527**	12,607
Net current assets		**7,399**	61,505
Total assets less current liabilities		**92,657**	123,169

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT LIABILITIES			
Financial assistance from government	*29*	**–**	1,027
Promissory note	*30*	**3,740**	4,467
Convertible notes	*31*	**22,735**	–
Other payables	*32*	**26,160**	–
Deferred tax liabilities	*37*	**33**	–
Total non-current liabilities		**52,668**	5,494
Net assets		**39,989**	117,675
EQUITY			
Issued capital	*33*	**66,519**	66,519
Reserves		**(27,202)**	33,137
		39,317	99,656
Minority interests		**672**	18,019
		39,989	117,675

Pang Hong Tao
Director

Au Shui Ming, Anna
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Attributable to equity holders of the Company										
	Issued capital HK$'000	Share premium HK$'000	Special reserve* HK$'000	Warrant subscription reserve HK$'000	Exchange reserve HK$'000	Employee share-based compensation reserve HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	29,498	22,821	10,084	1,469	(24)	2,314	–	(43,881)	22,281	–	22,281
Issue of shares on open offer	22,173	13,304	–	–	–	–	–	–	35,477	–	35,477
Consideration shares	6,788	10,181	–	–	–	–	–	–	16,969	–	16,969
Share/warrant issue expenses	–	(978)	–	–	–	–	–	–	(978)	–	(978)
Shares issued upon exercise of share options	2,170	9,695	–	–	–	(2,931)	–	–	8,934	–	8,934
Shares issued upon exercise of warrants	5,890	13,838	–	(1,469)	–	–	–	–	18,259	–	18,259
Employee share-based compensation	–	–	–	–	–	617	–	–	617	–	617
Acquisition of subsidiaries	–	–	–	–	40	–	–	–	40	14,093	14,133
Exchange realignment	–	–	–	–	527	–	–	–	527	750	1,277
Loss for the year	–	–	–	–	–	–	–	(2,470)	(2,470)	3,176	706
At 31 December 2007	66,519	68,861	10,084	–	543	–	–	(46,351)	99,656	18,019	117,675

	Attributable to equity holders of the Company										
	Issued capital HK$'000	**Share premium HK$'000**	**Special reserve* HK$'000**	**Warrant subscription reserve HK$'000**	**Exchange reserve HK$'000**	**Employee share-based compensation reserve HK$'000**	**Convertible notes reserve HK$'000**	**Accumulated losses HK$'000**	**Subtotal HK$'000**	**Minority interests HK$'000**	**Total HK$'000**
At 1 January 2008	**66,519**	**68,861**	**10,084**	**–**	**543**	**–**	**–**	**(46,351)**	**99,656**	**18,019**	**117,675**
Issue of convertible notes – note 31	**–**	**–**	**–**	**–**	**–**	**–**	**3,453**	**–**	**3,453**	**–**	**3,453**
Redemption of convertible note – note 31	**–**	**–**	**–**	**–**	**–**	**–**	**(617)**	**–**	**(617)**	**–**	**(617)**
Share issue expenses	**–**	**(253)**	**–**	**–**	**–**	**–**	**–**	**–**	**(253)**	**–**	**(253)**
Open offer expenses	**–**	**(505)**	**–**	**–**	**–**	**–**	**–**	**–**	**(505)**	**–**	**(505)**
Employee share-based compensation – note 35	**–**	**–**	**–**	**–**	**–**	**4,354**	**–**	**–**	**4,354**	**–**	**4,354**
Acquisition of subsidiaries – note 39	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,019**	**6,019**
Disposal of subsidiaries – note 40	**–**	**–**	**–**	**–**	**(1,741)**	**–**	**–**	**–**	**(1,741)**	**(20,202)**	**(21,943)**
Exchange realignment	**–**	**–**	**–**	**–**	**1,129**	**–**	**–**	**–**	**1,129**	**1,082**	**2,211**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(66,159)**	**(66,159)**	**(4,246)**	**(70,405)**
At 31 December 2008	**66,519**	**68,103**	**10,084**	**–**	**(69)**	**4,354**	**2,836**	**(112,510)**	**39,317**	**672**	**39,989**

* The special reserve represents the difference between the nominal amount of shares and share premium of KanHan Technologies Inc. at the date which it was acquired by the Company and the nominal amount of the Company's shares issued as consideration pursuant to the Group reorganisation taken place in 2003.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Profit/(loss) before tax:	**(74,064)**	4,140
Adjustments for:		
Depreciation of property, plant and equipment	**2,665**	212
Property, plant and equipment written off	**389**	–
Inventories written off	**1,416**	–
Impairment of goodwill	**36,000**	–
Impairment of intangible assets	**1,464**	–
Impairment allowance on trade and other receivables	**19,851**	–
Share of losses from associates	**22**	–
Amortisation of prepaid land lease payments	**9**	–
Amortisation of intangible assets	**7**	–
Release of deferred government grants	**(274)**	–
Employee share-based compensation	**4,354**	617
Finance costs	**842**	236
Interest income	**(760)**	(400)
Gain on disposal of subsidiaries	**(5,549)**	–
Operating cash flows before movements in working capital	**(13,628)**	4,805
Increase in inventories	**(2,171)**	(926)
Increase in trade and other receivables	**(2,843)**	(12,938)
Increase in amount due from a director	**(27)**	–
Increase/(decrease) in trade and other payables	**(315)**	4,674
NET CASH USED IN OPERATING ACTIVITIES	**(18,984)**	(4,385)
INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(1,806)**	(8,892)
Purchases of intangible assets	**–**	(1,387)
Interest received	**760**	400
Investments in associates	**(25,250)**	–
Acquisition of subsidiaries	**(4,147)**	(19,444)
Disposal of subsidiaries	**8,710**	–
NET CASH USED IN INVESTING ACTIVITIES	**(21,733)**	(29,323)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
FINANCING ACTIVITIES		
Interest on promissory notes paid	(159)	–
Interest on convertible notes paid	(37)	–
Other interest paid	–	(181)
Net proceeds from issue of shares	–	62,670
Share/warrant issue expenses	(253)	(978)
Open offer expenses	(505)	–
Redemption of convertible notes	(10,000)	–
Repayment of promissory notes	(23,567)	(17,000)
Proceeds from settlement of promissory note receivable	37,500	–
Capital injection for minority shareholders	–	13,419
NET CASH FROM FINANCING ACTIVITIES	2,979	57,930
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(37,738)	24,222
Cash and cash equivalents at beginning of year	48,287	22,707
Effect of foreign exchange rate changes, net	1,799	1,358
CASH AND CASH EQUIVALENTS AT END OF YEAR	12,348	48,287
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	12,109	48,287
Cash and cash equivalents included in a disposal group held for sale (note 16)	239	–
	12,348	48,287

BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	21	**60,500**	67,971
CURRENT ASSETS			
Trade and other receivables	26	**241**	550
Due from a director	27	**20**	–
Cash and bank balances		**10,377**	31,675
Total current assets		**10,638**	32,225
CURRENT LIABILITIES			
Trade and other payables	28	**692**	818
Total current liabilities		**692**	818
Net current assets		**9,946**	31,407
Total assets less current liabilities		**70,446**	99,378
NON-CURRENT LIABILITIES			
Promissory note	30	**3,740**	–
Convertible notes	31	**22,735**	–
Total non-current liabilities		**26,475**	–
Net assets		**43,971**	99,378
EQUITY			
Issued capital	33	**66,519**	66,519
Reserves	34	**(22,548)**	32,859
		43,971	99,378

Pang Hong Tao
Director

Au Shui Ming, Anna
Director

1. GENERAL INFORMATION

China Digital Licensing (Group) Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands and its principal place of business is situated at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.

The Company's principal activity has not changed during the year and consisted of investment holding. Details of the principal activities of its subsidiaries are set out in note 21 to the financial statements.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting standards (HKASs) and interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial statements of the year.

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

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

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

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

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

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

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

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

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

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

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

Minority interest represents the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is an entity in which the Company controls, directly or indirectly, its financial and operating policies 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 investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Company 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 interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. 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 results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

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 initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured 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.

