# REPORT AND FINANCIAL STATEMENTS UNDER IFRS

(International Financial Reporting Standards)

For the Year Ended December 31, 2007

## INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

**TO THE DIRECTORS OF XINHUA FINANCE LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the accompanying financial statements of Xinhua Finance Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise of the consolidated balance sheet and Company balance sheet as at December 31, 2007, and the consolidated income statement and Company income statement, consolidated statement of changes in equity and Company statement of changes in equity and consolidated cash flow statement and Company 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 International Financial Reporting Standards. 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 and to report our opinion 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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2007 and of the results and cash flows of the Company and of the Group for the year then ended in accordance with International Financial Reporting Standards.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
February 18, 2008

## INCOME STATEMENTS

| | Notes | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | | **US$'000** | US$'000 | **US$'000** | US$'000 |
| Revenues | 7 | **257,676** | 174,963 | **4,288** | 9,371 |
| Cost of revenues | | **(129,462)** | (81,123) | **(6,717)** | (6,785) |
| Gross profit (loss) | | **128,214** | 93,840 | **(2,429)** | 2,586 |
| Other income | | **18,663** | 4,094 | **4,876** | 123 |
| Marketing and promotional expenses | | **(17,745)** | (8,239) | **—** | — |
| Administrative expenses | | **(90,106)** | (66,665) | **(15,372)** | (11,197) |
| Depreciation and amortisation | | **(21,227)** | (7,082) | **—** | — |
| Finance costs | 8 | **(14,294)** | (7,354) | **(6,810)** | (3,049) |
| Impairment loss recognised in respect of goodwill | | **(15,094)** | — | **—** | — |
| Impairment loss recognised in respect of investments in subsidiaries | | **—** | — | **(11,557)** | — |
| Loss on disposal of a subsidiary | | **(5,351)** | — | **(8,305)** | — |
| Gain on partial disposal of a subsidiary | | **—** | 640 | **—** | — |
| Net gain on deemed disposal of partial interest in a subsidiary | 9 | **95,841** | 15,397 | **—** | — |
| Net fair value change on early redemption option, convertible loan and redeemable convertible preferred shares | | **(5,527)** | 300 | **168** | 48 |
| Share of results of associates | | **(6)** | 196 | **—** | — |
| Profit (loss) before taxation | 10 | **73,368** | 25,127 | **(39,429)** | (11,489) |
| Taxation | 11 | **(4,569)** | (2,855) | **—** | — |
| Profit (loss) for the year | | **68,799** | 22,272 | **(39,429)** | (11,489) |
| Attributable to: | | | | | |
| — equity holders of the Company | | **56,466** | 18,731 | | |
| — minority interests | | **12,333** | 3,541 | | |
| | | **68,799** | 22,272 | | |
| Earnings per share | | | | | |
| — Basic | 12 | **US$56.07** | US$21.29 | | |
| — Diluted | | **US$51.68** | US$20.14 | | |

## CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2007

| | Notes | 2007 US$'000 | 2006 US$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 13 | **23,947** | 15,136 |
| License agreements | 15 | **84,167** | 85,870 |
| Operating agreement | 16 | **49,610** | 49,837 |
| Capitalised content production costs | 17 | **1,801** | 1,397 |
| Other intangible assets | 18 | **66,650** | 13,248 |
| Goodwill | 19 | **509,244** | 332,103 |
| Interests in associates | 20 | **547** | 535 |
| Debt securities | 21 | **676** | 640 |
| Available-for-sale investments | 22 | **29,921** | 34,534 |
| Deposits made for content production | | **7,055** | 4,457 |
| Deposits made for acquisition of intangible assets | | **—** | 2,561 |
| Promissory note receivables | 23 | **7,900** | — |
| Principal protected notes | 24 | **24,910** | — |
| Other long-term prepayments and deposits | | **1,900** | 247 |
| Deferred tax assets | 25 | **330** | 560 |
| | | **808,658** | 541,125 |
| Current assets | | | |
| Trade and other receivables, prepayments and deposits | 26 | **98,234** | 63,333 |
| Promissory note receivables | 23 | **10,868** | 21,260 |
| Early redemption option | 34 | **5,079** | 4,911 |
| Deposits made for program advertising right | | **5,389** | 4,927 |
| Amount due from a minority shareholder of a subsidiary | | **—** | 60 |
| Taxation recoverable | | **688** | 359 |
| Pledged bank deposits | 27 | **57,397** | 35,141 |
| Bank balances and cash | 27 | **130,636** | 96,999 |
| | | **308,291** | 226,990 |

## CONSOLIDATED BALANCE SHEET (continued)

AT DECEMBER 31, 2007

| | Notes | 2007 US$'000 | 2006 US$'000 |
|---|---|---|---|
| Current liabilities | | | |
| Trade and other payables | | **46,661** | 27,624 |
| Subscriptions received in advance | | **14,612** | 16,727 |
| Consideration payable for acquisition of subsidiaries due within one year | 28 | **67,915** | 41,238 |
| Obligations under an onerous contract due within one year | 29 | **250** | 375 |
| Obligations under finance leases due within one year | 30 | **699** | 8,964 |
| Amount due to a minority shareholder of a subsidiary | | **1,970** | 281 |
| Amount due to a shareholder | | **226** | 23 |
| Amount due to a director | | **185** | 182 |
| Taxation payable | | **8,886** | 4,111 |
| Current portion of long-term bank loans | 31 | **484** | — |
| Short-term bank loans | 32 | **42,308** | 25,459 |
| Bank overdrafts | | **960** | — |
| | | **185,156** | 124,984 |
| Net current assets | | **123,135** | 102,006 |
| Total assets less current liabilities | | **931,793** | 643,131 |
| Non-current liabilities | | | |
| Subscriptions received in advance due after one year | | **716** | — |
| Consideration payable for acquisition of subsidiaries due after one year | 28 | **76,642** | 41,094 |
| Obligations under an onerous contract due after one year | 29 | **—** | 250 |
| Obligations under finance leases due after one year | 30 | **69,033** | 65,028 |
| Long-term bank loans | 31 | **1,234** | — |
| Advance from a shareholder | | **700** | 700 |
| Amounts due to minority shareholders | | **—** | 1,947 |
| Convertible loan | 33 (a) | **—** | 12,445 |
| Senior notes | 34 | **99,983** | 100,053 |
| Derivative financial instrument | 35 | **16,729** | — |
| Other long-term payables | | **1,019** | 622 |
| Deferred tax liabilities | 25 | **12,252** | 3,996 |
| | | **278,308** | 226,135 |
| Net assets | | **653,485** | 416,996 |
| Capital and reserves | | | |
| Share capital | 37 | **2,649** | 2,389 |
| Reserves | | **428,542** | 335,210 |
| Equity attributable to equity holders of the Company | | **431,191** | 337,599 |
| Option and warrant reserve of a subsidiary | | **6,093** | 3,021 |
| Minority interests | | **216,201** | 76,376 |
| Total equity | | **653,485** | 416,996 |

***The financial statements on pages 99 to 157 were approved and authorised for issue by the Board of Directors on February 18, 2008 and are signed on its behalf by:***

**Jae Lie**
*DIRECTOR*

**Aloysius T. Lawn IV**
*DIRECTOR*

## BALANCE SHEET
AT DECEMBER 31, 2007

| | Notes | 2007 US$'000 | 2006 US$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investments in subsidiaries | 14 | **495,716** | 219,223 |
| Amounts due from subsidiaries | 36 | **11,351** | 2,414 |
| Available-for-sale investments | 22 | **—** | 10,512 |
| | | **507,067** | 232,149 |
| Current assets | | | |
| Accounts receivables | | **4,876** | 19 |
| Promissory note receivables | 23 | **—** | 3,587 |
| Amounts due from subsidiaries | 36 | **96** | 234,823 |
| Early redemption option | 34 | **5,079** | 4,911 |
| Bank balances | | **5,383** | 144 |
| | | **15,434** | 243,484 |
| Current liabilities | | | |
| Accounts payables | | **1,119** | 2,401 |
| Consideration payable for acquisition due within one year | 28 | **36,148** | 35,871 |
| Amounts due to subsidiaries | 36 | **75,643** | 312 |
| Amount due to a director | 36 | **186** | 186 |
| | | **113,096** | 38,770 |
| Net current (liabilities) assets | | **(97,662)** | 204,714 |
| Total assets less current liabilities | | **409,405** | 436,863 |
| Non-current liabilities | | | |
| Consideration payable for acquisition due after one year | 28 | **—** | 41,094 |
| Senior notes | 34 | **99,983** | 100,053 |
| Derivative financial instrument | 35 | **16,729** | — |
| | | **116,712** | 141,147 |
| Net assets | | **292,693** | 295,716 |
| Capital and reserves | | | |
| Share capital | 37 | **2,649** | 2,389 |
| Reserves | | **290,044** | 293,327 |
| Total equity | | **292,693** | 295,716 |

**Jae Lie**
*DIRECTOR*

**Aloysius T. Lawn IV**
*DIRECTOR*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital US$'000 | Share premium US$'000 | Option and warrant reserve US$'000 | Contributed surplus US$'000 (note 1) | Special reserve US$'000 (note 2) | Investment revaluation reserve US$'000 | Hedge reserve US$'000 | Translation reserve US$'000 | Statutory reserves US$'000 (note 3) | Retained profits (deficit) US$'000 | Attributable to equity holders of the Company US$'000 | Option and warrant reserve of a subsidiary US$'000 | Minority interests US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **THE GROUP** | | | | | | | | | | | | | | |
| At January 1, 2006 | 2,091 | 215,173 | 392 | 44,531 | 15,309 | — | — | (130) | — | (11,443) | 265,923 | — | 2,626 | 268,549 |
| Issue of shares | 298 | 61,274 | — | — | (12,705) | — | — | — | — | — | 48,867 | — | — | 48,867 |
| Expenses incurred in connection with the issue of shares | — | (103) | — | — | — | — | — | — | — | — | (103) | — | — | (103) |
| Shares issued upon acquisition of subsidiaries | — | — | — | — | (2,604) | — | — | — | — | — | (2,604) | — | — | (2,604) |
| Acquisition of non wholly-owned subsidiaries/acquisition of additional interests in subsidiaries | — | — | — | — | — | — | — | — | — | — | — | — | 245 | 245 |
| Changes in minority interests on deemed disposal/partial disposal of interests in a subsidiary | — | — | — | — | — | — | — | — | — | — | — | — | 13,050 | 13,050 |
| Capital contribution by a minority shareholder of a subsidiary | — | — | — | — | — | — | — | — | — | — | — | — | 58,703 | 58,703 |
| Recognition of share based payments as compensation to directors and staff | — | — | 5,798 | — | — | — | — | — | — | — | 5,798 | 2,293 | — | 8,091 |
| Recognition of share based payments as compensation to consultants | — | — | — | — | — | — | — | — | — | — | — | 125 | — | 125 |
| Warrants granted upon acquisition of subsidiaries | — | — | — | — | — | — | — | — | — | — | — | 603 | — | 603 |
| Dividends paid to minority shareholders of subsidiaries | — | — | — | — | — | — | — | — | — | — | — | — | (1,918) | (1,918) |
| | 298 | 61,171 | 5,798 | — | (15,309) | — | — | — | — | — | 51,958 | 3,021 | 70,080 | 125,059 |
| Gain on fair value change of available-for-sale investments | — | — | — | — | — | 44 | — | — | — | — | 44 | — | — | 44 |
| Exchange differences arising from translation of financial statements of overseas operations | — | — | — | — | — | — | — | 943 | — | — | 943 | — | 129 | 1,072 |
| Net income directly recognised in equity | — | — | — | — | — | 44 | — | 943 | — | — | 987 | — | 129 | 1,116 |
| Profit for the year | — | — | — | — | — | — | — | — | — | 18,731 | 18,731 | — | 3,541 | 22,272 |
| Total recognised income and expense for the year | — | — | — | — | — | 44 | — | 943 | — | 18,731 | 19,718 | — | 3,670 | 23,388 |
| At December 31, 2006 | 2,389 | 276,344 | 6,190 | 44,531 | — | 44 | — | 813 | — | 7,288 | 337,599 | 3,021 | 76,376 | 416,996 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

| | Share capital US$'000 | Share premium US$'000 | Option and warrant reserve US$'000 | Contributed surplus US$'000 (note 1) | Special reserve US$'000 (note 2) | Investment revaluation reserve US$'000 | Hedge reserve US$'000 | Translation reserve US$'000 | Statutory reserves US$'000 (note 3) | Retained profits (deficit) US$'000 | Attributable to equity holders of the Company US$'000 | Option and warrant reserve of a subsidiary US$'000 | Minority interests US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2007 | 2,389 | 276,344 | 6,190 | 44,531 | — | 44 | — | 813 | — | 7,288 | 337,599 | 3,021 | 76,376 | 416,996 |
| Issue of shares | 260 | 51,539 | — | — | (836) | — | — | — | — | — | 50,963 | — | — | 50,963 |
| Acquisition of non wholly-owned subsidiaries | — | — | — | — | — | — | — | — | — | — | — | — | 733 | 733 |
| Acquisition of additional interests in subsidiaries | — | — | — | — | — | — | — | — | — | — | — | — | (3,393) | (3,393) |
| Changes in minority interests on deemed disposal/partial disposal of interests in a subsidiary | — | — | — | — | — | — | — | — | — | — | — | — | 132,361 | 132,361 |
| Capital contribution by a minority shareholder of a subsidiary | — | — | — | — | — | — | — | — | — | — | — | — | 2,152 | 2,152 |
| Recognition of share based payments as compensation to directors and staff | — | — | 2,350 | — | 3,684 | — | — | — | — | — | 6,034 | 3,072 | — | 9,106 |
| Forfeiture of share options granted in prior years | — | — | (686) | — | — | — | — | — | — | 686 | — | — | — | — |
| Dividends paid to minority shareholders of subsidiaries | — | — | — | — | — | — | — | — | — | — | — | — | (6,149) | (6,149) |
| | 260 | 51,539 | 1,664 | — | 2,848 | — | — | — | — | 686 | 56,997 | 3,072 | 125,704 | 185,773 |
| Gain on fair value change of available-for-sale investments | — | — | — | — | — | 815 | — | — | — | — | 815 | — | 227 | 1,042 |
| Net adjustment on cashflow hedge | — | — | — | — | — | — | (7,361) | — | — | — | (7,361) | — | — | (7,361) |
| Exchange differences arising from translation of financial statements of overseas operations | — | — | — | — | — | — | — | (13,213) | — | — | (13,213) | — | 1,561 | (11,652) |
| Transfer to profit or loss on sales of available-for-sale investments | — | — | — | — | — | (112) | — | — | — | — | (112) | — | — | (112) |
| Transfers | — | — | — | — | — | — | — | — | 1,345 | (1,345) | — | — | — | — |
| Net income (expense) directly recognised in equity | — | — | — | — | — | 703 | (7,361) | (13,213) | 1,345 | (1,345) | (19,871) | — | 1,788 | (18,083) |
| Profit for the year | — | — | — | — | — | — | — | — | — | 56,466 | 56,466 | — | 12,333 | 68,799 |
| Total recognised income and expense for the year | — | — | — | — | — | 703 | (7,361) | (13,213) | 1,345 | 55,121 | 36,595 | — | 14,121 | 50,716 |
| At December 31, 2007 | 2,649 | 327,883 | 7,854 | 44,531 | 2,848 | 747 | (7,361) | (12,400) | 1,345 | 63,095 | 431,191 | 6,093 | 216,201 | 653,485 |

Notes:

1. The contributed surplus of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital and share premium of the subsidiary acquired pursuant to a group reorganisation in March 2004.