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. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

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.

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.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Impairment of assets

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

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) directly, or indirectly through one or more intermediaries, the party (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 jointly-controlled entity;

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

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

(f) 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 (d) or (e); or

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

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

Non-current assets held for sale

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

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses, except that when an item of property, plant and equipment is classified as held for sale, it is not depreciated and is measured at the lower of carrying amount and fair value less costs to sell. 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. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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:

Buildings	3⅓%
Leasehold improvements	10% – 33⅓%
Plant and machinery	9½% – 10%
Water pipelines	10%
Furniture, fixtures and office equipment	18% – 20%
Motor vehicles	20%
Computer equipment	33⅓%

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.

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

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

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

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

Construction in progress represents buildings, water pipelines, plant and machineries under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Prepaid land lease payments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the land leased.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

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

Intangible assets (other than goodwill) *(Continued)*

Production technology

The production technology has indefinite useful life and is stated at cost less any impairment losses.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of recourses to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

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.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investment and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase 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.

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

Investment and other financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contracts that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sales financial assets are those 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 three categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being 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.

When the fair value of unlisted equity securities 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.

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

Investment and other financial assets *(Continued)*

Fair value

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

Effective interest method

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

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

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments 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 profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed 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.

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

Impairment of financial assets *(Continued)*

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. 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.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 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 profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial asset) 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 right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Derecognition of financial assets *(Continued)*

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The Company's financial liabilities are generally classified into financial liabilities at fair value through profit of loss and other financial liabilities.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

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

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

Financial liabilities and equity *(Continued)*

Financial liabilities at fair value through profit or loss (Continued)
A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

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

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

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

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

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

Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments which contain both a liability component and an equity component. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expenses recognised in the income statement is calculated using the effective interest method. The equity component is recognised in the convertible notes reserve until either the note is converted or redeemed.

If the note is converted, the convertible notes reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued.

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 existed liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out 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.

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

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

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.

Cash and cash equivalents

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

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

Income tax

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

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

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

Income tax *(Continued)*

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

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

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

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

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

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

Income tax *(Continued)*

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

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

Government grants

Government grants are recognised at their fair value 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. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Financial assistance from government

The Innovation and Technology Fund ("ITF") of the Hong Kong Special Administrative Region Government has provided financial assistance to the Group to assist in a specific product development. The funding is unsecured, non-interest bearing and repayable to ITF when revenue is generated from the specific product. The amount repaid, if any, will be in stages and calculated with reference to the revenue generated and received.

Revenue recognition

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

(a) from the sales of organic fertilizers, 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) software maintenance service income, which is received or receivables from customers when the maintenance service contracts are entered into, is amortised and credited to the income statement on a straight-line basis over the term of the maintenance service contract;

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

Revenue recognition *(Continued)*

(c) software rental and subscription income from software application, website development and Putonghua learning platform are derived from providing software application to customers. The income is recognised when services are provided;

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

(e) sales of licensed software are recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and titles has been passed, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(f) income from e-Learning business is recognised when e-Learning materials are delivered and installation services are rendered;

(g) revenue arising from water supply is recognised based on water supplied as recorded by meters read during the year; and

(h) consulting income from the rendering of consultation services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above.

Employee benefits

Equity-settled share-based payment transactions

The Group 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 employee is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

Employee benefits *(Continued)*

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, if material, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension scheme and other retirement benefits

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

The employees of the Company's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain 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.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date 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 is determined.

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

Foreign currencies *(Continued)*

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

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

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of assets
In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

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

Estimation uncertainty

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

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 and the details are given in note 23.

Impairment of trade receivables
The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by a review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified.

6. SEGMENTAL INFORMATION

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

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

(i) the server-based technology segment provides language communication software and platforms;

(ii) the e-Learning business segment provides e-Learning programs and development of related products;

(iii) the organic fertilizers segment produces and distributes organic fertilizers; and

(iv) the water supply segment provides water supply services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of customers, and assets are attributed to the segments based on the location of the assets.

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

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2008 and 2007.

Year ended 31 December 2008

	Continuing operation	Discontinued operations				
	e-Learning business HK$'000	Server-based technology HK$'000	Organic fertilizers HK$'000	Water supply HK$'000	Subtotal HK$'000	Consolidated HK$'000
Segment revenue						
Sale to external customers	985	7,853	877	329	9,059	10,044
Segment results	807	5,095	(502)	(205)	4,388	5,195
Unallocated income	445				6,572	7,017
Unallocated expenses	(29,284)				(56,128)	(85,412)
Unallocated finance costs	(842)				–	(842)
Share of losses from associates	(22)				–	(22)
Loss before tax	(28,896)				(45,168)	(74,064)
Tax	(77)				3,736	3,659
Minority interests	(121)				4,367	4,246
Loss for the year	(29,094)				(37,065)	(66,159)
Assets and liabilities						
Segment assets	3,168	2,324	–	–	2,324	5,492
Interests in associates						65,228
Unallocated assets						30,464
Consolidated total assets						101,184
Segment liabilities	1,790	6,067	–	–	6,067	7,857
Unallocated liabilities						53,338
Consolidated total liabilities						61,195
Other segment information						
Depreciation and amortisation	73	59	712	1,837	2,608	2,681
Impairment losses on goodwill	–	–	36,000	–	36,000	36,000
Impairment losses on intangible assets	–	–	1,464	–	1,464	1,464
Impairment losses on trade and other receivables	–	–	19,851	–	19,851	19,851
Inventories written off	–	–	1,416	–	1,416	1,416
Property, plant and equipment written off	–	1	388	–	389	389
Capital expenditure	–	82	347	1,377	1,806	1,806

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2007

		Discontinued operations			
	Continuing operation	Server-based technology	Organic fertilizers	Subtotal	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue					
Sale to external customers	–	6,929	14,309	21,238	21,238
Segment results	–	4,089	10,381	14,470	14,470
Unallocated revenue	377			2,446	2,823
Unallocated expenses	(3,847)			(9,070)	(12,917)
Unallocated finance costs	(236)			–	(236)
Profit before tax	(3,706)			7,846	4,140
Tax	–			(3,434)	(3,434)
Minority interests	–			(3,176)	(3,176)
Profit/(loss) for the year	(3,706)			1,236	(2,470)
Assets and liabilities					
Segment assets	–	2,037	95,132	97,169	97,169
Unallocated assets	38,427			180	38,607
Consolidated total assets	38,427			97,349	135,776
Segment liabilities	–	5,583	7,151	12,734	12,734
Unallocated liabilities	5,345			22	5,367
Consolidated liabilities	5,345			12,756	18,101
Other segment information					
Depreciation	–	104	108	212	212
Capital expenditure	–	42	10,237	10,279	10,279

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table presents revenue and certain asset, liability and expenditure information for the Group's geographical segments for the year ended 31 December 2008.

Year ended 31 December 2008

	Mainland China HK$'000	Hong Kong HK$'000	Consolidated HK$'000
Segment revenue			
Sale to external customers	**1,518**	**8,526**	**10,044**
Other segment information			
Segment assets	**191**	**5,301**	**5,492**
Capital expenditure	**1,725**	**81**	**1,806**

Year ended 31 December 2007

	Mainland China HK$'000	Hong Kong HK$'000	Consolidated HK$'000
Segment revenue			
Sale to external customers	14,460	6,778	21,238
Other segment information			
Segment assets	95,183	1,986	97,169
Capital expenditure	10,237	42	10,279

7. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered for the year.

An analysis of the Group's turnover, other revenues and gains for the year is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
TURNOVER		
Continuing operation		
e-Learning business	**985**	–
Discontinued operations		
Sale of organic fertilizers	**877**	14,309
Sale of licensed software	**4,641**	4,111
Software maintenance service	**1,407**	803
Software rental and subscription income	**780**	328
Website development	**50**	1,001
Putonghua learning platform	**975**	686
Provision of water supply services	**329**	–
	9,059	21,238
	10,044	21,238
OTHER REVENUE AND GAINS		
Interest income	**760**	400
Consulting income	**400**	–
Release of deferred government grants	**274**	–
Income from transfer of technologies	**–**	2,364
Sundry income	**34**	59
	1,468	2,823

8. OTHER EXPENSES

	Group 2008 HK$'000	2007 HK$'000
Impairment of goodwill	**36,000**	–
Professional expenses for restructuring	**4,139**	951
Impairment of intangible assets	**1,464**	–
Property, plant and equipment written off	**389**	–
Inventories written off	**1,416**	–
Impairment allowance on trade and other receivables	**19,851**	–
	63,259	951

9. FINANCE COSTS

	Group 2008 HK$'000	2007 HK$'000
Interest on promissory notes	**124**	236
Interest on convertible notes	**718**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**842**	236

10. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax is arrived at after charging:

	Group	
	2008	2007
	HK$'000	HK$'000
Employee benefits expenses (excluding directors' remuneration)		
Salaries and allowances	**5,288**	5,493
Pension scheme contributions	**273**	373
Employee share-based payment	**2,590**	–
	8,151	5,866
Auditors' remuneration	**268**	301
Exchange loss, net	**129**	53
Minimum lease payments under operating leases on land and buildings	**1,357**	1,198
Cost of services rendered *	**1,442**	408
Cost of inventories sold	**3,407**	6,360
Amortisation of intangible assets	**7**	–
Amortisation of prepaid land lease payments	**9**	–
Depreciation of property, plant and equipment	**2,665**	212

* Included in both cost of services provided and other employee benefits, are salaries and allowances of approximately HK$730,000 (2007: HK$408,000) and operating lease payments of approximately HK$63,000 (2007: HK$63,000) respectively.

11. DIRECTORS' REMUNERATION

	Group	
	2008	2007
	HK$'000	HK$'000
Fees	**783**	549
Other emoluments:		
Salaries, allowances and benefits in kind	**1,112**	1,601
Employee share-based compensation	**1,764**	617
Pension scheme contributions	**25**	30
	3,684	2,797

11. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

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

	Group	
	2008	2007
	HK$'000	HK$'000
Hsu William Shiu Foo	**60**	60
Lee Kun Hung	**60**	60
Kwok Chi Sun, Vincent	**60**	60
	180	180

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

11. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive director:

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share-based compensation HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2008					
Executive directors:					
Mo Wai Ming, Lawrence	**120**	**700**	**–**	**12**	**832**
Pang Hong Tao	**220**	**–**	**561**	**–**	**781**
Au Shui Ming, Anna	**153**	**412**	**545**	**9**	**1,119**
Yang Pei Gen (resigned on 3 April 2008)	**30**	**–**	**335**	**–**	**365**
	523	**1,112**	**1,441**	**21**	**3,097**
Non-executive director:					
Ma She Shing, Albert	**80**	**–**	**323**	**4**	**407**
	603	**1,112**	**1,764**	**25**	**3,504**
2007					
Executive directors:					
Mo Wai Ming, Lawrence	120	920	47	12	1,099
Pang Hong Tao	57	–	169	–	226
Au Shui Ming, Anna	57	395	185	12	649
Yang Pei Gen (resigned on 3 April 2008)	15	286	169	–	470
	249	1,601	570	24	2,444
Non-executive director:					
Ma She Shing, Albert	120	–	47	6	173
	369	1,601	617	30	2,617

There was no arrangement under which a director waived or agreed to waive any remuneration for the year (2007: Nil). In addition, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as a compensation for loss of office for the year (2007: Nil)

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2007: three) directors, details of whose remuneration are set out in note 11 above. Details of the remuneration of the remaining two (2007: two) non-directors, highest paid employees for the year are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**–**	526
Employee share – based compensation	**956**	–
Pension scheme contributions	**–**	21
	956	547

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

	Number of employees	
Band	**2008**	2007
Nil to HK$1,000,000	**2**	2

During the year, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office (2007: Nil).

There was no arrangement under which any of the five highest paid employees waived or agreed to waive any remuneration during the year (2007: Nil).

13. TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. In prior year, no provision for Hong Kong profits tax has been made in the financial statements as the Group did not have any assessable income arising in Hong Kong.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2008	2007
	HK$'000	HK$'000
Current year provision		
Hong Kong profits tax	**44**	–
PRC enterprise income tax	**–**	3,434
Overprovision in prior year	**(3,736)**	–
Deferred tax – note 37	**33**	–
Tax charge/(credit) for the year	**(3,659)**	3,434
Attributable to:		
Continuing operation	**77**	–
Discontinued operations – note 15	**(3,736)**	3,434
	(3,659)	3,434

In May 2008, Jinan Shiji Jiangshan Resource Recycling Technology Limited ("Shiji Jiangshan"), a 51% owned subsidiary of the Company, has been granted an exemption of PRC enterprise income tax by the Tax Bureau in the PRC. Shiji Jiangshan is not subject to PRC enterprise income tax for the year ended 31 December 2007 and 31 December 2008. Hence, the overprovision in prior year was credited to the income statement during the year.

There are no material unprovided deferred tax assets and liabilities at the year end date (2007: Nil).

13. TAX *(Continued)*

A reconciliation of the tax charge/(credit) applicable to profit/(loss) before tax using the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Profit/(loss) before tax	**(74,064)**	4,140
Tax at the statutory rate of 16.5% (2007: 17.5%)	**(12,220)**	724
Effect of different tax rates in other jurisdictions	**–**	645
Expenses not deductible for tax	**10,791**	2,127
Income not subject to tax	**(931)**	(415)
Temporary differences not recognised	**(19)**	8
Tax losses not recognised	**2,430**	345
Overprovision in prior year	**(3,736)**	–
Loss attributable to associates	**4**	–
Others	**22**	–
Tax charge/(credit) at effective rate	**(3,659)**	3,434

Details of movement of the Group's deferred tax are set out in note 37 to the financial statements.

14. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 December 2008 includes a loss of HK$61,839,000 (2007: HK$4,454,000) which has been dealt with in the financial statements of the Company.

15. DISCONTINUED OPERATIONS

Disposal of the water supply business

On 21 April 2008, the Group through its wholly-owned subsidiary, Rise Assets Limited ("Rise Assets"), entered into an agreement with an independent third party in relation to the disposal of 100% equity interest in Proud Dragon Limited ("Proud Dragon") for a total consideration of HK$50,000,000. Proud Dragon indirectly held 70% interests of Dang Tu Xian Zhong Tian Water Supply Limited ("Zhong Tian"), which was engaged in the management of water plant and provision of water supply services and was a separate business segment operated in the People's Republic of China. This transaction was completed on 23 May 2008.

Disposal of the organic fertilizers business

On 24 September 2008, Rise Assets disposed of 100% equity interest in Silky Sky Investments Limited ("Silky Sky"), which indirectly held 51% interests of Jinan Shiji Jiangshan Resources Recycling Technology Limited ("Shiji Jiangshan"). Shiji Jiangshan was engaged in production and distribution of organic fertilizers, which was a separate business segment operated in the People's Republic of China. This transaction was completed on 24 September 2008.

15. DISCONTINUED OPERATIONS *(Continued)*

Disposal of the server-based technology business

On 5 December 2008, the Company and Mr. Mo Wai Ming, Lawrence, an executive director of the Company, entered into an agreement relating to the disposal of the Group's server-based technology business, which involves the provision of language communication software and platforms in Hong Kong. The Group had subsequently completed the disposal on 19 January 2009. On initial reclassification of these operations as held for sale, the Group has not recognised any impairment losses.

The combined results of the above mentioned discontinued operations (i.e. the water supply, organic fertilizers and server-based technology businesses) included in the consolidated income statement and the consolidated cash flow statement are presented below:

	Group	
	2008	2007
	HK$'000	HK$'000
Turnover	**9,059**	21,238
Cost of sales	**(4,671)**	(6,768)
Other revenue	**1,023**	2,446
Gain on disposal of operations	**5,549**	–
Expenses	**(56,128)**	(9,070)
Profit/(loss) before tax	**(45,168)**	7,846
Tax	**3,736**	(3,434)
Minority interests	**4,367**	(3,176)
Profit/(loss) for the year from discontinued operations	**(37,065)**	1,236
Cash flows from discontinued operations:		
Net cash flows from operating activities	**(16,009)**	11,476
Net cash flows from investing activities	**(1,806)**	(10,196)
Net cash flows from financing activities	**(452)**	13,419
Net cash inflows/(outflows)	**(18,267)**	14,699

The server-based technology business has been classified and accounted for at 31 December 2008 as a disposal group held for sale (see note 16).