2. The special reserve of the Group represents the shares, as opposed to share options or warrants of the Company which have been granted or issuable but not yet issued as vesting or earn-out conditions has not been met at the balance sheet date.

3. Statutory reserves represents the Group's share of statutory surplus reserve fund and enterprise expansion fund of its Mainland China (the "PRC") subsidiaries. As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiaries are required to maintain these statutory reserves, being a statutory surplus reserve fund and an enterprise expansion fund which are non-distributable. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries and the allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up its prior year losses, if any, and can be applied on conversion into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalising issue.

## STATEMENT OF CHANGES IN EQUITY

| | Share capital US$'000 | Share premium US$'000 | Option and warrant reserve US$'000 | Contributed surplus US$'000 (note 1) | Special reserve US$'000 (note 2) | Hedge reserve US$'000 | Translation reserve US$'000 | Deficit US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **THE COMPANY** | | | | | | | | | |
| At January 1, 2006 | 2,091 | 215,173 | 392 | 23,654 | 15,309 | — | — | (1,372) | 255,247 |
| Issue of shares | 298 | 61,274 | — | — | (12,705) | — | — | — | 48,867 |
| Expenses incurred in connection with the issue of shares | — | (103) | — | — | — | — | — | — | (103) |
| Shares issued upon acquisition of subsidiaries | — | — | — | — | (2,604) | — | — | — | (2,604) |
| Recognition of share based payments as compensation to directors and staff | — | — | 5,798 | — | — | — | — | — | 5,798 |
| | 298 | 61,171 | 5,798 | — | (15,309) | — | — | — | 51,958 |
| Loss for the year, representing total recognised expense for the year | — | — | — | — | — | — | — | (11,489) | (11,489) |
| At December 31, 2006 | 2,389 | 276,344 | 6,190 | 23,654 | — | — | — | (12,861) | 295,716 |
| Issue of shares | 260 | 51,539 | — | — | (836) | — | — | — | 50,963 |
| Recognition of share based payments as compensation to directors and staff | — | — | 2,350 | — | 3,684 | — | — | — | 6,034 |
| Forfeiture of share options granted in prior years | — | — | (686) | — | — | — | — | 686 | — |
| | 260 | 51,539 | 1,664 | — | 2,848 | — | — | 686 | 56,997 |
| Net adjustment on cash flow hedge | — | — | — | — | — | (7,361) | — | — | (7,361) |
| Exchange differences arising from translation of financial statements | — | — | — | — | — | — | (13,230) | — | (13,230) |
| Net expense directly recognised in equity | — | — | — | — | — | (7,361) | (13,230) | — | (20,591) |
| Loss for the year | — | — | — | — | — | — | — | (39,429) | (39,429) |
| Total recognised income and expense for the year | — | — | — | — | — | (7,361) | (13,230) | (39,429) | (60,020) |
| At December 31, 2007 | 2,649 | 327,883 | 7,854 | 23,654 | 2,848 | (7,361) | (13,230) | (51,604) | 292,693 |

Notes:

1. The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under a group reorganisation in March 2004 and the nominal amount of the Company's shares issued for the acquisition.

2. The special reserve of Company represents the shares, as opposed to share options or warrants of the Company which have been granted or issuable but not yet issued as vesting or earn-out conditions has not been met at the balance sheet date.

## CONSOLIDATED CASH FLOW STATEMENT

| | 2007<br>US$'000 | 2006<br>US$'000 |
|---|---|---|
| Operating activities | | |
| Profit before taxation | **73,368** | 25,127 |
| Adjustments for: | | |
| Interest income | **(10,153)** | (3,396) |
| Interest expenses | **14,294** | 6,398 |
| Share of results of associates | **6** | (196) |
| Depreciation and amortisation | **22,901** | 8,636 |
| Impairment loss recognised in respect of goodwill | **15,094** | — |
| Impairment loss recognised on property, plant and equipment | **234** | — |
| Loss on disposal of property, plant and equipment | **72** | 10 |
| Fair value gain on foreign exchange linked notes | **(668)** | — |
| Gain on disposal of available-for-sale investments | **(112)** | (245) |
| Share based payments | **9,106** | 8,242 |
| Financial assets received for services | **—** | (10,565) |
| Allowance for doubtful debts | **553** | 348 |
| Reversal of allowance for doubtful debts | **(223)** | (198) |
| Allowance for doubtful debts on promissory note receivables | **5,546** | — |
| Loss on disposal of a subsidiary | **5,351** | — |
| Gain on partial disposal of a subsidiary | **—** | (640) |
| Net gain on deemed disposal of partial interest in a subsidiary | **(95,841)** | (15,397) |
| Fair value loss on principal protected note | **90** | — |
| Net fair value change on early redemption option, convertible loan and redeemable convertible preferred shares | **5,527** | (300) |
| Effect of foreign exchange rate changes on inter-company balances | **—** | 719 |
| Operating cash flows before movements in working capital | **45,145** | 18,543 |
| Increase in other long-term prepayments and deposits | **(1,653)** | (247) |
| Increase in trade and other receivables, prepayments and deposits | **(22,813)** | (21,440) |
| Increase in deposits paid for program advertising right | **(462)** | (3,844) |
| Decrease in amount due from a related company | **—** | 3,202 |
| Decrease in amount due from a director | **—** | 182 |
| Decrease in amount due from a joint alliance partner | **—** | 48 |
| Decrease (increase) in amount due from a minority shareholder of a subsidiary | **60** | (61) |
| Increase in trade and other payables | **11,139** | 5,532 |
| (Decrease) increase in subscriptions received in advance | **(2,720)** | 540 |
| Decrease in obligations under an onerous contract | **(375)** | (375) |
| Increase in amount due to a minority shareholder of a subsidiary | **2,227** | 1,927 |
| Increase (decrease) in amount due to a shareholder | **203** | (77) |
| Increase in amount due to a director | **3** | 132 |
| Cash from operations | **30,754** | 4,062 |
| Taxation paid | **(4,064)** | (2,064) |
| Net cash from operating activities | **26,690** | 1,998 |

## CONSOLIDATED CASH FLOW STATEMENT (continued)

| | Note | 2007 US$'000 | 2006 US$'000 |
|---|---|---|---|
| Investing activities | | | |
| Interest received | | **10,153** | 3,396 |
| Purchase of property, plant and equipment | | **(11,057)** | (6,096) |
| Proceeds from disposal of property, plant and equipment | | **482** | 39 |
| Purchase of subsidiaries (net of cash and cash equivalents acquired) | 41 | **(124,172)** | (22,095) |
| Acquisition of additional interests in subsidiaries | | **(10,525)** | (6,823) |
| Additional consideration paid for acquisition of subsidiaries | | **(25,938)** | (9,916) |
| Proceeds from disposal of subsidiaries | 42 | **43,376** | — |
| Proceeds from partial disposal of a subsidiary | | **—** | 1,000 |
| Purchase of license agreements | | **—** | (14,992) |
| Purchase of operating agreement | | **—** | (6,887) |
| Content production costs paid | | **(2,078)** | (2,951) |
| Purchase of intangible assets | | **(1,178)** | — |
| Purchase of an associate | | **—** | (48) |
| Purchase of available-for-sale investments | | **(5,413)** | (11,155) |
| Proceeds from disposal of available-for-sale investments | | **573** | 1,152 |
| Deposits paid for content production | | **(2,598)** | (4,457) |
| Deposits paid for acquisition of intangible assets | | **—** | (4,226) |
| Increase in promissory note receivables | | **(3,054)** | (10,695) |
| Purchase of principal protected notes | | **(25,000)** | — |
| Repayments made to related companies | | **—** | (9,616) |
| Purchase of foreign exchange linked notes | | **(40,000)** | — |
| Proceeds from disposal of foreign exchange linked notes | | **40,668** | — |
| Increase in pledged bank deposits | | **(27,705)** | (32,008) |
| Net cash used in investing activities | | **(183,466)** | (136,378) |
| Financing activities | | | |
| Interest paid | | **(9,722)** | (5,601) |
| Dividends paid to minority shareholders of subsidiaries | | **(6,149)** | (1,918) |
| Proceeds from issue of shares | | **1,401** | 1,507 |
| Expenses incurred in connection with the issue of shares | | **—** | (103) |
| Proceeds from issue of shares upon listing of a subsidiary | | **225,003** | — |
| Expenses incurred in connection with the issue of shares upon listing of a subsidiary | | **(26,697)** | — |
| Proceeds from issue of convertible loan and convertible preferred shares of a subsidiary | | **—** | 70,000 |
| Net proceeds from issue of senior notes | | **—** | 95,192 |
| Capital contribution by a minority shareholder of a subsidiary | | **686** | 1,401 |
| Expenses incurred in connection with the issue of senior note | | **(77)** | — |
| Repayment of obligations under finance leases | | **(16,461)** | (73) |
| Bank loans raised | | **41,234** | 54,388 |
| Repayment of bank loans | | **(17,082)** | (56,992) |
| Advance to third parties | | **—** | (7,591) |
| Repayment of other long-term payables | | **(187)** | (678) |
| Net cash from financing activities | | **191,949** | 149,532 |
| Net increase in cash and cash equivalents | | **35,173** | 15,152 |
| Cash and cash equivalents at January 1 | | **96,999** | 81,636 |
| Effect of foreign exchange rate changes | | **(2,496)** | 211 |
| Cash and cash equivalents at December 31 | | **129,676** | 96,999 |
| Analysis of the balances of cash and cash equivalents | | | |
| Bank balances and cash | | **130,636** | 96,999 |
| Bank overdrafts | | **(960)** | — |
| | | **129,676** | 96,999 |

## CASH FLOW STATEMENT

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Operating activities | | |
| Loss before taxation | **(39,429)** | (11,489) |
| Adjustments for: | | |
| Interest income | **(1,032)** | (123) |
| Interest expenses | **6,810** | 3,049 |
| Share-based payments | **6,034** | 5,824 |
| Financial assets received for services | **—** | (3,587) |
| Loss on disposal of a subsidiary | **8,305** | — |
| Impairment loss recognised in respect of investments in subsidiaries | **11,557** | — |
| Allowance for doubtful debts on promissory note receivables | **3,765** | — |
| Fair value gain on early redemption option | **(168)** | (48) |
| Operating cash flows before movements in working capital | **(4,158)** | (6,374) |
| Increase in accounts receivables | **(4,258)** | (14) |
| (Decrease) increase in accounts payables | **(1,015)** | 2,338 |
| Increase in amounts due to subsidiaries | **—** | 9 |
| Increase in amount due to a director | **—** | 42 |
| Net cash used in operating activities | **(9,431)** | (3,999) |
| Investing activities | | |
| Interest received | **195** | 26 |
| Purchase of subsidiaries | **(33,861)** | (6,837) |
| Proceeds from disposal of a subsidiary | **43,500** | — |
| Advances to subsidiaries | **(23,095)** | (71,062) |
| Purchase of available-for-sale investments | **—** | (10,512) |
| Net cash used in investing activities | **(13,261)** | (88,385) |
| Financing activities | | |
| Interest paid | **(6,810)** | (3,051) |
| Proceeds from issue of shares | **566** | 477 |
| Expenses on issue of shares | **—** | (103) |
| Proceeds from issue of senior notes | **—** | 95,192 |
| Borrowings from subsidiaries | **34,175** | — |
| Bank loans raised | **—** | 34,376 |
| Repayment of bank loans | **—** | (34,376) |
| Net cash from financing activities | **27,931** | 92,515 |
| Net increase in cash and cash equivalents | **5,239** | 131 |
| Cash and cash equivalents at January 1 | **144** | 13 |
| Cash and cash equivalents at December 31 | **5,383** | 144 |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances | **5,383** | 144 |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Mothers Board of the Tokyo Stock Exchange. It acts as an investment holding company with its subsidiaries engaged in the provision of China-specific indices, financial news feeds, credit ratings, investor relations services, financial publishing in books and magazines, television consulting and distribution and other media and advertising related businesses.

The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2618GT, George Town, Grand Cayman, British West Indies, while the principal place of business of the Company is Suite 2003-5, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.