16. NON-CURRENT ASSETS HELD FOR SALE

	2008 HK$'000	2007 HK$'000
Assets related to the server-based technology business	**2,324**	–
Liabilities associated with assets held for sale	**6,067**	–

As described in note 15, the Group planned to dispose of its server-based technology business and the disposal was completed on 19 January 2009. The major classes of assets and liabilities comprising the operations classified as held for sale at the balance sheet date are as follows:

	2008 HK$'000	2007 HK$'000
Property, plant and equipment	**118**	–
Inventories	**37**	–
Trade and other receivables	**1,923**	–
Due from a director	**7**	–
Cash and bank balances	**239**	–
Assets of server-based technology business classified as held for sale	**2,324**	–
Trade and other payables	**(4,772)**	–
Financial assistance from government	**(1,295)**	–
Liabilities of server-based technology business associated with assets classified as held for sale	**(6,067)**	–
Net liabilities of server-based technology business classified as held for sale	**(3,743)**	–
Exchange reserve of the disposal group	**69**	–

17. DIVIDEND

The directors of the Company do not recommend the payment of a dividend for the year (2007: Nil).

18. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2008 **HK$'000**	2007 HK$'000
For continuing and discontinued operations		
Loss attributable to equity holders of the Company	**(66,159)**	(2,470)
For continuing operation		
Loss attributable to equity holders of the Company	**(29,094)**	(3,706)

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issuing during the year	**1,330,375,080**	907,881,918

Diluted loss per share is not presented as the share options and convertible notes had anti-dilutive effects on the basic loss per share.

19. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Water pipelines HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:									
At 1 January 2007	–	176	–	–	315	–	871	–	1,362
Arising on acquisition of subsidiaries	–	–	–	–	–	–	–	221	221
Additions	–	236	8,323	–	295	–	38	–	8,892
Transfers	–	–	209	–	–	–	–	(209)	–
Exchange realignment	–	–	–	–	1	–	–	10	11
At 31 December 2007 and at 1 January 2008	**–**	**412**	**8,532**	**–**	**611**	**–**	**909**	**22**	**10,486**
Arising on acquisition of subsidiaries	**10,336**	**–**	**19,521**	**29,252**	**259**	**693**	**351**	**–**	**60,412**
Additions	**549**	**62**	**560**	**239**	**63**	**320**	**9**	**4**	**1,806**
Disposal of subsidiaries	**(10,885)**	**(250)**	**(28,773)**	**(29,491)**	**(568)**	**(1,013)**	**–**	**(3)**	**(70,983)**
Assets written off	**–**	**(176)**	**(376)**	**–**	**(53)**	**–**	**–**	**–**	**(605)**
Transfers	**–**	**–**	**24**	**–**	**–**	**–**	**–**	**(24)**	**–**
Exchange realignment	**–**	**14**	**512**	**–**	**18**	**–**	**–**	**1**	**545**
Reclassified as held for sale	**–**	**(62)**	**–**	**–**	**(320)**	**–**	**(929)**	**–**	**(1,311)**
At 31 December 2008	**–**	**–**	**–**	**–**	**10**	**–**	**340**	**–**	**350**

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

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Water pipelines HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Accumulated depreciation:									
At 1 January 2007	–	124	–	–	264	–	816	–	1,204
Depreciation provided during the year	–	52	70	–	53	–	37	–	212
At 31 December 2007 and at 1 January 2008	–	176	70	–	317	–	853	–	1,416
Arising on acquisition of subsidiaries	57	–	535	1,317	18	3	74	–	2,004
Depreciation provided during the year	122	29	1,306	976	79	53	100	–	2,665
Disposal of subsidiaries	(179)	(24)	(1,886)	(2,293)	(99)	(56)	–	–	(4,537)
Assets written off	–	(176)	(29)	–	(11)	–	–	–	(216)
Exchange realignment	–	1	4	–	2	–	–	–	7
Reclassified as held for sale	–	(6)	–	–	(299)	–	(888)	–	(1,193)
At 31 December 2008	–	–	–	–	7	–	139	–	146
Net book value:									
At 31 December 2008	–	–	–	–	3	–	201	–	204
At 31 December 2007	–	236	8,462	–	294	–	56	22	9,070

20. PREPAID LAND LEASE PAYMENTS

	Group 2008 HK$'000	Group 2007 HK$'000
Carrying amount at 1 January	**–**	–
Acquisition of subsidiaries	**744**	–
Amortisation during the year	**(9)**	–
Disposal of a subsidiary	**(735)**	–
Carrying amount at 31 December	**–**	–

21. INTERESTS IN SUBSIDIARIES

	Company 2008 HK$'000	Company 2007 HK$'000
Unlisted shares, at cost	**3,162**	3,162
Impairment in value	**(2,162)**	(3,162)
	1,000	–
Due from subsidiaries	**124,000**	90,575
Impairment in value	**(64,500)**	(22,604)
	59,500	67,971
	60,500	67,971

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts are not expected to be realised in the next twelve months from the balance sheet date. None of the subsidiaries had any debt capital outstanding at the end of the year or any time during the year. The carrying amounts of the amounts due from subsidiaries approximate to their fair values.

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct (%)	Indirect (%)	Principal activities	Place of operations
KanHan Technologies Inc.[1]	British Virgin Islands	US$116,225	100	–	Investment holding	Hong Kong
KanHan Technologies Limited[1]	Hong Kong	HK$200,000	–	100	Provision of communication software platforms	Hong Kong
China Rise Investment Limited[1]	Hong Kong	HK$1	–	100	Investment holding	Hong Kong
KanHan Technologies China Limited[1]	The People's Republic of China	HK$1,000,000	–	100	Provision of communication software platforms	The People's Republic of China
Rise Assets Limited	British Virgin Islands	US$1	100	–	Investment holding	Hong Kong
Silky Sky Investments Limited[2]	British Virgin Islands	US$1	–	100	Investment holding	Hong Kong
Sky Rich Limited[2]	Hong Kong	HK$1	–	100	Investment holding	Hong Kong
Jinan Shiji Jiangshan Resource Recycling Technology Limited[2]	The People's Republic of China	RMB30,000,000	–	51	Production and distribution of organic fertilizers	The People's Republic of China
Pharmanet Asia Limited	Hong Kong	HK$1	–	100	Dormant	Hong Kong
Proud Dragon Limited[3]	British Virgin Islands	US$1	–	100	Investment holding	Hong Kong

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries of the Company are as follows: *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct (%)	Indirect (%)	Principal activities	Place of operations
Jetrise Development Limited[3]	Hong Kong	HK$1	–	100	Investment holding	Hong Kong
Dang Tu Xian Zhong Tian Water Supply Limited[3]	The People's Republic of China	RMB21,430,000	–	70	Management of water plants and provision of water supply services	The People's Republic of China
Cheer Plan Limited[4]	British Virgin Islands	US$1	–	100	Investment holding	Hong Kong
Wonder Link Limited[4]	British Virgin Islands	US$1	–	100	Investment holding	Hong Kong
Start Bright Limited[4]	British Virgin Islands	US$200	–	51	Investment holding	Hong Kong
Palm Learning Company Limited[4]	Hong Kong	HK$1	–	51	Dormant	Hong Kong
Huge Step Management Limited[4]	British Virgin Islands	US$100	–	51	Investment holding	Hong Kong
Smart Education Company Limited[4]	Hong Kong	HK$100	–	51	Development and provision of e-Learning business	Hong Kong

1 These companies were disposed of subsequently on 19 January 2009.
2 These companies were acquired during the year ended 31 December 2007 and disposed of during the year.
3 These companies were acquired and disposed of during the year.
4 These companies were acquired during the year.