On January 1, 2007, the management of the Company has reassessed the Company's functional currency taking into consideration the expansion and increasing significance of the business of the Company's subsidiary Xinhua Finance Media Limited ("XFM") to the Group, which is engaged in media and advertising business in Mainland China (the "PRC"), and determined that the Company's functional currency has been changed from United States Dollars ("US$") to Renminbi ("RMB") with effect from that date. Furthermore, XFM was listed in March 2007 (see note 9) and during the year, has continued to significantly expand its operations in the PRC. The financial statements are presented in US$ as it is the currency which management uses to review the Group's operation.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group and the Company have applied, for the first time, the following new Standard, Amendment and Interpretations ("new IFRSs"), which are effective for the Group's and Company's financial year beginning January 1, 2007.

| | |
|---|---|
| IAS 1 (Amendment) | Capital disclosures |
| IFRS 7 | Financial instruments: Disclosures |
| IFRIC 7 | Applying the restatement approach under IAS 29 financial reporting in hyperinflationary economics |
| IFRIC 8 | Scope of IFRS 2 |
| IFRIC 9 | Reassessment of embedded derivatives |
| IFRIC 10 | Interim financial reporting and impairment |

The adoption of the new IFRSs 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.

The Group and the Company have not early applied the following new and revised Standards or Interpretations that have been issued but are not yet effective.

| | |
|---|---|
| IAS 1 (Revised) | Presentation of financial statements[1] |
| IAS 23 (Revised) | Borrowing costs[1] |
| IAS 27 (Revised) | Consolidated and separate financial statements[5] |
| IAS 32 & IAS 1 | Puttable instruments and obligations arising on liquidation[1] |
| IFRS 2 (Amendment) | Vesting conditions and cancellations[1] |
| IFRS 3 (Revised) | Business combinations[5] |
| IFRS 8 | Operating segments[1] |
| IFRIC 11 | IFRS 2: Group and treasury share transactions[2] |
| IFRIC 12 | Service concession arrangements[3] |
| IFRIC 13 | Customer loyalty programmes[4] |
| IFRIC 14 | IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction[3] |

1 Effective for annual periods beginning on or after January 1, 2009.
2 Effective for annual periods beginning on or after March 1, 2007.
3 Effective for annual periods beginning on or after January 1, 2008.
4 Effective for annual periods beginning on or after July 1, 2008.
5 Effective for annual periods beginning on or after July 1, 2009.

The directors of the Company is not yet in a position to reasonably ascertain how the application of these Standards or Interpretations may have impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values, as explained below, and in accordance with IFRSs. The principal accounting policies adopted are as follows:

### BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (collectively referred to as the "Group") made up to December 31 each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### BUSINESS COMBINATIONS

The acquisition of subsidiaries is accounted for using the purchase method in the consolidated financial statements. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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

### GOODWILL

For goodwill arising on an acquisition of a subsidiary for which the agreement date is before January 1, 2005 which represents the excess of the cost of the acquisition over the Group's interest in the fair value of identifiable assets and liabilities of a subsidiary at the date of acquisition, the Group has discontinued amortisation from January 1, 2005 onwards, and such goodwill is tested for impairment annually.

Goodwill arising on acquisitions for which the agreement date is on or after January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

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

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

## ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

Goodwill arising on acquisition of additional interests in subsidiaries represents the excess of the cost of the acquisition over the carrying value of the net assets attributable to the additional interests in the subsidiaries.

## DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

Gain or loss on deemed disposal of partial interests in subsidiaries represents the increase or decrease, respectively in the Group's share of the respective subsidiary's net assets and adjusted for the release of goodwill and reserves attributable to such change.

## INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated at cost less any identified impairment loss in the Company's financial statements.

## INVESTMENT IN AN ASSOCIATE

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

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

## REVENUE RECOGNITION

Revenue from subscription based real-time and historical information services is recognised on a straight line basis over the period of the subscription.

Service and solutions is recognised when the services are provided.

Advertising sales revenues are recognised when advertisements are published net of provisions for estimated rate adjustments and discounts. Payments received in advance are deferred until earned and such amounts are reported as deferred revenue included in other payables.

Publishing services revenues include management and information consulting fees relating to magazine subscriptions and sale of magazines. Magazine subscription revenues are recognised over the subscription period. Single copy sales of magazines through distributors or retail outlets such as newsstands, supermarkets, and convenience stores are recognised when they are sold to the end customers. Revenue from book sales is recognised when books are sold to end customers.

Advertising services include revenues from event organisation and advertising agency services and are recognised as services are provided. Revenues from event organisation include ticketing revenue recognised upon the delivery of tickets and admission to the events. Revenues from sponsorship at events are generally recorded over the period of the applicable agreements commencing from the operation of the related event.

Content production revenues include revenues from producing television programs, animations, visual effects and post-production for television commercials and broadcast design. Revenues are recognised when the master tape of the program is available for first airing under the terms of the related licensing agreement.

Revenue for the production of the logos and trailers are recognised upon delivery of the products and customer acceptance.

Revenue for image and branding consultations are recognised as the services are provided.

Advertising transactions with television and radio stations are recorded at either gross or net basis depending on whether the Company is acting as the principal or as an agent in the transaction. The Company is considered as the principal in transactions where it purchases blocks of advertising time and attempts to sell the time to advertisers and it has substantial risks and rewards of ownership, accordingly, records revenue on a gross basis. For those transactions in which the Company finds advertising space for advertisers and it does not have substantial risks and rewards of ownership, the Company is considered an agent in the transaction and, accordingly, records revenue on a net basis.

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

## LEASES

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of inception or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

## PROPERTY, PLANT AND EQUIPMENT

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

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

The cost of land and buildings is depreciated over 20 years using the straight line method or over the remaining period of the relevant lease, whichever is shorter.

The cost of leasehold improvements is depreciated over three years using the straight line method or over the remaining period of the relevant lease, whichever is shorter.

Depreciation is provided to write off the cost of other property, plant and equipment, using the straight line method, over the following estimated useful lives:

| | |
|---|---|
| Billboards and lampposts | 10 years |
| Computer and network equipment | 1 –7 years |
| Furniture, fixtures and equipment | 4 – 10 years |
| Motor vehicles | 5 years |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

## INTANGIBLE ASSETS (INCLUDING LICENSE AGREEMENTS, OPERATING AGREEMENT, CAPITALISED CONTENT PRODUCTION COSTS AND OTHER INTANGIBLE ASSETS)

*Capitalised content production costs*

Capitalised content production costs consisted of direct production costs, production overhead, development, and pre-production costs, and are stated at cost, less accumulated amortisation and impairment. Capitalised content production costs recognised as cost of revenues for a given program are determined using the program forecast method. Under this method, the amount of capitalised costs recognised as expense is based on the proportion of the program's revenues recognised for such period to the program's estimated remaining ultimate revenues. These estimates are revised periodically and foreseeable losses, if any, are provided in full.

Capitalised content production costs are capitalised only if it is anticipated that the production costs incurred on a clearly-defined program will be recovered through future commercial activity.

*Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

*Intangible assets acquired in a business combination*

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

*Impairment*

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually or whenever there is any indication that they may be impaired by comparing their carrying amounts with their recoverable amounts. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

## ONEROUS CONTRACT

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The present obligation under the contract shall be recognised and measured as a provision.

## FINANCIAL INSTRUMENTS

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

*Financial assets*
The Group's and the Company's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

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

Income is recognised on an effective interest basis for debt instruments.

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

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset 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 asset 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 Group'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 IAS 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 assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

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

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

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

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

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

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

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

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

For certain categories of financial asset, such as trade and other receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period granted, observable changes in National or local economic conditions that correlate with default on receivables.

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

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

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

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

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

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*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 liability designated as fair value through profit or loss, of which the interest expense is excluded in net gains or losses.

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 at fair value through profit or loss on initial recognition.

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 Group'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 IAS 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.

*Convertible loan*
Convertible loan comprised the host debt instrument and embedded derivatives (including the conversion option which does not meet the equity classification under IAS 32) issued by the Group are designated as financial liabilities at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible loan is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction cost that are directly attributable to the issue of the convertible loan designated financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Senior notes*
Senior notes issued by the Group that contains both liability and early redemption option components are classified separately into respective items on initial recognition. Early redemption option with exercise price not approximating to the amortised cost of the liability component on each exercise date is considered as not closely related to the host contract and is treated as separate derivative, an early redemption option derivative. At the date of issue, both the liability and early redemption option components are recognised at fair value.

In subsequent periods, the liability component of the senior notes is carried at amortised cost using the effective interest method. The early redemption option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the senior notes are allocated to the liability and the early redemption option components in proportion to the allocation of the proceeds. Transaction costs relating to the early redemption option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the senior notes using the effective interest method.

*Other financial liabilities*
Other financial liabilities including bank loans, trade and other payables, amount due to a minority shareholder of a subsidiary, amount due to a shareholder, amount due to a director and other long-term payables are subsequently measured at amortised cost, using the effective interest method.

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

**Hedge accounting**
The Group designates certain derivatives as hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges).

At the inception of the hedging relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

**Cash flow hedge**
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of administrative expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

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

Financial liabilities are derecognised when they are removed from the balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid including other liabilities assumed is recognised in profit or loss.

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

## IMPAIRMENT (OTHER THAN GOODWILL AND INTANGIBLE ASSETS)
At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

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

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

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

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 profits will be available to allow all or part of the asset to be recovered.

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

## FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the Company and consolidated financial statements, the assets and liabilities of the Company and Group entities with functional currencies other than US$ are translated into US$, at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to January 1, 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

## SHARE BASED PAYMENT TRANSACTIONS

**Share options or shares granted to employees**

The fair value of services received determined by reference to the fair value of share options, warrants or shares granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in option and warrant reserve or special reserve, as appropriate.

At each balance sheet date, the Group revises its estimates of the number of potential shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to option and warrant reserve or special reserve, as appropriate.

**Share options granted to suppliers/consultants**

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised immediately as expenses, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (option and warrant reserve).

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3 above, management had made the following key estimates that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### ESTIMATED IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in note 19.

### ESTIMATION OF CONTINGENT CONSIDERATION PROVISION

The Group and the Company has entered into contingent consideration contracts for acquisition of certain of its subsidiaries and businesses. The Group and the Company based on profit forecasts and other estimates determines the provision to be made in respect of such contingent consideration. As the process requires input of subjective assumptions, any changes to the assumptions can materially affect the provision made. As at December 31, 2007, total provision made in respect of contingent consideration by the Group and the Company amounted to US$106,319,000 and US$2,735,000, respectively, and is included in consideration payable for acquisition.



### FAIR VALUE OF EARLY REDEMPTION OPTION

The estimation of the fair value of the early redemption option attached to the senior notes, has been determined with reference to market observed prices of similar credit rating bonds but without such redemption features (the "Comparable Bonds"). The estimation of fair value and the selection of the Comparable Bonds requires subjective assumptions, any changes to the assumptions can materially affect the fair value of the early redemption option. Details of the terms of the early redemption option and the senior notes are disclosed in note 34.

## 5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes obligations under finance leases, long-term bank loans, short-term bank loans and senior notes as disclosed in notes 30, 31, 32 and 34, respectively, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits. The capital structure of the Company consists of debt, which includes the senior notes as disclosed in note 34, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

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

## 6. FINANCIAL INSTRUMENTS

### 6A. CATEGORIES OF FINANCIAL INSTRUMENTS

| | THE GROUP | |
|---|---|---|
| | **2007** **US$'000** | 2006 US$'000 |
| **Financial assets** | | |
| Held for trading | **5,079** | 4,911 |
| Designated as fair value through profit or loss | **24,910** | — |
| Loans and receivable (including cash and cash equivalents) | **297,393** | 207,664 |
| Available-for-sale financial assets | **29,921** | 34,534 |
| **Financial liabilities** | | |
| Designated as fair value through profit or loss | **—** | 12,445 |
| Derivative instruments in designated hedge accounting relationship | **16,729** | — |
| Amortised cost | **248,214** | 218,771 |

| | THE COMPANY | |
|---|---|---|
| | **2007** **US$'000** | 2006 US$'000 |
| **Financial assets** | | |
| Held for trading | **5,079** | 4,911 |
| Loans and receivable (including cash and cash equivalents) | **21,706** | 240,987 |
| Available-for-sale financial assets | **—** | 10,512 |
| **Financial liabilities** | | |
| Derivative instruments in designated hedge accounting relationship | **16,729** | — |
| Amortised cost | **176,209** | 100,551 |

### 6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, trade and other receivables, promissory note receivables, early redemption option, bank balances and cash, trade payables, obligation under finance leases, bank loans, convertible loan, senior notes and derivative financial instruments. The Company's major financial instruments comprise amounts due from subsidiaries, available-for-sale investments, promissory note receivables, early redemption option, senior notes and derivative financial instruments. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk**

***(i) Currency risk***

Several subsidiaries of the Company have foreign currency sales and certain trade receivables, bank balances, trade payables and bank loans of the Group are denominated in foreign currencies other than the functional currencies of the relevant group entities which expose the Group to foreign currency risk. The Company is exposed to foreign currency risk as certain amounts due from subsidiaries, bank balances and amount due to a director are denominated in foreign currencies other than the functional currency of the Company. In order to mitigate the foreign currency risk, management closely monitors such risks and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's and the Company's monetary assets and monetary liabilities denominated in currencies other than the functional currencies of the relevant group entities at reporting date, other than those which have been hedged, are as follows:

| | THE GROUP | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | **2007 US$'000** | 2006 US$'000 | **2007 US$'000** | 2006 US$'000 |
| US$ | **43,166** | 7,957 | **54,701** | 2,333 |
| Hong Kong dollars ("HK$") | **337** | — | **29,901** | — |
| RMB | **103** | 77 | **411** | 1,947 |

| | THE COMPANY | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | **2007 US$'000** | 2006 US$'000 | **2007 US$'000** | 2006 US$'000 |
| US$ | **18,522** | — | **54,008** | — |
| HK$ | **337** | — | **71** | — |

Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuations between US$ and RMB. The Company is mainly exposed to exchange rate fluctuation in US$ as a result of the change in its functional currency during the year.

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in US$ against the RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive or negative number below indicates an increase or decrease, respectively, in profit and other equity where US$ strengthen 5% against the relevant currency. For a 5% weakening of US$ against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

| | THE GROUP | |
|---|---|---|
| | Impact | |
| | **2007 US$'000** | 2006 US$'000 |
| Profit or loss | **(580)** | 293 |
| Other equity(1) | **239** | — |

| | THE COMPANY | |
|---|---|---|
| | Impact | |
| | **2007 US$'000** | 2006 US$'000 |
| Profit or loss | **(1,774)** | — |
| Other equity(1) | **239** | — |

(1) This is a result of the changes in fair value of the derivative financial instrument designated as cash flow hedges.

*(ii)* ***Interest rate risk***

The Group's and the Company's fair value interest rate risk relates primarily to fixed-rate senior notes (see note 34) and fixed-rate short-term bank loans (see note 32). The management of the Group monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arises.

The Group's cash flow interest rate risk relates primarily to variable-rate bank deposits (see note 27) and variable-rate long-term bank loans (see note 31). The management of the Group monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arises.

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended December 31, 2007 would decrease/increase by US$612,000 (2006: decrease/increase by US$340,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

If interest rates had been 50 basis points higher/lower and all variables here held constant, the Company's profit for the year ended December 31, 2007 would decrease/increase by US$1,000 (2006: decrease/increase by US$1,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

**Credit risk**

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at December 31, 2007 in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated balance sheet and balance sheet, respectively.

In order to minimise the credit risk in relation to trade receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The amounts presented in the balance sheet are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

In order to minimise credit risk of the Company, in respect of its amounts due from subsidiaries, management periodically monitors the financial position of each of its subsidiaries to ensure each subsidiary is financially viable to settle the debts due to the Company. Adequate impairment losses are made for irrecoverable amounts.

The credit risk on liquid funds and the principal protected notes is limited because majority of the counterparties are reputable banks or banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk for its trade and other receivables, with exposure spread over a large number of counterparties and customers.

Credit risk on promissory note receivables are concentrated as US$19,713,000 (2006: US$18,464,000) of the gross amount of promissory note receivables are due from the top two largest note holders and the maximum exposure to credit risk in respect of such concentration is the carrying amount of promissory note receivable as stated in the respective note. Management considers based on strong financial background and good credit history of those debtors, there are no significant credit risks.

Credit risk on amounts due from subsidiaries are concentrated to a small number of counter parties and the maximum exposure to credit risk in respect of such concentration is the carrying amount of amounts due from subsidiaries as stated on the balance sheet. Management considers based on good forecasts of results of the individual subsidiaries, there are no significant credit risks.

**Liquidity risk**

In the management of the liquidity risk, the Group and the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group and the Company relies on bank borrowings as a significant source of liquidity. As at December 31, 2007, the Group and the Company has available unutilised overdraft and bank loan facilities of approximately US$20,581,000 (2006: US$2,408,000).

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities that will result in cash out flow. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

*Liquidity and interest risk tables*

| | THE GROUP | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Weighted average effective interest rate** | **On demand** | **Less than 1 year** | **1 – 5 years** | **Over 5 years** | **Total undiscounted cash flows** | **Carrying amount** |
| | % | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| At December 31, 2007 | | | | | | | |
| Financial liabilities | | | | | | | |
| Non-interest bearing | N/A | 1,459 | 30,355 | 1,589 | — | 33,403 | 33,403 |
| Fixed interest rate instruments | 5.4 | — | 59,652 | 162,817 | 64,640 | 287,109 | 212,133 |
| Variable interest rate instruments* | 6.3 | — | 1,552 | 1,488 | — | 3,040 | 2,678 |
| | | 1,459 | 91,559 | 165,894 | 64,640 | 323,552 | 248,214 |
| At December 31, 2006 | | | | | | | |
| Financial liabilities | | | | | | | |
| Non-interest bearing | N/A | 2,245 | 15,806 | 1,216 | — | 19,267 | 19,267 |
| Fixed interest rate instruments | 7.1 | — | 48,359 | 180,228 | 61,085 | 289,672 | 199,504 |
| Variable interest rate instruments* | 8.1 | — | 1,005 | 12,696 | — | 13,701 | 12,445 |
| | | 2,245 | 65,170 | 194,140 | 61,085 | 322,640 | 231,216 |

| | Weighted average effective interest rate | On demand | Less than 1 year | 1 – 5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|
| | THE COMPANY | | | | | |
| | % | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| At December 31, 2007 | | | | | | |
| Financial liabilities | | | | | | |
| Non-interest bearing | N/A | 76,226 | — | — | 76,226 | 76,226 |
| Fixed interest rate instruments | 10.0 | — | 10,000 | 129,167 | 139,167 | 99,983 |
| | | 76,226 | 10,000 | 129,167 | 215,373 | 176,209 |
| At December 31, 2006 | | | | | | |
| Financial liabilities | | | | | | |
| Non-interest bearing | N/A | 498 | — | — | 498 | 498 |
| Fixed interest rate instruments | 10.0 | — | 10,000 | 139,167 | 149,167 | 100,053 |
| | | 498 | 10,000 | 139,167 | 149,665 | 100,551 |

* *The interest rates applied to project variable interest rate instrument's undiscounted future cash flows are the interest rates at the balance sheet date.*

### 6C. FAIR VALUE

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivative.

The carrying amounts of short-term financial assets and liabilities carried at amortised cost approximate their respective fair values due to the relatively short-term maturity of these financial instruments.

## 7. REVENUES AND SEGMENT INFORMATION

### REVENUES

Substantially all of the Group's revenue are from rendering of services.

The Company's revenue for the year represents service fee received and receivable from group companies and outsiders. The group service fee income was charged to group companies as the Company performed certain administrative services for the group companies being an allocation of costs incurred by the Company plus a certain percentage of mark up.

### BUSINESS SEGMENTS

For management purposes, the Group is currently organised into three main operating divisions, namely provision of news and financial information, provision of service and solutions and the media and advertising business. These divisions are the basis on which the Group reports its primary segment information.

The principal activities of each of the Group's business segments are as follows:

News and financial information — provision of real-time and historical information services.

Service and solutions — provision of services and solutions services.

Media and advertising business — provision of advertising, publishing and content production services.

An analysis of the Group's revenues and results by business segments is as follows:

| | 2007 US$'000 | | 2006 US$'000 | |
|---|---|---|---|---|
| | **Revenues** | **Results** | Revenues | Results |
| Business segments | | | | |
| — provision of news and financial information | **77,369** | **1,558** | 70,756 | 13,809 |
| — provision of service and solutions | **45,468** | **(4,825)** | 44,634 | 7,939 |
| — media and advertising business | **134,839** | **18,991** | 59,573 | 9,048 |
| | **257,676** | **15,724** | 174,963 | 30,796 |
| Interest income | | **10,153** | | 3,396 |
| Loss on disposal of a subsidiary | | **(5,351)** | | — |
| Gain on partial disposal of a subsidiary | | **—** | | 640 |
| Net gain on deemed disposal of partial interest in a subsidiary | | **95,841** | | 15,397 |
| Net fair value change on early redemption option, convertible loan and redeemable convertible preferred shares | | **(5,527)** | | 300 |
| Share of results of associates | | **(6)** | | 196 |
| Finance costs | | **(14,294)** | | (7,354) |
| Unallocated corporate expenses | | **(23,172)** | | (18,244) |
| Profit before taxation | | **73,368** | | 25,127 |
| Taxation | | **(4,569)** | | (2,855) |
| Profit for the year | | **68,799** | | 22,272 |

An analysis of the Group's balance sheet by business segments is as follows:

| | **2007 US$'000** | 2006 US$'000 |
|---|---|---|
| Assets | | |
| Segment assets | | |
| — provision of news and financial information | **162,289** | 139,199 |
| — provision of service and solutions | **106,202** | 135,454 |
| — media and advertising business | **656,548** | 355,399 |
| Unallocated corporate assets | **191,910** | 138,063 |
| | **1,116,949** | 768,115 |
| Liabilities | | |
| Segment liabilities | | |
| — provision of news and financial information | **18,205** | 17,687 |
| — provision of service and solutions | **18,784** | 17,006 |
| — media and advertising business | **21,486** | 82,287 |
| Unallocated corporate liabilities | **404,989** | 234,139 |
| | **463,464** | 351,119 |

## OTHER INFORMATION

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Capital additions | | |
| — provision of news and financial information | **65,997** | 2,299 |
| — provision of service and solutions | **13,348** | 6,897 |
| — media and advertising business | **251,988** | 287,822 |
| | **331,333** | 297,018 |
| Depreciation and amortisation | | |
| — provision of news and financial information | **2,122** | 1,504 |
| — provision of service and solutions | **4,136** | 1,182 |
| — media and advertising business | **14,969** | 4,396 |
| | **21,227** | 7,082 |



## GEOGRAPHICAL SEGMENTS

The Group's operations are located in Asia, including Japan and PRC, United States of America ("US") and Europe. The Group's news and financial information business is carried out in Asia and US. The service and solutions business is carried out in Asia, US and Europe. The media and advertising business is carried out in Asia.

The following table provides an analysis of the Group's revenues by geographical market, based on location of customers and irrespective of the origin of the services:

| | Revenues | |
|---|---|---|
| | 2007 US$'000 | 2006 US$'000 |
| PRC | **148,168** | 68,166 |
| US | **72,618** | 73,608 |
| Europe | **20,935** | 19,631 |
| Asia (excluding Japan and PRC) | **8,986** | 6,264 |
| Japan | **3,543** | 5,405 |
| Others | **3,426** | 1,889 |
| | **257,676** | 174,963 |

The following is an analysis of the Group's carrying amount of segment assets and capital additions to property, plant and equipment and intangible assets analysed by the geographical area in which the assets are located:

| | Carrying amount of segment assets | | Capital additions | |
|---|---|---|---|---|
| | **2007 US$'000** | 2006 US$'000 | **2007 US$'000** | 2006 US$'000 |
| PRC | **581,320** | 477,659 | **192,522** | 165,130 |
| US | **301,632** | 58,392 | **93,376** | 72,586 |
| Europe | **17,685** | 4,881 | **26,920** | 18,757 |
| Asia (excluding Japan and PRC) | **4,124** | 86,534 | **11,554** | 33,577 |
| Japan | **3,217** | 2,022 | **4,556** | 5,164 |
| Others | **17,061** | 564 | **4,405** | 1,804 |
| | **925,039** | 630,052 | **331,333** | 297,018 |

## 8. FINANCE COSTS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2007 US$'000** | 2006 US$'000 | **2007 US$'000** | 2006 US$'000 |
| Interest on | | | | |
| — bank borrowings | **(2,755)** | (3,865) | **—** | (997) |
| — convertible loan | **(164)** | (638) | **—** | — |
| — finance leases | **(4,565)** | (799) | **—** | — |
| — senior notes | **(6,810)** | (1,096) | **(6,810)** | (1,096) |
| | **(14,294)** | (6,398) | **(6,810)** | (2,093) |
| Upfront fee on bank loan | **—** | (956) | **—** | (956) |
| | **(14,294)** | (7,354) | **(6,810)** | (3,049) |

## 9. NET GAIN ON DEEMED DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

In March 2007, the Group spun off XFM, a subsidiary of the Company principally engaged in the media and advertising business, for a listing on Nasdaq in the US (the "Spin-off"). XFM issued 34,615,846 new shares to the public investors at a price of US$6.5 per share, raising a gross proceed of US$225,003,000 before expenses. Pursuant to the Convertible Shares and the Convertible Loan agreements (as defined in note 33) entered by XFM, the Convertible Loan and Convertible Shares were automatically converted into ordinary shares of XFM upon the initial public offering of XFM on a recognised stock exchange which values XFM with a market capitalisation of at least a certain specified sum. The issue of new shares by XFM together with the conversion of Convertible Loan and Convertible Shares have resulted in a reduction of the Group's equity interest in XFM by 29%. The gain on this deemed disposal of partial interest in XFM was US$97,511,000.

In addition, XFM has issued its shares to independent third parties as consideration for acquisition of certain subsidiaries during the year. The issue of shares has resulted in a gain on deemed disposal of partial interest in XFM of US$540,000.

Also, during the year certain option holders of XFM exercised their share options in XFM which resulted in a loss on deemed disposal of partial interest in XFM of US$2,210,000. As a result of the foregoing, the Group recorded a net gain on deemed disposal of partial interest in a subsidiary of US$95,841,000.

The gain in 2006 of US$15,397,000 was a result of the issue of XFM shares by XFM as consideration for the acquisition of certain subsidiaries.

## 10. PROFIT (LOSS) BEFORE TAXATION

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **US$'000** | US$'000 | **US$'000** | US$'000 |
| Profit (loss) before taxation has been arrived at after charging: | | | | |
| Directors' remuneration | | | | |
| — fees | **193** | 1,026 | **193** | 1,026 |
| — share based payments | **2,013** | 1,666 | **—** | — |
| — retirement benefits scheme contributions | **2** | 2 | **2** | 2 |
| — other emoluments | **1,848** | 1,147 | **1,515** | 1,147 |
| | **4,056** | 3,841 | **1,710** | 2,175 |
| Other staff's share based payments | **7,093** | 6,451 | **6,034** | 5,824 |
| Other staff's retirement benefits scheme contributions | **660** | 273 | **2** | 3 |
| Other staff costs | **77,269** | 29,024 | **782** | 454 |
| Total staff costs | **89,078** | 39,589 | **8,528** | 8,456 |
| Allowance for doubtful debts on promissory note receivables | **5,546** | — | **3,765** | — |
| Amortisation of | | | | |
| — license agreements | **5,658** | 241 | **—** | — |
| — operating agreement | **913** | 659 | **—** | — |
| — capitalised content production costs, included in cost of revenues | **1,674** | 1,554 | **—** | — |
| — other intangible assets | **8,975** | 3,136 | **—** | — |
| Depreciation of property, plant and equipment | | | | |
| — owned by the Group | **5,488** | 3,041 | **—** | — |
| — held under finance leases | **193** | 5 | **—** | — |
| Fair value loss on principal protected note | **90** | — | **—** | — |
| Impairment loss on property, plant and equipment | **234** | — | **—** | — |
| Loss on disposal of property, plant and equipment | **72** | 10 | **—** | — |
| Operating lease rentals in respect of rented premises | **9,066** | 5,490 | **—** | — |
| and after crediting: | | | | |
| Fair value gain on foreign exchange linked notes | **668** | — | **—** | — |
| Gain on disposal of available-for-sale investments | **112** | 245 | **—** | — |
| Interest income | **10,153** | 3,396 | **1,032** | 123 |
| Net exchange gain | **3,074** | 59 | **3,844** | — |

## 11. TAXATION

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2007 US$'000** | 2006 US$'000 | **2007 US$'000** | 2006 US$'000 |
| Hong Kong Profits Tax calculated at 17.5% on the estimated assessable profit for the year | **(2,583)** | (516) | **—** | — |
| PRC income tax | **(2,188)** | (1,966) | **—** | — |
| Overseas taxation | **(2,728)** | (1,621) | **—** | — |
| Overprovision of taxation in prior years | **257** | 680 | **—** | — |
| | **(7,242)** | (3,423) | **—** | — |
| Deferred taxation | | | | |
| — current year | **2,561** | 568 | **—** | — |
| — attributable to change in tax rate | **112** | — | **—** | — |
| | **2,673** | 568 | **—** | — |
| | **(4,569)** | (2,855) | **—** | — |

PRC income tax is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries are entitled to exemption from PRC income tax for the two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years.