22. INTERESTS IN ASSOCIATES

	Group	
	2008	2007
	HK$'000	HK$'000
Share of net assets	**5,120**	–
Goodwill	**60,108**	–
	65,228	–

Particulars of the associates of the Company are as follows:

Name of associate	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity indirectly attributable to the Company (%)	Principal activities	Place of operations
Far Glory Limited	British Virgin Islands	US$10,900	20.26	Investment holding	Hong Kong
Great Wave Limited	British Virgin Islands	US$1	20.26	Investment holding	Hong Kong
Sky Asia Investments Limited	Hong Kong	HK$1	20.26	Investment holding	Hong Kong
Beijing LianYiHuiZhong Technology Company Limited	The People's Republic of China	HK$2,000,000	20.26	Distribution of copyright protection items and other entertainment related business	The People's Republic of China

The financial statements of the above associates are coterminous with those of the Group.

22. INTERESTS IN ASSOCIATES *(Continued)*

On 14 April 2008, Cheer Plan Limited ("Cheer Plan"), a wholly-owned subsidiary of the Company, entered into an agreement with Far Glory Limited ("Far Glory"). Pursuant to the agreement, 900 new shares (the "Subscription Shares") of Far Glory was alloted to Cheer Plan at a consideration of HK$20,250,000. The Subscription Shares represent approximately 8.26% of the entire issued share capital of Far Glory as enlarged by the allotment and issue of the Subscription Shares. The completion took place on 21 April 2008 and the consideration for the Subscription Shares was settled by cash.

On 5 May 2008, Cheer Plan entered into another agreement with Mr. Hsu Tung Chi, as vendor and Mr. Hsu Tung Sheng, as guarantor, both are shareholders of Far Glory, to acquire additional 12% of the issued share capital of Far Glory at a maximum total consideration of HK$45,000,000, of which HK$5,000,000 to be settled by cash and HK$40,000,000 by issue of convertible notes. The completion took place on 20 June 2008.

Far Glory will conduct its business through two wholly foreign owned enterprises, namely Beijing LianYiHuiZhong Technology Company Limited (北京聯易匯眾科技有限公司) ("BLTC") and Beijing YiLaiShen Technology Company Limited (北京易來申科技有限公司) ("Beijing e-License"). BLTC is 100% owned by Far Glory and will be principally engaged in the distribution of copyright protected items (such as on-line entertainment and media related items) and other entertainment related business in the PRC. Beijing e-License is 50% beneficially owned by Far Glory and will be principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items in the PRC.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	As at 31 December 2008 HK$'000
Assets	**25,318**
Liabilities	**(47)**
Revenues	**159**
Loss	**(107)**

Impairment test on goodwill

The Group appointed a professional valuer to perform an appraisal of the market value of the 20.26% equity interest in Far Glory as at 31 December 2008. The recoverable amount has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 10.5-year period together with the terminal value at the end of the period, and discount rate of 12.67%. Cash flows beyond the 10.5-year period has been extrapolated using a 3% long-term growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The value in use calculated by using the discount rate is higher than the carrying amount of the associates, accordingly, there is no impairment of the goodwill during the year.

23. GOODWILL

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group HK$'000
At 1 January 2007	–
Arising from acquisition of subsidiaries	51,207
At 31 December 2007 and 1 January 2008	51,207
Arising from acquisition of subsidiaries (note 39)	55,386
Impairment during the year	(36,000)
Disposal of subsidiaries (note 40)	(50,767)
At 31 December 2008	**19,826**
At 31 December 2008	
Cost	19,826
Accumulated impairment	–
Net carrying amount	**19,826**

Goodwill has been allocated to the Group's cash generating units ("CGU") identified according to the country of operation and business segment as follows:

	2008 HK$'000	2007 HK$'000
Production and distribution of organic fertilizers, Mainland China	**–**	51,207
e-Learning business, Hong Kong	**19,826**	–
	19,826	51,207

23. GOODWILL *(Continued)*

Impairment test on goodwill

The recoverable amounts of the CGUs are determined based on value-in-use calculations using cash flow projections based on the financial budgets covering a ten-year period for CGU as approved by the directors. Cash flows beyond the ten-year period are extrapolated using the estimated rates stated below. The long-term growth rate does not exceed the respective long-term growth rate for the business in which the CGUs operate.

Key assumptions used for value-in-use calculations:

	e-Learning business
	2008
Gross margin	**30% – 80%**
Average growth rate	**24% – 73%**
Long-term growth rate	**1% – 8%**
Discount rate	**10.5%**

Management determined the budgeted gross profit margin based on past performace and its expectation of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

Apart from the considerations described above in determining the value-in-use of CGU the Company's management is not aware of any other probable changes that would necessitate changes in the key assumptions.

The recoverable amounts of the CGU exceed their carrying amounts based on value-in-use calculations. Accordingly, the goodwill was not impaired during the year.

24. OTHER INTANGIBLE ASSETS

Group

	Production technology HK$'000
Cost:	
At 1 January 2007	–
Additions	1,387
At 31 December 2007 and 1 January 2008	1,387
Exchange realignment	84
Disposal of subsidiaries	(1,471)
At 31 December 2008	**–**
Accumulated amortisation and impairment:	
At 1 January 2007, 31 December 2007 and 1 January 2008	–
Amortisation provided during the year	7
Impairment during the year	1,464
Disposal of subsidiaries	(1,471)
At 31 December 2008	**–**
Net carrying amount:	
At 31 December 2008	**–**
At 31 December 2007	1,387

25. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**–**	671
Work in progress	**–**	65
Finished goods	**–**	317
	–	1,053

No inventories were carried at net realisable value as at 31 December 2008 (2007: Nil).

26. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**731**	5,167	**–**	–
Deposits, prepayments and other receivables	**742**	13,405	**241**	550
Deposit paid for acquisition of subsidiaries	**–**	6,200	**–**	–
	1,473	24,772	**241**	550

The aged analysis of the Group's trade receivables at the balance sheet date is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
0 – 30 days	**589**	4,688
31 – 60 days	**4**	312
61 – 90 days	**97**	167
Over 90 days	**41**	–
	731	5,167

26. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	Group	
	2008	2007
	HK$'000	HK$'000
Renminbi	**–**	16,337

27. DUE FROM A DIRECTOR

Particulars of the amount due from a director disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Group and Company		
	Balance at 31 December 2008	Balance at 1 January 2008	Maximum outstanding during the year
	HK$'000	HK$'000	HK$'000
Name of director			
Miss Au Shui Ming, Anna	**27***	–	27

The amount due from a director is unsecured, interest-free and has no fixed terms of repayment.

* Included amount due from a director of HK$7,000 that classified as held for sale.

28. TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**–**	2,090	**–**	–
Deferred income	**1,607**	1,727	**–**	–
Accrued liabilities and other payables	**809**	4,996	**692**	818
	2,416	8,813	**692**	818

28. TRADE AND OTHER PAYABLES *(Continued)*

An aged analysis of the Group's trade payables as at the balance sheet date is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
0 – 30 days	**–**	1,667
31 – 60 days	**–**	46
61 – 90 days	**–**	316
Over 90 days	**–**	61
	–	2,090

Included in the Group's trade and other payable are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	Group	
	2008	2007
	HK$'000	HK$'000
Renminbi	**–**	3,682

29. FINANCIAL ASSISTANCE FROM GOVERNMENT

The Innovation and Technology Fund ("ITF") of the Hong Kong Special Administrative Region government has provided financial assistance to the Group to assist in a specific product development. The funding is unsecured, non-interest bearing and repayable to ITF when revenue is generated from the specific product. The amount repaid, if any, will be in stages and calculated with reference to the revenue generated and received.

In the opinion of the directors, HK$333,000 (2007: HK$268,000) will be repayable to the ITF within the next twelve months from 31 December 2008 by reference to the forecast revenue generated to be from the specific product. Accordingly, HK$333,000 (2007: HK$268,000) has been classified as current liabilities and the remaining balance of HK$962,000 (2007: HK$1,027,000) is classified as non-current liabilities.