On March 16, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain PRC subsidiaries from January 1, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled. PRC subsidiaries which are entitled to the tax relief, as mentioned above, will continue to enjoy the preferential tax treatment until expiration, on effect of the New Law.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Tax charge for the year is reconciled to profit (loss) before taxation as follows:

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | **2007 US$'000** | **%** | 2006 US$'000 | % | **2007 US$'000** | **%** | 2006 US$'000 | % |
| Profit (loss) before taxation | **73,368** | | 25,127 | | **(39,429)** | | (11,489) | |
| Tax at the applicable income tax rate | **(12,839)** | **(17.5)** | (4,397) | (17.5) | **6,900** | **17.5** | 2,011 | 17.5 |
| Tax effect of expenses not deductible for tax purposes | **(12,983)** | **(17.7)** | (5,635) | (22.4) | **(7,080)** | **(17.7)** | (2,011) | (17.5) |
| Tax effect of income not taxable for tax purposes | **19,150** | **26.1** | 4,240 | 16.9 | **180** | **0.2** | — | — |
| Tax effect of unrecognised tax losses | **(585)** | **(0.8)** | — | — | **—** | **—** | — | — |
| Tax effect on utilisation of tax losses not previously recognised | **1,470** | **2.0** | 442 | 1.7 | **—** | **—** | — | — |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(3,211)** | **(4.4)** | (2,548) | (10.1) | **—** | **—** | — | — |
| Effect of tax exemption and concessionary rate granted to PRC subsidiaries | **7,022** | **9.5** | 4,777 | 19.0 | **—** | **—** | — | — |
| Overprovision in prior years | **257** | **0.4** | 680 | 2.7 | **—** | **—** | — | — |
| Others | **(2,850)** | **(3.8)** | (414) | (1.7) | **—** | **—** | — | — |
| Tax charge and effective tax rate for the year | **(4,569)** | **(6.2)** | (2,855) | (11.4) | **—** | **—** | — | — |

## 12. EARNINGS PER SHARE

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

| | THE GROUP | |
|---|---|---|
| | **2007** **US$'000** | 2006 US$'000 |
| Profit for the year attributable to equity holders of the Company for calculating basic and diluted earnings per share | **56,466** | 18,731 |
| Effect of options and warrants of a subsidiary | **(519)** | — |
| | **55,947** | 18,731 |

| | THE GROUP Number of shares | |
|---|---|---|
| | **2007** | 2006 |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **1,007,037** | 880,001 |
| Effect of dilutive potential ordinary shares | | |
| — warrants | **1,581** | 2,535 |
| — options | **2,277** | 4,244 |
| — contingent issuable shares | **63,702** | 43,337 |
| — unvested shares | **7,882** | — |
| | **75,442** | 50,116 |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | **1,082,479** | 930,117 |

The calculation of diluted earnings per share for the both years, does not take into account of the convertible loan and preferred shares of a subsidiary as the conversion would result in an increase in earnings per share. The convertible loan and preferred shares of a subsidiary were fully converted into ordinary shares of the subsidiary during the year ended December 31, 2007.

The calculation of diluted earnings per share does not include certain options and warrants of the Company and a subsidiary for the year, as the exercise price of these options and warrants was higher than the average market price for these shares.

Contingent issuable shares are included in the calculation of dilutive potential ordinary shares as the attainment of earn-out conditions has been satisfied at the balance sheet date.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings US$'000 | Billboards and lampposts US$'000 | Computer and network equipment US$'000 | Furniture, fixtures and equipment US$'000 | Leasehold improve-ments US$'000 | Motor vehicles US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **THE GROUP** | | | | | | | |
| COST | | | | | | | |
| At January 1, 2006 | — | — | 6,480 | 1,392 | 1,423 | — | 9,295 |
| Currency realignment | — | — | 46 | 44 | 34 | — | 124 |
| Acquired on acquisition of subsidiaries | — | 575 | 1,622 | 224 | 125 | 315 | 2,861 |
| Additions | 3,025 | — | 4,757 | 494 | 646 | 146 | 9,068 |
| Disposals | — | — | (118) | (83) | — | (7) | (208) |
| At December 31, 2006 | 3,025 | 575 | 12,787 | 2,071 | 2,228 | 454 | 21,140 |
| Currency realignment | 154 | 35 | 309 | 96 | 87 | 18 | 699 |
| Acquired on acquisition of subsidiaries | — | 441 | 1,290 | 464 | 379 | 76 | 2,650 |
| Additions | 4 | 1,842 | 5,042 | 1,622 | 2,321 | 226 | 11,057 |
| Eliminated on disposal of a subsidiary | — | — | (1,160) | (155) | (211) | — | (1,526) |
| Disposals | — | — | (460) | (98) | (117) | (77) | (752) |
| Transfers | — | — | — | (36) | — | 36 | — |
| Adjustment on finalisation of fair values provisionally determined in prior year | — | — | 1,820 | — | — | — | 1,820 |
| At December 31, 2007 | 3,183 | 2,893 | 19,628 | 3,964 | 4,687 | 733 | 35,088 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | |
| At January 1, 2006 | — | — | 2,124 | 385 | 516 | — | 3,025 |
| Currency realignment | 1 | — | 27 | 38 | 26 | — | 92 |
| Provided for the year | 92 | 59 | 2,079 | 442 | 329 | 45 | 3,046 |
| Eliminated on disposals | — | — | (88) | (68) | — | (3) | (159) |
| At December 31, 2006 | 93 | 59 | 4,142 | 797 | 871 | 42 | 6,004 |
| Currency realignment | 2 | 10 | (22) | 47 | 143 | (137) | 43 |
| Provided for the year | 156 | 249 | 3,551 | 672 | 794 | 259 | 5,681 |
| Impairment loss | — | — | 71 | 15 | 148 | — | 234 |
| Eliminated on disposal of a subsidiary | — | — | (483) | (66) | (93) | — | (642) |
| Eliminated on disposals | — | — | (97) | — | (42) | (59) | (198) |
| Transfers | — | — | — | (20) | — | 20 | — |
| Adjustment on finalisation of fair values provisionally determined in prior year | — | — | 19 | — | — | — | 19 |
| At December 31, 2007 | 251 | 318 | 7,181 | 1,445 | 1,821 | 125 | 11,141 |
| NET BOOK VALUES | | | | | | | |
| At December 31, 2007 | 2,932 | 2,575 | 12,447 | 2,519 | 2,866 | 608 | 23,947 |
| At December 31, 2006 | 2,932 | 516 | 8,645 | 1,274 | 1,357 | 412 | 15,136 |

The land and buildings which are situated in PRC are held under medium-term leases.

Owner-occupied leasehold land is included in property, plant and equipment only when allocations between the land and building elements cannot be made reliably.

At the balance sheet date, the net book value of furniture, fixtures and equipment held under finance leases by the Group was US$137,000 (2006: US$96,000).

## 14. INVESTMENTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | **2007** **US$'000** | 2006 US$'000 |
| US listed shares, at cost | **128,445** | — |
| Unlisted shares, at cost | **378,828** | 219,223 |
| Impairment loss | **(11,557)** | — |
| | **495,716** | 219,223 |

The market value of the listed subsidiary's shares as at December 31, 2007 amounted to US$300,328,000.

Impairment loss was recognised based on the recoverable amounts of subsidiaries determined by the estimated discounted net future cash flows from these subsidiaries.

Details of the Company's principal subsidiaries at December 31, 2007 are set out in note 48.



## 15. LICENSE AGREEMENTS

| | US$'000 |
|---|---|
| **THE GROUP** | |
| COST | |
| Additions and balance at December 31, 2006 | 86,111 |
| Additions | 3,955 |
| At December 31, 2007 | 90,066 |
| AMORTISATION | |
| Amortised for the year and balance at December 31, 2006 | 241 |
| Amortised for the year | 5,658 |
| At December 31, 2007 | 5,899 |
| CARRYING VALUE | |
| At December 31, 2007 | 84,167 |
| At December 31, 2006 | 85,870 |

The license agreements have definite useful lives and are amortised on a straight line basis over their estimated useful lives of 30 years. The license agreements represent the exclusive advertising rights held by the Group to broadcast on a television and radio station in the PRC.

## 16. OPERATING AGREEMENT

| | US$'000 |
|---|---|
| **THE GROUP** | |
| COST | |
| Additions and balance at December 31, 2006 | 50,496 |
| Additions | 686 |
| At December 31, 2007 | 51,182 |
| AMORTISATION | |
| Amortised for the year and balance at December 31, 2006 | 659 |
| Amortised for the year | 913 |
| At December 31, 2007 | 1,572 |
| CARRYING VALUE | |
| At December 31, 2007 | 49,610 |
| At December 31, 2006 | 49,837 |

The operating agreement has definite useful life and is amortised on a straight line basis over its estimated useful life of 50 years. The operating agreement mainly represents the exclusive rights held by the Group to sell advertising spaces on a newspaper in the PRC.

## 17. CAPITALISED CONTENT PRODUCTION COSTS

| | US$'000 |
|---|---|
| **THE GROUP** | |
| Additions and balance at December 31, 2006 | 2,951 |
| Additions | 2,078 |
| At December 31, 2007 | 5,029 |
| AMORTISATION | |
| Amortised for the year and balance at December 31, 2006 | 1,554 |
| Amortised for the year | 1,674 |
| At December 31, 2007 | 3,228 |
| CARRYING VALUE | |
| At December 31, 2007 | 1,801 |
| At December 31, 2006 | 1,397 |

The capitalised content production costs represents production costs incurred in relation to the production of television programs.

## 18. OTHER INTANGIBLE ASSETS

| | Brand name and distribution right US$'000 | Trademarks US$'000 | Customer base US$'000 | Advertising rights US$'000 | Radio contracts US$'000 | Non-competing agreements US$'000 | Others US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|
| **THE GROUP** | | | | | | | | |
| COST | | | | | | | | |
| At January 1, 2006 | 1,100 | — | — | — | — | — | 207 | 1,307 |
| Acquired on acquisition of subsidiaries | 14 | 1,013 | 4,905 | 6,027 | — | 2,515 | 1,210 | 15,684 |
| At December 31, 2006 | 1,114 | 1,013 | 4,905 | 6,027 | — | 2,515 | 1,417 | 16,991 |
| Acquired on acquisition of subsidiaries | 5,763 | 10,100 | 27,728 | 9,512 | 7,029 | 7,278 | 1,894 | 69,304 |
| Additions | — | — | — | — | 193 | — | 1,178 | 1,371 |
| Eliminated on disposal of a subsidiary | — | — | (10,202) | — | — | — | — | (10,202) |
| Adjustment on finalisation of fair values provisionally determined in prior year | — | 807 | 52 | — | — | (145) | (355) | 359 |
| At December 31, 2007 | 6,877 | 11,920 | 22,483 | 15,539 | 7,222 | 9,648 | 4,134 | 77,823 |
| AMORTISATION AND IMPAIRMENT | | | | | | | | |
| At January 1, 2006 | 400 | — | — | — | — | — | 207 | 607 |
| Amortised for the year | 104 | 28 | 1,181 | 825 | — | 617 | 381 | 3,136 |
| At December 31, 2006 | 504 | 28 | 1,181 | 825 | — | 617 | 588 | 3,743 |
| Amortised for the year | 407 | 232 | 3,478 | 2,646 | 512 | 1,573 | 127 | 8,975 |
| Eliminated on disposal of a subsidiary | — | — | (1,526) | — | — | — | — | (1,526) |
| Adjustment on finalisation of fair values provisionally determined in prior year | — | — | — | — | — | — | (19) | (19) |
| At December 31, 2007 | 911 | 260 | 3,133 | 3,471 | 512 | 2,190 | 696 | 11,173 |
| CARRYING VALUES | | | | | | | | |
| At December 31, 2007 | 5,966 | 11,660 | 19,350 | 12,068 | 6,710 | 7,458 | 3,438 | 66,650 |
| At December 31, 2006 | 610 | 985 | 3,724 | 5,202 | — | 1,898 | 829 | 13,248 |

The above intangible assets have definite useful lives. They are amortised on a straight line basis over their estimated useful lives as follows:

| | |
|---|---|
| Brand name and distribution right | 1 – 11 years |
| Trademarks | 3 – 15 years |
| Customer base | 3 – 15 years |
| Advertising rights | 4 – 20 years |
| Radio contracts | 8 years |
| Non-competing agreements | 1 – 5 years |
| Others | 1 – 20 years |

## 19. GOODWILL

| | US$'000 |
|---|---|
| **THE GROUP** | |
| COST | |
| At January 1, 2006 | 209,470 |
| Arising on acquisition of subsidiaries | 106,873 |
| Arising on acquisition of additional interests in subsidiaries | 3,750 |
| Additional consideration for acquisition of subsidiaries | 12,206 |
| Eliminated on disposal of a subsidiary | (196) |
| At December 31, 2006 | 332,103 |
| Arising on acquisition of subsidiaries | 217,656 |
| Arising on acquisition of additional interests in subsidiaries | 15,450 |
| Net adjustments on subsequent consideration for acquisition of subsidiaries | 5,325 |
| Adjustment on finalisation of fair values provisionally determined in prior year | (1,256) |
| Eliminated on disposal of a subsidiary | (44,940) |
| Impairment loss | (15,094) |
| At December 31, 2007 | 509,244 |

Goodwill acquired in a business combination is allocated to the following cash generating units ("CGUs") that are expected to benefit from the respective business combinations:

| | **THE GROUP** | |
|---|---|---|
| | **2007 US$'000** | 2006 US$'000 |
| Provision of news and financial information | **102,578** | 119,657 |
| Provision of service and solutions | **82,811** | 76,640 |
| Media and advertising business | **323,855** | 135,806 |
| | **509,244** | 332,103 |

The provision of news and financial information CGU mainly comprise of Mergent Inc. (US$50,756,000), while provision of services and solutions CGU mainly comprise of Taylor Rafferty, Associates Inc. (US$39,898,000) and G7 Group Inc. (US$8,220,000). The media and advertising CGU mainly comprise of Xinhua Finance Advertising Limited (US$101,288,000), Good Speed Holdings Limited (US$45,919,000) and Profittown Development Limited (US$79,212,000).