The financial assistance from government was reclassified as liabilities associated with assets held for sale at the balance sheet date.

30. PROMISSORY NOTE

	Group HK$'000	Company HK$'000
At 1 January 2007	–	–
Issued during the year	21,467	–
Repaid during the year	(17,000)	–
At 31 December 2007 and 1 January 2008	4,467	–
Issued during the year	22,840	22,840
Repaid during the year	(23,567)	(19,100)
At 31 December 2008	**3,740**	**3,740**

The promissionary note issued in 2007 relating to acquisition of a subsidiary was fully repaid during the year.

On 6 February 2008, a promissory note with principal amount of HK$15,600,000 was issued by the Company upon the completion of the acquisition of 100% equity interest in Proud Dragon as partial consideration. This promissory note is interest bearing at 1% per annum and has a fixed term of three years from the date of issue. This promissory note was fully repaid during the year.

On 24 June 2008, another promissory note with principal amount of HK$7,240,000 was issued by the Company as partial consideration for the acquisition of 51% equity interest in Start Bright Limited. This promissory note is interest bearing at 1% per annum and has a fixed term of three years from the date of issue. Up to the balance sheet date, HK$3,500,000 was repaid.

31. CONVERTIBLE NOTES

(a) On 6 February 2008, the Company has issued a convertible note with principal amount of HK$10,000,000, carrying interest rate of 1% per annum, to an independent vendor as partial consideration of the acquisition of 100% equity interest in Proud Dragon Limited. This convertible note was fully repaid upon disposal of Proud Dragon during the year.

(b) On 24 June 2008, upon the completion of acquisition of 51% equity interest in Start Bright Limited, the Company has issued a 1% convertible note with a nominal value of HK$3,000,000 to the independent vendor as part of the consideration.

The bondholder may covert the whole or part (in multiples of HK$1,000,000) of the convertible bond into shares at conversion price of HK$0.18, subject to adjustments, for the period commencing from (1) the date when the Guaranteed Profit (<i> the actual audited consolidated net profit after tax and extraordinary or exceptional items of Start Bright Limited and its subsidiaries for the year ending 31 August 2009 ("Actual Profit") will not be less than HK$3,000,000, or <ii> provided that the Actual Profit is equal to or greater than HK$2,000,000 but less than HK$3,000,000, the average of the actual audited consolidated net profits after tax and extraordinary or exceptional items of Start Bright Limited and its subsidiaries for the years ending 31 August 2009 and 2010 ("Average Actual Profit") will not be less than HK$3,000,000) has been fulfilled or (2) if there is any shortfall between the Actual Profit or the Average Actual Profit and Guaranteed Profit, the date when the Company is fully compensated for any shortfall up to the maturity date.

(c) Upon completion of the acquisition of 12% equity interest in Far Glory on 20 June 2008, the Company had issued 1% convertible notes with nominal values of HK$18,000,000 (the "First Convertible Note") and HK$4,000,000 (the "Second Convertible Note"), respectively.

The bondholder may convert the whole or part (in multiples of HK$1,000,000) of the First Convertible Bond of HK$18,000,000, which had been delivered to the vendor upon completion, into shares at conversion price of HK$0.18, subject to adjustments, from the date of issue up to the maturity date. The bondholder may convert the whole or part (in multiples of HK$1,000,000) of the Second Convertible Bond of HK$4,000,000, which had been delivered to the Group upon completion as escrow until the fulfillment of the Average Guaranteed Profit (the average of the audited consolidated net profits after tax and extraordinary or exceptional items of Far Glory and its subsidiaries for the years ending 31 December 2009 and 2010 will not be less than HK$15,000,000), into shares at conversion price of HK$0.18, subject to adjustments, for the period commencing from (1) the date when the Average Guaranteed Profit has been fulfilled or (2) if there is any shortfall between the actual average of the audited consolidated net profits after tax and extraordinary or exceptional items of Far Glory and its subsidiaries for years ending 31 December 2009 and 2010 and the Average Guaranteed Profit, the date when the Group is fully compensated by the vendor for any shortfall up to the maturity date.

The fair values of the liability component and the equity conversion component were determined at issuance of the convertible notes. The fair value of the liability component was calculated using a market interest rate of 5%. The residual amount, representing the value of the equity conversion component, has been included in the convertible notes reserve.

31. CONVERTIBLE NOTES *(Continued)*

The convertible notes recognised in the balance sheet date are calculated as follows:

	Group and Company	
	2008	2007
	HK$'000	HK$'000
Liability component at 1 January	**–**	–
Face value of convertible notes issued	**35,000**	–
Equity component	**(3,453)**	–
Liability component at the issuance date	**31,547**	–
Redemption during the year	**(9,383)**	–
Interest expense	**718**	–
Interest paid/payable	**(147)**	–
Liability component at 31 December	**22,735**	–
Portion classified as non-current	**22,735**	–
Current portion	**–**	–
Equity component at 1 January	**–**	–
Convertible notes issued during the year	**3,453**	–
Redemption during the year	**(617)**	–
Equity component at 31 December	**2,836**	–

32. OTHER PAYABLES

Included in the other payables, HK$18,000,000 represents the partial consideration for the acquisition of 12% equity interest in Far Glory Limited, which is extra convertible note that shall be issued by the Company if the Average Actual Profit of Far Glory Limited and its subsidiaries is not less then HK$25,000,000. This amount is unsecured, interest-free and shall be payable by the Company after the year ended 31 December 2010. For details of such convertible note, please refer to the circular of the Company dated 30 May 2008.

The remaining HK$8,160,000 represents the partial consideration for the acquisition of 51% equity interest in Start Bright Limited, which is earn out convertible note that shall be issued by the Company if the Actual Profit of Start Bright Limited and its subsidiaries is equal to or more than HK$5,000,000, or provided that the Actual Profit is equal to or greater than HK$4,000,000 but less than HK$5,000,000 and the Average Actual Profit is equal to or greater than HK$5,000,000. This amount is unsecured, interest-free and shall be payable by the Company after the year ended 31 August 2009. For details of such earn out convertible note, please refer to the circular of the Company dated 23 June 2008.

For details of the acquisitions, please refer to note 39 to the financial statements.

33. SHARE CAPITAL

	Notes	Number of shares	Amount HK$'000
Authorised:			
At 1 January 2007, 31 December 2007 and 31 December 2008, ordinary shares of HK$0.05 each		**2,000,000,000**	**100,000**
Issued and fully paid:			
At 1 January 2007, ordinary shares of HK$0.05 each		589,966,720	29,498
Issue of consideration shares	*(a)*	135,750,000	6,788
Shares issued upon exercise of share options	*(b)*	43,400,000	2,170
Shares issued upon exercise of warrants	*(c)*	117,800,000	5,890
Open offer	*(d)*	443,458,360	22,173
At 31 December 2007 and 31 December 2008, ordinary shares of HK$0.05 each		**1,330,375,080**	**66,519**

Notes:

(a) On 15 May 2007, 135,750,000 ordinary shares of the Company were issued at an issue price of HK$0.125 per share to Mr. Yang Pei Gen as part of the consideration of HK$61 million for acquisition of 100% equity interest in Silky Sky Investments Limited.

(b) Details of the Company's share option scheme and the movements of share options under the scheme are included in note 35 to the financial statements.

(c) During the year ended 31 December 2007, registered holders of 117,800,000 warrants exercised their rights to subscribe for 117,800,000 ordinary shares at a consideration of HK$18.26 million of which HK$5.89 million was credited to share capital and the balance of HK$12.37 million was credited to the Company's share premium account.

(d) On 14 December 2007, a total number of 443,458,360 shares at a price of HK$0.08 per share were issued via open offer on the basis of one offer share for every two shares held by existing shareholders. The Company raised proceeds of approximately HK$34.5 million, net of issuing expenses, to finance the acquisition of 100% equity interest in Proud Dragon Limited on 6 February 2008.

All shares issued in 2007 rank pari passu with the existing shares in all respects.