During the year, the Group performed an impairment review for goodwill based on cash flow forecasts derived from the most recent financial budgets for the next five years and after the fifth year, the projections are extrapolated using a constant growth rate of 3.5% to 5.0% per annum for subsequent years. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. The forecast is discounted using a discount rate of 9%, 11% and 13% for the provision of news and financial information CGU, provision of services and solutions CGU and media and advertising CGU, respectively. The discount rates were determined with reference to weighted average cost of capital ("WACC") of similar companies in the industry and the Company's WAAC plus certain adjustments. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and management's expectations of future changes in the market. There has been no significant changes in the model used by management as compared to 2006.

During the year ended December 31, 2007, the Group recognised impairment losses of US$10,914,000 and US$4,180,000 in relation to goodwill acquired on business combinations of the provision of news and financial information CGU and the provision of service and solutions CGU, respectively. Impairment losses were recognised as the individual CGUs actual results did not meet management's forecasts.

### SENSITIVITY ANALYSIS

The sensitivity analyses below details the Group's sensitivity to the discounts rates used by management. A 2% increase in discount rates is used and is considered reasonable by management of the possible change in market conditions.

If discount rates had been 2% higher, additional impairment losses of US$3,152,863 and US$1,722,000 would be recognised for the CGU of provision of news and financial information and provision of service and solutions, respectively.

## 20. INTERESTS IN ASSOCIATES

| | THE GROUP | |
|---|---|---|
| | **2007 US$'000** | 2006 US$'000 |
| Cost of investment in unlisted associates | **339** | 339 |
| Currency realignment | **18** | — |
| Share of post-acquisition profits | **190** | 196 |
| | **547** | 535 |

Details of the Group's associates at December 31, 2007 are as follows:

| **Name of associate** | **Country of incorporation** | **Attributable proportion of registered capital/ issued capital held by the Company indirectly** | **Principal activity** |
|---|---|---|---|
| Best Independent Research LLC ("BIR") | US | 15.3%* | Provision of equity securities research |
| 寧波遠資信評估有限公司 (Ningbo Far East Credit Rating Co., Ltd.) | PRC | 40% | Credit rating and consultancy services |

* *The Group is able to exercise significant influence over BIR because it has the power to appoint one out of five directors of that company.*

## 21. DEBT SECURITIES

| | THE GROUP | |
|---|---|---|
| | **2007 US$'000** | 2006 US$'000 |
| Unlisted PRC debt securities | **676** | 640 |

The debt securities denominated in RMB, carry interest at People's Bank of China one-year fixed deposit rate plus 3% per annum and will mature in March 2010.

## 22. AVAILABLE-FOR-SALE INVESTMENTS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2007** **US$'000** | 2006 US$'000 | **2007** **US$'000** | 2006 US$'000 |
| PRC listed equity securities | **787** | 63 | **—** | — |
| US listed equity securities | **4,784** | — | **—** | — |
| Unlisted trust funds, at cost | **303** | 280 | **—** | — |
| Unlisted equity securities, at cost | **24,047** | 34,191 | **—** | 10,512 |
| | **29,921** | 34,534 | **—** | 10,512 |

Unlisted equity securities and trust funds are measured at cost less impairment at each balance sheet date as the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Included in investments in unlisted equity securities above is the Group's investment in Hyperion Investments Limited ("Hyperion"), a company incorporated in the Bahamas, with a carrying amount of US$23,164,000. The Group holds 19% equity interests in Hyperion. Hyperion is an investment holding company and is also engaged in the trading of listed investments. As at balance sheet date, the Group has no formal plan to dispose of the investment in Hyperion.

During the year, the Group derecognised its available-for-sale investment in Glass Lewis & Co., ("Glass Lewis") with carrying amount of US$10,512,000, as a result of the acquisition of the remaining equity interest in Glass Lewis (see note 41).

## 23. PROMISSORY NOTE RECEIVABLES

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2007** **US$'000** | 2006 US$'000 | **2007** **US$'000** | 2006 US$'000 |
| Promissory note receivables | **24,314** | 21,260 | **3,765** | 3,587 |
| Less: Allowance for doubtful debts | **(5,546)** | — | **(3,765)** | — |
| | **18,768** | 21,260 | **—** | 3,587 |

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2007** **US$'000** | 2006 US$'000 | **2007** **US$'000** | 2006 US$'000 |
| The promissory notes are due as follows: | | | | |
| Within one year | **10,868** | 21,260 | **—** | 3,587 |
| Between one to five years | **7,900** | — | **—** | — |
| | **18,768** | 21,260 | **—** | 3,587 |
| Less: Amount due within one year shown under current assets | **10,868** | 21,260 | **—** | 3,587 |
| Amount due after one year | **7,900** | — | **—** | — |

The promissory note receivables are denominated in US$ and carry fixed interest rates ranging from 8% to 10%.

Included in the above promissory note receivables, before allowances, of the Group and the Company is an amount of US$14,692,000 and US$3,765,000 respectively, which has been past due over 0-180 days. In January 2008, the Group has entered into supplementary agreements to extend the repayment date of promissory note receivables of an amount of US$3,600,000 for a further period of two years. Promissory note receivables which have been past due but impairment loss has not been provided nor repayment dates extended amounted to US$5,546,000. Management considers, based on good business relationship with the counterparty, there are no significant credit risk.

Also, included in the above promissory note receivables of the Group is an amount of US$7,900,000 which is due from a company in which a former director of the Company has a beneficial interest and which was originally due in 2007 but repayment term was revised and extended for a further period of four years.

Subsequent to the balance sheet date, the Group has entered into a collateral agreement (the "Collateral Agreement") to secure US$3,600,000 of the promissory note receivables which has been past due. The assets pledged per the Collateral Agreement, amongst other assets, included listed equity securities with market value exceeding US$3,600,000. Apart from the Collateral Agreement, all remaining promissory note receivables are unsecured.

Management closely monitors the credit quality of the promissory note receivables and considers promissory note receivables neither past due nor impaired to be of a good credit quality.



## 24. PRINCIPAL PROTECTED NOTES

During the year, the Group acquired a US$25 million unsecured principal protected notes (the "Notes") which will mature on January 30, 2009 (the "Maturity Date") from an investment bank (the "Investment Bank"). On the Maturity Date the Notes will be redeemed at 100% plus a variable amount based on the performance of the FTSE/Xinhua China 25 Index. The Notes includes the loan component and an embedded derivative (index linked contract).

The Notes comprise the host loan component and an embedded derivative (including the index linked contract) acquired by the Group and are designated as financial assets at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire principal protected notes are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The fair value of the Notes were determined based on the appraisal value provided by the Investment Bank.

## 25. DEFERRED TAXATION

Movements of the deferred tax assets and liabilities recognised by the Group are as follows:

| | Accelerated tax depreciation US$'000 | Subscription revenue received in advance US$'000 | Allowance for bad and doubtful debts US$'000 | Intangible assets US$'000 | Others US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **THE GROUP** | | | | | | |
| At January 1, 2006 | (1) | 315 | (13) | — | 475 | 776 |
| Arising on acquisition of subsidiaries | — | — | — | (4,927) | 147 | (4,780) |
| Credit (charge) to income statement for the year | 61 | (315) | 132 | 995 | (305) | 568 |
| At December 31, 2006 | 60 | — | 119 | (3,932) | 317 | (3,436) |
| Arising on acquisition of subsidiaries | — | — | — | (14,628) | — | (14,628) |
| Disposal of subsidiaries | — | — | — | 3,469 | — | 3,469 |
| Change in tax rate | (1) | — | — | 113 | — | 112 |
| Credit (charge) to income statement for the year | (3) | — | (119) | 2,881 | (198) | 2,561 |
| At December 31, 2007 | 56 | — | — | (12,097) | 119 | (11,922) |

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred taxation balances for financial reporting purposes:

| | THE GROUP | |
|---|---|---|
| | **2007 US$'000** | 2006 US$'000 |
| Deferred tax assets | **330** | 560 |
| Deferred tax liabilities | **(12,252)** | (3,996) |
| | **(11,922)** | (3,436) |

At the balance sheet date, the Group has unutilised tax losses of US$10,667,000 (2006: US$14,706,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. Included in the Group's unrecognised tax losses are tax losses of US$9,154,000 (2006: US$8,074,000) which will expire gradually up to 2024. Other tax losses may be carried forward indefinitely.

## 26. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | THE GROUP | |
|---|---|---|
| | **2007 US$'000** | 2006 US$'000 |
| Trade receivables | **71,577** | 36,308 |
| Less: Allowance for doubtful debts | **(1,291)** | (978) |
| | **70,286** | 35,330 |
| Other receivables, prepayments and deposits | **27,948** | 28,003 |
| | **98,234** | 63,333 |

The Group allows an average credit period of 90 days to 120 days to its trade customers. Other receivables are unsecured, interest-free and are repayable on demand. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and defines appropriate credit limits.

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US$12,882,000 (2006: US$6,423,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. There are no balances included in other receivables which have been past due.

The following is an ageing analysis of trade receivables which are past due but not impaired:

| | THE GROUP | |
|---|---|---|
| | **2007 US$'000** | 2006 US$'000 |
| **Age** | | |
| Overdue 0–60 days | **12,882** | 6,423 |

The Group has provided fully for all receivables overdue over 90 days because historical experience is such receivables that are past due beyond 90 days are generally not recoverable.

The following is a movement in the allowance for doubtful debts:

| | THE GROUP | |
|---|---|---|
| | **2007** **US$'000** | 2006 US$'000 |
| At January 1 | **978** | 828 |
| Allowance for doubtful debts | **536** | 348 |
| Reversal of allowance for doubtful debts | **(223)** | (198) |
| At December 31 | **1,291** | 978 |

## 27. PLEDGED BANK DEPOSITS AND BANK BALANCES

The pledged bank deposits represents deposits pledged to banks to secure credit facilities granted to the Group by certain banks. The pledged bank deposits will be released upon the settlement of relevant short-term bank borrowings.

The pledged bank deposits and bank balances carry interest ranging from 0% to 4.9% per annum.



## 28. CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2007** **US$'000** | 2006 US$'000 | **2007** **US$'000** | 2006 US$'000 |
| The consideration payable is due for settlement as follows: | | | | |
| Within one year | **67,915** | 41,238 | **36,148** | 35,871 |
| Between one to two years | **54,003** | 41,094 | **—** | 41,094 |
| Between two to three years | **22,639** | — | **—** | — |
| | **144,557** | 82,332 | **36,148** | 76,965 |
| Less: Amount due within one year shown under current liabilities | **67,915** | 41,238 | **36,148** | 35,871 |
| Amount due after one year | **76,642** | 41,094 | **—** | 41,094 |

Included in consideration payable for acquisition of subsidiaries of the Group and the Company is an amount of US$106,319,000 (2006: US$82,332,000) and US$2,735,000 (2006: US$76,965,000) respectively which represents contingent consideration payable determined by management based on predetermined earn-out formula per respective business combination agreements (see note 41).

Included in the contingent consideration payable of the Group is an amount of US$39,968,100 (2006: US$46,310,000), which is to be settled by a variable number of XFM's shares. The number of shares to be settled is contingent on certain future events as provided in the respective business combination agreements. The Company has no contingent consideration payable to be settled by variable number of its own shares in 2007 (2006: US$46,310,000).

## 29. OBLIGATIONS UNDER AN ONEROUS CONTRACT

| | THE GROUP | |
|---|---|---|
| | **2007 US$'000** | 2006 US$'000 |
| The obligations are payable as follows: | | |
| Within one year | **250** | 375 |
| Between one to two years | **—** | 250 |
| | **250** | 625 |
| Less: Amount due within one year shown under current liabilities | **250** | 375 |
| Amount due after one year | **—** | 250 |

The obligations represent lease payments related to the closure of certain overseas facilities.



## 30. OBLIGATIONS UNDER FINANCE LEASES

| | THE GROUP | | | |
|---|---|---|---|---|
| | Minimum lease payments | | Present value of minimum lease payments | |
| | **2007 US$'000** | 2006 US$'000 | **2007 US$'000** | 2006 US$'000 |
| Amount payable under finance leases: | | | | |
| Within one year | **4,771** | 9,443 | **699** | 8,964 |
| Between one to two years | **11,066** | 10,311 | **7,415** | 9,276 |
| Between two to five years | **22,585** | 30,750 | **14,087** | 24,605 |
| After five years | **64,640** | 61,085 | **47,531** | 31,147 |
| | **103,062** | 111,589 | **69,732** | 73,992 |
| Less: Future finance charges | **33,330** | 37,597 | **—** | — |
| Present value of lease obligations | **69,732** | 73,992 | **69,732** | 73,992 |
| Less: Amount due within one year shown under current liabilities | | | **699** | 8,964 |
| Amount due after one year | | | **69,033** | 65,028 |

The effective interest rates of the above finance leases is 5% per annum.