34. RESERVES

Company

	Share premium HK$'000	Contribution surplus HK$'000	Warrant subscription reserve HK$'000	Employee share-based compensation reserve HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	22,821	3,047	1,469	2,314	–	(34,595)	(4,944)
Issue of shares on open offer	13,304	–	–	–	–	–	13,304
Issue of consideration shares	10,181	–	–	–	–	–	10,181
Share/warrant issue expenses	(978)	–	–	–	–	–	(978)
Shares issued upon exercise of share options	9,695	–	–	(2,931)	–	–	6,764
Shares issued upon exercise of warrants	13,838	–	(1,469)	–	–	–	12,369
Employee share-based compensation	–	–	–	617	–	–	617
Loss for the year	–	–	–	–	–	(4,454)	(4,454)
At 31 December 2007	68,861	3,047	–	–	–	(39,049)	32,859

	Share premium HK$'000	**Contribution surplus HK$'000**	**Warrant subscription reserve HK$'000**	**Employee share-based compensation reserve HK$'000**	**Convertible notes reserve HK$'000**	**Accumulated losses HK$'000**	**Total HK$'000**
At 1 January 2008	**68,861**	**3,047**	**–**	**–**	**–**	**(39,049)**	**32,859**
Issue of convertible bonds	**–**	**–**	**–**	**–**	**3,453**	**–**	**3,453**
Redemption of convertible note	**–**	**–**	**–**	**–**	**(617)**	**–**	**(617)**
Share issue expenses	**(253)**	**–**	**–**	**–**	**–**	**–**	**(253)**
Open offer expenses	**(505)**	**–**	**–**	**–**	**–**	**–**	**(505)**
Employee share-based compensation	**–**	**–**	**–**	**4,354**	**–**	**–**	**4,354**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(61,839)**	**(61,839)**
At 31 December 2008	**68,103**	**3,047**	**–**	**4,354**	**2,836**	**(100,888)**	**(22,548)**

(a) The contributed surplus of the Company arose from the Group Reorganisation which took place on 15 January 2003. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' fund of KanHan (BVI).

(b) Employee share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees recognised in accordance with the accounting policy adopted for share-based compensation as described in note 4 to the financial statements.

(c) The Company did not have reserves available for distribution to shareholders as at 31 December 2008 (2007: Nil).

35. SHARE OPTION SCHEME

On 24 January 2003, a share option scheme was adopted by the Company pursuant to a written resolution of the Company (the "Scheme").

The purpose of the Scheme is to provide eligible employees with performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership. The Board may, at its discretion, invite any full-time employee of the Company, including any executive and non-executive directors of the Company, or any subsidiaries of the Company to take up options to subscribe for shares of the Company. The total number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the Scheme and any other share option scheme adopted by the Company (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time.

An option may be exercised at any time during a period to be determined and notified by the Board to each participant. Options might be granted at a consideration of HK$1. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The subscription price for the shares of the Company will be a price determined by the Board and will be the highest of (i) the closing price of the shares on the GEM as stated in the Stock Exchange's daily quotation on the date of the offer grant; (ii) the average closing price of the shares on the GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer grant; and (iii) the nominal value of the shares.

Movements in the number of share options outstanding during the year are as follows:

		Number of options	
	Notes	**2008**	2007
At 1 January		**–**	19,400,000
Granted during the year	*(i)*	**103,600,000**	24,000,000
Exercised during the year		**–**	(43,400,000)
Lapsed during the year	*(ii)*	**(36,300,000)**	–
At 31 December		**67,300,000**	–

35. SHARE OPTION SCHEME *(Continued)*

Notes:

(i) On 21 December 2007, the Company granted share options to certain of its directors and employees at a nominal consideration of HK$1 for each lot of share options to subscribe for an aggregate of 48,600,000 shares under the Scheme at an exercise price of HK$0.151 per share. These options were accepted by the option holders in January 2008.

On 28 August 2008, the Company granted share options to certain of its directors and employees at a nominal consideration of HK$1 for each lot of share options to subscribe for an aggregate of 55,000,000 shares under the Scheme at an exercise price of HK$0.101 per share.

(ii) During the year, 36,300,000 share options were lapsed due to resignation of certain employees.

Details of share options granted:

Categories of grantees	**Date of grant**	**Exercise period**	**Exercise price per share**	**Number of options**	
			HK$	**2008**	2007
Directors	13/2/2007	13/2/2007 – 12/2/2017	0.190	**–**	4,000,000
	14/8/2007	14/8/2007 – 13/8/2017	0.205	**–**	20,000,000
	21/12/2007	18/1/2008 – 20/12/2017	0.151	**12,300,000**	–
	28/8/2008	16/9/2008 – 27/8/2018	0.101	**24,000,000**	–
Employees	21/12/2007	18/1/2008 – 20/12/2017	0.151	**36,300,000**	–
	28/8/2008	16/9/2008 – 27/8/2018	0.101	**31,000,000**	–
				103,600,000	24,000,000
Options held by employees lapsed			0.151	**(36,300,000)**	–
				67,300,000	24,000,000

35. SHARE OPTION SCHEME *(Continued)*

Date of grant	Exercise period	Exercise price HK$	Fair value at grant date HK$
13/2/2007	13/2/2007 – 12/2/2017	0.190	0.0336
14/8/2007	14/8/2007 – 13/8/2017	0.205	0.0241
21/12/2007	18/1/2008 – 20/12/2017	0.151	0.0531
28/8/2008	16/9/2008 – 27/8/2018	0.101	0.0323

The Binomial model has been used to estimate the fair value of the options. The variances and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Inputs to the model are as follows:

	Date of grant			
	13/2/2007	14/8/2007	21/12/2007	28/8/2008
Share price at grant date	0.190	0.205	0.151	0.100
Exercise price	0.190	0.205	0.151	0.101
Option life	10 Years	10 Years	10 Years	10 Years
Expected volatility	40.000%	24.000%	67.285%	62.695%
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	4.600%	4.600%	3.332%	3.000%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

36. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("Scheme") for all its qualifying employees. The assets of the Scheme are held separately from those of the Group in funds under the control of trustees. Both the Group and each eligible employee contribute the lower of 5% or HK$1,000 of the relevant payroll costs to the Scheme.

37. DEFERRED TAX

(a) The movement in the Group's deferred tax liabilities during the year is as follows:

	Accelerated tax allowance HK$'000
At 1 January 2007, 31 December 2007 and 1 January 2008	–
Deferred tax charged to income statement during the year	33
At 31 December 2008	**33**

(b) Unrecognised deferred tax assets arising from:

	2008 HK$'000	2007 HK$'000
Deductible temporary differences	**–**	92
Tax losses	**33,881**	33,326
	33,881	33,418

Both the tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items due to the unpredictability of future profit streams.

38. OPERATING LEASE ARRANGEMENTS

The Group leases certain premises under operating lease arrangements. Leases for premises are negotiated for terms ranging from 1 to 2 years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**527**	1,364
In the second to fifth years, inclusive	**300**	1,808
After five years	**–**	1,915
	827	5,087

39. ACQUISITION OF SUBSIDIARIES

(a) On 29 October 2007, Rise Assets, a wholly-owned subsidiary of the Company, entered into an agreement with Proud Dragon Limited ("Proud Dragon") and Mr. Yip Yuk Tong in relation to the acquisition of the equity interest held by Mr. Yip Yuk Tong in Proud Dragon and subscription of shares of Proud Dragon with a consideration of HK$47,600,000.

Proud Dragon was holding the entire issued capital of Jetrise Development Limited, which holds 70% equity interests in 當涂縣中天供水有限公司 ("Zhong Tian Water Supply"). Zhong Tian Water Supply was incorporated in the People's Republic of China ("PRC") and its principal activities are the management of water plants and the provision of water supply in the rural areas of the PRC.

The acquisition consideration was settled by cash of HK$6,200,000, issue of HK$10,000,000 convertible note and issue of HK$15,600,000 promissory note. The subscription consideration was settled by cash of HK$15,800,000. The acquisition and subscription were completed on 6 February 2008.