## 31. BANK LOANS

| | THE GROUP | |
|---|---|---|
| | **2007** **US$'000** | 2006 US$'000 |
| The bank loans are repayable as follows: | | |
| Within one year | **484** | — |
| Between one to two years | **477** | — |
| Between two to five years | **757** | — |
| | **1,718** | — |
| Less: Amount due within one year shown under current liabilities | **484** | — |
| Amount due after one year | **1,234** | — |



## 32. SHORT-TERM BANK LOANS

The short-term bank loans are denominated in RMB, except for an amount of US$162,000 which is denominated in Korean Won. The loans carry interest at fixed rates ranging from 4.79% to 6.56% (2006: 5.02% to 5.85%) per annum.

Short-term bank loans of US$42,146,000 have been secured by pledged deposits of subsidiaries.

## 33. CONVERTIBLE INSTRUMENT

### (A) CONVERTIBLE LOAN

On March 16, 2006, a subsidiary of the Company, XFM entered into a secured term loan agreement with Patriarch Partners Media Limited ("Patriarch") for the amount of US$10,000,000 (the "Convertible Loan"). Interest on the outstanding amount was payable quarterly in arrears at 2.75% above three-month London Inter-Bank Offered Rate ("LIBOR"). The Convertible Loan was repayable on December 31, 2008 ("Maturity"), and will automatically be converted into ordinary shares of XFM at US$3.66 per share upon any initial public offering of XFM on a recognised stock exchange which values XFM with a market capitalisation of at least a certain specified sum.

The Convertible Loan included the liability component and embedded derivatives (including the conversion option and early redemption option). On March 16, 2006, the Group has elected to designate the entire Convertible Loan as financial liabilities at fair value through profit or loss.

The fair value of the liability component of the Convertible Loan at December 31, 2006 was determined based on the present value of the estimated future cash flows discounted at the expected yield of 15.6%. The fair value of the conversion option and redemption option embedded was calculated using the Binominal Model.

In March 2007, the convertible loan was fully converted into ordinary shares of XFM (see note 9). At date of conversion, the fair value of the Convertible Loan was determined based on the initial public offering price of XFM.

### (B) CONVERTIBLE SHARES

Also, on March 16, 2006, XFM issued US$60,000,000 convertible redeemable preference shares ("the Convertible Shares") to Patriarch which are also convertible into shares of XFM. As initially the terms of the conversion will not result in a fixed amount of cash for a fixed number of equity instruments, thus it was regarded as financial liabilities with embedded derivatives. The Convertible Shares was as a whole designated as financial liability at fair value through profit or loss on initial recognition. In April 2006, the Group redeemed US$3,000,000 of the Convertible Shares for a consideration of US$1. In addition, there was an increase of interest on the Convertible Loan by US$3,000,000 in which the interest for each quarter was payable in arrears from the quarter commencing April 1, 2006.

In July 2006, the terms of the Convertible Shares were amended whereby the Group no longer has the obligation to redeem the principal and to pay dividend, and thus the Convertible Shares has since been reclassified as a contribution from minority shareholders in equity.

In March 2007, the Convertible Shares was fully converted into ordinary share of XFM (see note 9).

## 34. SENIOR NOTES

On November 21, 2006, the Company issued senior guaranteed fixed rate notes with aggregate principal amount of US$100,000,000 (the "Senior Notes") at an issue price equal to 99.041% of the principal amount of the notes, due on November 21, 2011. The Senior Notes carry interest at the rate of 10% per annum, payable semi-annually in arrears on May 21 and November 21 each year commencing May 21, 2007. The Senior Notes are guaranteed by certain subsidiaries of the Group. Pursuant to the terms of the agreement on issue of the Senior Notes, certain subsidiaries of the Company have been precluded to engage in certain activities, amongst other things, includes incur certain indebtedness, issue of preferred stock, declare dividend, create certain liens, sell of certain assets and engage in different businesses. The effective interest rate of the Senior Notes is 6.81% per annum. The Senior Notes are listed on the Singapore Exchange Securities Trading Limited. At December 31, 2007, the fair value of the Senior Notes is US$89,500,000 (2006: US$100,740,000) which is determined based on its market price.

At anytime prior to November 21, 2009, the Company may at its option redeem the Senior Notes in whole, but not in part, at a redemption price equal 100% of the principal amount of the Senior Notes plus a premium as of, and accrued and unpaid interest, if any, to the redemption date.

At anytime on or after November 21, 2009, the Company may at its option redeem the Senior Notes, in whole, but not in part, at the redemption prices (expressed as a percentage of principal amount) set forth below, plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period beginning November 21 of each of the years set forth below

| **Year** | **Percentage** |
|---|---|
| 2009 | 105% |
| 2010 and thereafter | 102.5% |

At anytime prior to November 21, 2009, the Company may redeem up to 35% of the aggregate principal amount of the Senior Notes with the proceeds from a qualified equity offering, public or private, at a redemption price of 110% of the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to the redemption date.

The fair value of the Senior Notes have been split between the liability element and the early redemption option embedded. As at the balance sheet date, the fair value of the early redemption option was US$5,079,000 (2006: US$4,911,000).

The estimation of the fair value of the early redemption option attached to the Senior Notes has been determined with reference to Comparable Bonds.

## 35. DERIVATIVE FINANCIAL INSTRUMENT

| | THE GROUP AND THE COMPANY | |
|---|---|---|
| | **2007 US$'000** | 2006 US$'000 |
| Cash flow hedge — cross currency swap | **16,729** | — |

The Group uses cross currency swap to minimise its exposure to foreign exchange rate fluctuations of its Senior Notes (see note 34) by swapping US$ to RMB. The cross currency swap and the Senior Notes have similar terms and the directors of the Company considers the cross currency swap is highly effective hedging instrument. Major terms of the cross currency swap are set out below:

| Notional amount | Maturity | Swaps |
|---|---|---|
| US$100,000,000 | November 21, 2009 | RMB781.6 million to US$100 million on maturity and interest rate swaps from US$ notional 10% per annum to RMB notional 6.85% per annum |

On December 31, 2007, fair value loss of US$16,729,000 from the cross currency swap under cash flow hedge have been deferred in equity and the Group/Company, during the year, has recycled US$9,368,000 of the loss to profit and loss to offset the retranslation impact of the Senior Notes. The fair value of the cross currency swap are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

## 36. OTHER FINANCIAL ASSETS AND LIABILITIES

### THE COMPANY

**Financial assets**

The amounts due from subsidiaries are unsecured and interest-free except for an amount of US$11,447,000 (2006: US$2,461,000) which carries interest at 4% – 6% (2006: 4%) per annum. The amounts due from subsidiaries are repayable in 2008 except for an amount of US$11,351,000 (2006: US$2,414,000) which is repayable after 2008.

**Financial liabilities**

The amounts due to subsidiaries and a director are unsecured, interest-free and are repayable on demand.

## 37. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | | HK$'000 |
| Authorised: | | |
| Ordinary shares of HK$20 each | | |
| At January 1, 2006, December 31, 2006 and December 31, 2007 | 2,500,000 | 50,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$20 each | | |
| — at January 1, 2006 | 815,477 | 16,311 |
| — issued as compensation for directors and staff | 20,828 | 416 |
| — issue of shares on exercise of warrants | 3,900 | 78 |
| — issue of shares on exercise of share options | 1,162 | 23 |
| — issued for acquisition of subsidiaries | 86,771 | 1,735 |
| — issued for consultancy services | 1,500 | 30 |
| — issued for acquisition of available-for-sales investments | 2,000 | 40 |
| — at December 31, 2006 | 931,638 | 18,633 |
| — issued as compensation for directors and staff | 4,066 | 81 |
| — issue of shares on exercise of share options | 1,270 | 26 |
| — issued for acquisition of subsidiaries | 96,080 | 1,922 |
| — at December 31, 2007 | 1,033,054 | 20,662 |
| Shown in the financial statements | | |
| — at December 31, 2007 as | | US$2,649,000 |
| — at December 31, 2006 as | | US$2,389,000 |

## 38. WARRANTS

Movements of warrants (each warrant converts into one share) issued to consultants, advisors and other independent parties in 2007 are as follows:

| | | | | Number of warrants and number of underlying shares | | |
|---|---|---|---|---|---|---|
| Date of grant | Exercise price | Vesting period | Exercise period | Outstanding at 1.1.2007 | Exercised during the year | Outstanding at 12.31.2007 |
| 8.12.2004 | US$264 | 8.12.2004 – 9.30.2004 | 10.1.2004 – 9.30.2008 | 294 | — | 294 |
| 12.31.2005 | Yen 80,000 | 1.1.2006 – 2.14.2006 | 2.15.2006 – 2.16.2009 | 20,000 | — | 20,000 |

Movements of warrants issued to consultants, advisors and other independent parties in 2006 are as follows:

| | | | | Number of warrants and number of underlying shares | | |
|---|---|---|---|---|---|---|
| Date of grant | Exercise price | Vesting period | Exercise period | Outstanding at 1.1.2006 | Exercised during the year | Outstanding at 12.31.2006 |
| 7.16.2004 | US$264 | 7.16.2004 – 9.30.2004 | 10.1.2004 – 9.30.2008 | 3,900 | (3,900) | — |
| 8.12.2004 | US$264 | 8.12.2004 – 9.30.2004 | 10.1.2004 – 9.30.2008 | 294 | — | 294 |
| 12.31.2005 | Yen 80,000 | 1.1.2006 – 2.14.2006 | 2.15.2006 – 2.16.2009 | 20,000 | — | 20,000 |

## 39. SHARE BASED ARRANGEMENTS OF THE COMPANY

### (A) SHARE OPTIONS TO DIRECTORS AND STAFF

In January 2002, Xinhua Financial Network Limited, the predecessor of the Company, adopted a share option plan which was subsequently revised in November 2003 and was later adopted by the Company in April 2004. The plan expires on its tenth year anniversary. The purpose of the plan is to attract key employees to the Group and encourage them to make the Group's business more successful. Under the plan, the compensation committee which is appointed by the board of directors (the "Compensation Committee") may grant options to subscribe for ordinary shares of the Company to any eligible employees of the Group, including directors of the Company, consultants and advisors. An award agreement will be signed with each recipient. Options granted are exercisable within ten years from the date of grant or as other terms set forth in the award agreement. No consideration is payable on the grant of an option. The maximum number of shares in respect of which options may be granted under the plan may not exceed 20% of the enlarged share capital of the Company.

The movements of the unexercised options granted to the directors and employees of the Group under the share option plan in 2007 are as follows:

| | | | | | Number of options and number of underlying shares | | | |
|---|---|---|---|---|---|---|---|---|
| Type of option holders | Date of grant | Exercise price | Vesting period | Exercise period | Outstanding at 1.1.2007 | Exercised during the year | Forfeited during the year | Outstanding at 12.31.2007 |
| Directors: | | | | | | | | |
| Mr. Shelly Singhal | 1.31.2006 | Yen 71,844 | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2016 | 375 | — | — | 375 |
| (resigned on | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2016 | 375 | — | — | 375 |
| May 19, 2007) | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2016 | 375 | — | — | 375 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2016 | 375 | — | — | 375 |
| | 1.31.2006 | Yen 74,247 | N/A | 1.31.2006 – 2.1.2009 | 417 | — | — | 417 |
| | | | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2009 | 417 | — | — | 417 |
| | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2009 | 417 | — | — | 417 |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2009 | 417 | — | — | 417 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2009 | 417 | — | — | 417 |
| | | | 1.31.2006 – 4.30.2007 | 4.30.2007 – 2.1.2009 | 415 | — | — | 415 |
| Mr. Dennis Lindsay | 1.31.2006 | Yen 71,844 | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2016 | 375 | — | — | 375 |
| Pelino | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2016 | 375 | — | — | 375 |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2016 | 375 | — | — | 375 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2016 | 375 | — | — | 375 |
| | 1.31.2006 | Yen 74,247 | N/A | 1.31.2006 – 2.1.2009 | 417 | — | — | 417 |
| | | | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2009 | 417 | — | — | 417 |
| | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2009 | 417 | — | — | 417 |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2009 | 417 | — | — | 417 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2009 | 417 | — | — | 417 |
| | | | 1.31.2006 – 4.30.2007 | 4.30.2007 – 2.1.2009 | 415 | — | — | 415 |
| Mr. Wu Ji Guang | 1.31.2006 | Yen 71,844 | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2016 | 250 | — | — | 250 |
| | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2016 | 250 | — | — | 250 |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2016 | 250 | — | — | 250 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2016 | 250 | — | — | 250 |
| Mr. John MacLeod | 1.31.2006 | Yen 71,844 | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2016 | 250 | — | — | 250 |
| Williams | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2016 | 250 | — | — | 250 |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2016 | 250 | — | — | 250 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2016 | 250 | — | — | 250 |
| Mr. Wang Bin | 1.31.2006 | Yen 71,844 | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2016 | 250 | — | (250) | — |
| | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2016 | 250 | — | (250) | — |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2016 | 250 | — | (250) | — |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2016 | 250 | — | (250) | — |
| Other employees | 2.9.2005 | Yen 49,316 | 2.9.2005 – 12.31.2005 | 1.1.2006 – 2.9.2015 | 3,820 | — | (122) | 3,698 |
| | | | 2.9.2005 – 12.31.2006 | 1.1.2007 – 2.9.2015 | 4,970 | (588) | (682) | 3,700 |
| | | | 2.9.2005 – 12.31.2007 | 1.1.2008 – 2.9.2015 | 4,544 | (436) | (408) | 3,700 |
| | 4.30.2006 | Yen 71,844 | 4.30.2006 – 31.12.2006 | 1.1.2007 – 4.30.2016 | 8,923 | (246) | (1,797) | 6,880 |
| | | | 4.30.2006 – 31.12.2007 | 1.1.2007 – 4.30.2016 | 8,923 | — | (1,144) | 7,779 |
| | | | 4.30.2006 – 31.12.2008 | 1.1.2007 – 4.30.2016 | 8,924 | — | (240) | 8,684 |