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	58,131
Prepaid land lease payments	744
Goodwill	3,725
Trade and other receivables	1,775
Cash and bank balances	18,887
Trade and other payables	(37,083)
Deferred government grants	(24,946)
Minority interests	(5,468)
Net assets acquired	15,765
Goodwill on acquisition	31,835
	47,600
Satisfied by:	
Cash consideration	22,000
Promissory note	15,600
Convertible note	10,000
	47,600

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

	HK$'000
Cash consideration	22,000
Cash and bank balances acquired	(18,887)
Net outflow of cash and cash equivalents	3,113

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) On 2 June 2008, Wonder Link Limited ("Wonder Link"), a wholly-owned subsidiary of the Company, entered into an agreement with Mr. Liu Zong Hong to acquire the 51% equity interest of Start Bright Limited ("Start Bright") with a maximum consideration of HK$20,400,000.

Start Bright has two wholly-owned subsidiaries, Huge Step Management Limited and Palm Learning Company Limited, which were both incorporated in Hong Kong. Huge Step Management Limited holds 100% equity interests in Smart Education Company Limited, which was also incorporated in Hong Kong with principal activities of development and provision of e-Learning programs.

The consideration was settled by cash of HK$2,000,000, issue of HK$11,160,000 convertible note and issue of HK$7,240,000 promissory note. Completion of the acquisition took place on 24 June 2008.

The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	277
Trade and other receivables	125
Cash and bank balances	966
Accrued liabilities and other payables	(243)
Minority interests	(551)
Net assets acquired	574
Goodwill on acquisition	19,826
	20,400
Satisfied by:	
Cash consideration	2,000
Promissory note	7,240
Convertible note	11,160
	20,400

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

	HK$'000
Cash consideration	2,000
Cash and bank balances acquired	(966)
Net outflow of cash and cash equivalents	1,034

40. DISPOSAL OF SUBSIDIARIES

(a) On 21 April 2008, Rise Assets disposed of its entire interest in Proud Dragon to an independent third party at a consideration of HK$50,000,000. The disposal of Proud Dragon and its subsidiaries was completed on 23 May 2008.

	HK$'000
Net assets disposed of:	
Property, plant and equipment	57,680
Prepaid land lease payments	735
Goodwill	3,725
Inventories	17
Trade and other receivables	2,291
Cash and cash equivalents	15,875
Trade and other payables	(37,513)
Deferred government grants	(24,672)
Minority interests	(4,544)
Net assets value	13,594
Attributable goodwill	31,835
	45,429
Gain on disposal	4,571
Consideration	50,000
Satisfied by:	
Cash	19,500
Promissory note	30,500
	50,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Proud Dragon and its subsidiaries is as follows:

	HK$'000
Cash consideration	19,500
Cash and bank balances in subsidiaries disposed of	(15,875)
Net inflow of cash and cash equivalents	3,625

40. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) On 7 July 2008, the Group entered into an agreement with an independent third party in relation to the disposal of 100% equity interest in Silky Sky for a total consideration of HK$15,000,000. The disposal of Silky Sky and its subsidiaries was completed on 24 September 2008.

	HK$'000
Net assets disposed of:	
Property, plant and equipment	8,766
Inventories	1,754
Trade and other receivables	19,718
Cash and cash equivalents	2,915
Trade and other payables	(16,939)
Minority interests	(15,658)
Net assets value	556
Release of exchange reserve	(1,741)
Attributable goodwill	15,207
	14,022
Gain on disposal	978
Consideration	15,000
Satisfied by:	
Cash	8,000
Promissory note	7,000
	15,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Silky Sky is as follows:

	HK$'000
Cash consideration	8,000
Cash and bank balances in subsidiaries disposed of	(2,915)
Net inflow of cash and cash equivalents	5,085

41. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2008, the Company and the Group had no significant contingent liabilities or capital commitments.

42. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, the Company entered into an agreement with Mr. Mo Wai Ming, Lawrence, an executive director of the Company, on 5 December 2008, for the disposal of the entire equity interest in KanHan Technologies Inc., a subsidiary of the Company, at a consideration of HK$1,000,000. The transaction was completed on 19 January 2009. As at 31 December 2008, HK$200,000 was received as deposit and included in accrued liabilities and other payables.

43. FINANCIAL INSTRUMENTS

Categories of financial instuments

	Group	
	2008	2007
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**15,367**	66,001
Financial liabilities		
Amortised cost	**47,415**	11,553

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to credit risk, liquidity risk and market risk arising in the normal course of its business and financial instruments. The Group's risk management objectives, policies and processes mainly focus on minimizing the potential adverse effects of these risks on its financial performance and position by closely monitoring the individual exposure.

(a) Credit risk

The Group's maximum exposure to credit risk is represented by the carrying amount of the respective recognised financial assets as stated in the balance sheet. The Group's credit risk is primarily attributable to trade and other receivables and bank balances. It sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit. The management of the Group reviews the recoverable amount of each individual trade receivable and other receivable regularly at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regards, the management considers that the Group's credit risk is significantly reduced.

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

(a) Credit risk *(Continued)*

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Credit risk is concentrated to a small number of debtors principally located in the PRC. The management has considered the good creditability of the debtors and is of the view that, there is no significant credit risk on these receivables.

(b) 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 finanical investments and financial assets (e.g. trade receivables) and projected cash flows from operations.

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

	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
31 December 2008						
Trade payables	**259**	**–**	**–**	**–**	**–**	**259**
Accrued liabilities and other payables	**2,481**	**200**	**–**	**18,000**	**–**	**20,681**
Promissory note	**–**	**–**	**–**	**3,740**	**–**	**3,740**
Convertible notes	**–**	**–**	**–**	**22,735**	**–**	**22,735**
	2,740	**200**	**–**	**44,475**	**–**	**47,415**
31 December 2007						
Trade payables	61	2,029	–	–	–	2,090
Accrued liabilities and other payables	4,941	–	–	55	–	4,996
Promissory note	–	–	–	4,467	–	4,467
	5,002	2,029	–	4,522	–	11,553

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

(c) Market risk

(i) Interest rate risk

The Group's exposure to cash flow interest rate risk mainly arises from the fluctuation of the prevailing market interest rate on the bank balances. However, the management considers the Group's exposure to such interest rate risk is not significant as bank balances are all short-term in nature. No sensitivity analysis is prepared as the fluctuation and impact is considered immaterial.

(ii) Currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 40% (2007: 58%) of the Group's purchases are denominated in currencies other than the functional currency of the operating units, whilst approximately 32% (2007: 32%) of sales are denominated in the units' functional currency. The management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arises.

The following table demonstrates the sensitivity to a reasonably possible change in Renminbi ("RMB") exchange rate, with all other variables held constant, of the Group's profit/(loss) before tax and the Group's equity.

	Increase/ (decrease) in foreign exchange rate %	**Increase/ (decrease) in loss before tax HK$'000**	**Increase/ (decrease) in equity HK$'000**
31 December 2008			
RMB	**10**	**(13)**	**13**
RMB	**(10)**	**13**	**(13)**

	Increase/ (decrease) in foreign exchange rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity HK$'000
31 December 2007			
RMB	10	970	1,776
RMB	(10)	(970)	(1,776)

(d) Fair value

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

45. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of debts, which include the financial assistance from government, promissory note payable and convertible notes, cash and cash equivalents and issued share capital.

The Group manages its capital structure and makes adjustments to it in the 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, issue new shares, or sell assets to reduce debt. No change were made in the objectives, policies or processes during the years ended 31 December 2008 and 2007.

The Group monitors capital using a gearing ratio, which is borrowings divided by total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio at the balance sheet date is as follows:

	2008 **HK$'000**	2007 HK$'000
Borrowings	**52,635**	4,467
Total equity	**39,989**	117,675
	132%	4%

46. POST BALANCE SHEET EVENTS

On 5 December 2008, the Company entered into an agreement with a director, Mo Wai Ming, Lawrence, for the disposal of the entire interest in KanHan Technologies Inc. at a consideration of HK$1,000,000. A deposit in the sum of HK$200,000 has been paid by Mr. Mo before the balance sheet date. The balance of the consideration of HK$800,000 was received upon completion on 19 January 2009.

47. COMPARATIVE

Certain comparatives are reclassified during the year to conform current year's presentation.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2009.