The movements of the unexercised options granted to the directors and employees of the Group under the share option plan in 2006 are as follows:

| | | | | | Number of options and number of underlying shares | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Type of option holders** | **Date of grant** | **Exercise price** | **Vesting period** | **Exercise period** | **Outstanding at 1.1.2006** | **Granted during the year** | **Exercised during the year** | **Forfeited during the year** | **Outstanding at 12.31.2006** |
| Directors: | | | | | | | | | |
| Mr. Shelly Singhal | 11.1.2004 | (1) | N/A | 11.1.2004 – 11.1.2006 | 9 | — | — | (9) | — |
| (resigned on | | | 11.1.2004 – 10.31.2005 | 11.1.2005 – 11.1.2006 | 15 | — | — | (15) | — |
| May 19, 2007) | | | 11.1.2004 – 10.31.2006 | 11.1.2006 – 12.1.2006 | 15 | — | — | (15) | — |
| | 1.31.2006 | Yen 71,844 | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2016 | — | 375 | — | — | 375 |
| | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2016 | — | 375 | — | — | 375 |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2016 | — | 375 | — | — | 375 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2016 | — | 375 | — | — | 375 |
| | 1.31.2006 | Yen 74,247 | N/A | 1.31.2006 – 2.1.2009 | — | 417 | — | — | 417 |
| | | | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2009 | — | 417 | — | — | 417 |
| | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2009 | — | 417 | — | — | 417 |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2009 | — | 417 | — | — | 417 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2009 | — | 417 | — | — | 417 |
| | | | 1.31.2006 – 4.30.2007 | 4.30.2007 – 2.1.2009 | — | 415 | — | — | 415 |
| Mr. Dennis Lindsay | 1.5.2004 | (1) | N/A | 1.5.2004 – 12.31.2005 | 9 | — | — | (9) | — |
| Pelino | | | 1.5.2004 – 12.30.2004 | 12.31.2004 – 12.31.2005 | 15 | — | — | (15) | — |
| | | | 1.5.2004 – 12.30.2005 | 12.31.2005 – 12.31.2005 | 15 | — | — | (15) | — |
| | 1.31.2006 | Yen 71,844 | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2016 | — | 375 | — | — | 375 |
| | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2016 | — | 375 | — | — | 375 |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2016 | — | 375 | — | — | 375 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2016 | — | 375 | — | — | 375 |
| | 1.31.2006 | Yen 74,247 | N/A | 1.31.2006 – 2.1.2009 | — | 417 | — | — | 417 |
| | | | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2009 | — | 417 | — | — | 417 |
| | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2009 | — | 417 | — | — | 417 |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2009 | — | 417 | — | — | 417 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2009 | — | 417 | — | — | 417 |
| | | | 1.31.2006 – 4.30.2007 | 4.30.2007 – 2.1.2009 | — | 415 | — | — | 415 |
| Mr. Wu Ji Guang | 1.5.2004 | (1) | N/A | 1.5.2004 – 12.31.2005 | 9 | — | — | (9) | — |
| | | | 1.5.2004 – 12.30.2004 | 12.31.2004 – 12.31.2005 | 15 | — | — | (15) | — |
| | | | 1.5.2004 – 12.30.2005 | 12.31.2005 – 12.31.2005 | 15 | — | — | (15) | — |
| | 1.31.2006 | Yen 71,844 | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2016 | — | 250 | — | — | 250 |
| | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2016 | — | 250 | — | — | 250 |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2016 | — | 250 | — | — | 250 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2016 | — | 250 | — | — | 250 |
| Mr. Xue Yong Xing | 1.5.2004 | | N/A | 1.5.2004 – 12.31.2005 | 9 | — | — | (9) | — |
| | | (1) | 1.5.2004 – 12.30.2004 | 12.31.2004 – 12.31.2005 | 15 | — | — | (15) | — |
| | | | 1.5.2004 – 12.30.2005 | 12.31.2005 – 12.31.2005 | 15 | — | — | (15) | — |
| Mr. John MacLeod | 1.5.2004 | (1) | N/A | 1.5.2004 – 12.31.2005 | 9 | — | — | (9) | — |
| Williams | | | 1.5.2004 – 12.30.2004 | 12.31.2004 – 12.31.2005 | 15 | — | — | (15) | — |
| | | | 1.5.2004 – 12.30.2005 | 12.31.2005 – 12.31.2005 | 15 | — | — | (15) | — |
| | 1.31.2006 | Yen 71,844 | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2016 | — | 250 | — | — | 250 |
| | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2016 | — | 250 | — | — | 250 |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2016 | — | 250 | — | — | 250 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2016 | — | 250 | — | — | 250 |
| Mr. Wang Bin | 1.31.2006 | Yen 71,844 | 1.31.2006 – 4.30.2006 | 4.30.2006 – 2.1.2016 | — | 250 | — | — | 250 |
| | | | 1.31.2006 – 7.31.2006 | 7.31.2006 – 2.1.2016 | — | 250 | — | — | 250 |
| | | | 1.31.2006 – 10.31.2006 | 10.31.2006 – 2.1.2016 | — | 250 | — | — | 250 |
| | | | 1.31.2006 – 1.31.2007 | 1.31.2007 – 2.1.2016 | — | 250 | — | — | 250 |
| Other employees | 2.9.2005 | Yen 49,316 | 2.9.2005 – 12.31.2005 | 1.1.2006 – 2.9.2015 | 4,970 | — | (1,150) | — | 3,820 |
| | | | 2.9.2005 – 12.31.2006 | 1.1.2007 – 2.9.2015 | 4,970 | — | — | — | 4,970 |
| | | | 2.9.2005 – 12.31.2007 | 1.1.2008 – 2.9.2015 | 4,970 | — | — | (426) | 4,544 |
| | 4.30.2006 | Yen 71,844 | 4.30.2006 – 31.12.2006 | 1.1.2007 – 4.30.2016 | — | 8,923 | — | — | 8,923 |
| | | | 4.30.2006 – 31.12.2007 | 1.1.2007 – 4.30.2016 | — | 8,923 | — | — | 8,923 |
| | | | 4.30.2006 – 31.12.2008 | 1.1.2007 – 4.30.2016 | — | 8,924 | — | — | 8,924 |

(1) The exercise price of the options is the most recent financing round valuation just before exercise of the share option. The latest most recent financing round valuation just before December 31, 2006 is Yen 65,520.

The options granted to Mr. John MacLeod Williams were registered in the name of Vavasseur Overseas Holdings Limited, a corporate shareholder of the Company.

The fair values of options granted in 2006 were calculated using the Binomial model. The inputs into the model at the respective dates of grants were as follows:

| | **1.31.2006** | 4.30.2006 |
|---|---|---|
| Share price | **Yen 72,910** | Yen 66,000 |
| Expected volatility | **60%** | 60% |
| Contractual life | **10 years** | 10 years |
| Risk free rate | **1.47%** | 1.91% |
| Expected dividend yield | **0%** | 0% |

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous year.

During the year ended December 31, 2007, share compensation expense of US$2,350,000 (2006: US$5,798,000) was recognised and charged to profit or loss which represents amortisation of the fair value of the share options granted.



## (B) SHARES TO DIRECTORS AND STAFF

The Compensation Committee may at its discretion grant ordinary shares of the Company to eligible directors and staff of the Group to compensate for their performance and contributions to the Group.

The movements of shares granted, issued and issuable to employees (including directors) during the year are as follows:

| | **Number of shares** | |
|---|---|---|
| | **2007** | 2006 |
| At January 1 | **60** | 20,800 |
| Granted during the year | **26,189** | 88 |
| Lapsed during the year | **(1,009)** | — |
| Issued during the year | **(4,066)** | (20,828) |
| Shares issuable at December 31 | **21,174** | 60 |

At the balance sheet date, the shares issuable are subject to vesting conditions as follows:

33 shares vested before 2007*
1,463 shares vested on September 11, 2007*
34 shares vested on October 5, 2007*
6,512 shares vested on December 31, 2007*
6,814 shares will vest on December 31, 2008
6,318 shares will vest on December 31, 2009

* These shares have been vested before December 31, 2007 but have not yet been issued as at balance sheet date.

The movements of shares granted, issued and issuable to directors during the year are as follows:

| | Number of shares | |
|---|---|---|
| | **2007** | 2006 |
| At January 1 | — | 16,788 |
| Granted during the year | **1,300** | — |
| Issued during the year | — | (16,788) |
| Shares issuable at December 31 | **1,300** | — |

During the year ended December 31, 2007, share compensation expense of US$3,684,000 (2006: US$26,000) was recognised and charged to profit or loss which represents amortisation of the fair value of the shares granted. The fair value of the shares granted were determined based on market quoted prices.

## 40. SHARE BASED ARRANGEMENTS OF A SUBSIDIARY

### (A) SHARE OPTIONS TO DIRECTORS AND STAFF OF XFM

Pursuant to a resolution of the directors of XFM on January 15, 2007, XFM granted options to an employee of the Group for the purchase of 221,280 shares in XFM. The options entitle the option holder to acquire ordinary shares of XFM at an exercise price of US$5.00 each.

Pursuant to a resolution of the directors of XFM on April 25, 2007, XFM granted options to 3 independent directors of XFM for the purchase of 90,000 shares in XFM, subject to vesting requirements. The options entitle the option holders to acquire ordinary shares of XFM at an exercise price of US$6.50 each.

Pursuant to a resolution of the directors of XFM on September 25, 2007, XFM granted options to 4 independent directors of XFM for the purchase of 120,000 shares in XFM, subject to vesting requirements. The options entitle the option holders to acquire ordinary shares of XFM at an exercise price of US$4.39 each.

The fair values were calculated using the Binomial model. The inputs into the model at the respective dates of grants were as follows:

| | **1.15.2007** | 4.25.2007 | 9.25.2007 |
|---|---|---|---|
| Share price | **US$5.00** | US$6.50 | US$4.39 |
| Expected volatility | **60%** | 60% | 60% |
| Contractual life | **10 years** | 10 years | 10 years |
| Risk free rate | **1.47%** | 1.47% | 1.91% |
| Expected dividend yield | **0%** | 0% | 0% |

Pursuant to a resolution of the directors of XFM on July 11, 2006, XFM granted options to employees of the Group for the purchase of a maximum of 11,727,602 shares in XFM, subject to vesting requirements. The options entitle the option holder to acquire ordinary shares of XFM at an exercise price of US$0.78 each.

The key terms of the share options are as follows:

Termination of options — where the option agreement permits the exercise or purchase of the options granted for a period of 3 months following the recipient's voluntary termination of service with the Group, or the recipient's disability or death, the options will terminate to the extent not exercised or purchased on the last day of the specified period or the last day of the original term of the options, whichever occurs first.

Vesting period — options granted under the individual option agreements will vest in the following manner: the first half of any option grant will vest upon the earlier of the date of the initial public offering and December 31, 2007; the next two quarters will vest on December 31, 2008 and December 31, 2009, respectively.

Option exercise — the term of options granted under individual option agreements may not exceed five years from the date of grant. The consideration to be paid for XFM shares upon exercise of an option or purchase of shares underlying the option will be determined by the plan administrator.

Termination of option agreements — unless terminated earlier, XFM share options granted under individual option agreements will expire in 2011. XFM's board of directors will have the authority to amend or terminate the share option agreement subject to shareholder approval to the extent necessary to comply with applicable law.

The excisable period of the option is 5 years up to 2011.

In 2006, management has used the Black-Scholes option pricing model to estimate the fair value of the options on grant date with the following assumptions:

| | |
|---|---|
| Exercise price | US$0.78 |
| Expected life | 3.61 years |
| Assumed volatility | 38.3% |
| Risk-free interest rate | 5.68% |
| Expected dividends | 0% |



During the year ended December 31, 2007, compensation expense of US$1,059,000 (2006: US$627,000) was recognised and included in administrative expenses.

A summary of XFM's options under the plan as of December 31, 2007 and changes in the period is presented below:

| **XFM's options** | **Number of XFM's share option** |
|---|---|
| Outstanding as of January 1, 2006 | — |
| Granted during the year | 11,198,180 |
| Forfeited | (500,039) |
| Outstanding as of December 31, 2006 | 10,698,141 |
| Granted during the year | 431,280 |
| Forfeited | (351,480) |
| Exercised during the year | (2,877,934) |
| Outstanding as of December 31, 2007 | 7,900,007 |
| Exercisable as of December 31, 2007 | 2,688,836 |
| Exercisable as of December 31, 2006 | — |

## (B) NON-VESTED SHARES TO A DIRECTOR

In June 2006, XFM granted 11,050,000 common shares of $0.001 each ("Nonvested Shares") to a director, Madam Fredy Bush as fully paid shares at par. The Nonvested Shares shall be subject to a 5-year vesting period and one-fifth of the total Nonvested Shares granted, being 2,210,000 common shares, shall become vested on each of the first annual anniversary dates after the date of grant. The fair value was US$0.6 per share, which was determined based on a valuation made by an independent appraiser using the income approach (the discounted cash flow method).

The following table summarises movement of the Nonvested Shares:

| | **Number of nonvested shares issuable** |
|---|---|
| Granted during the year and balance at December 31, 2006 | 11,050,000 |
| Issued during the year | (1,500,000) |
| At December 31, 2007 | 9,550,000 |

Pursuant to a resolution passed on March 7, 2007, the vesting period of the 11,050,000 common shares is revised as follows:

1,500,000 shares vested on March 9, 2007
2,210,000 shares will vest on June 13, 2008
2,210,000 shares will vest on June 13, 2009
2,210,000 shares will vest on June 13, 2010
2,920,000 shares will vest on June 13, 2011

Accordingly, XFM recorded compensation expense of US$2,013,000 (2006: US$1,666,000) in administrative expenses for the year ended December 31, 2007 which represents amortisation on the fair value of the Nonvested Shares granted.

These Nonvested Shares are subject to transfer restrictions and do not have any voting rights, entitlement of dividends, rights to the surplus assets of XFM in the event of a winding-up or reorganisation of XFM and generally all of the rights attaching to common shares until they are vested.

## (C) WARRANTS

In connection with the acquisition of Upper Step Holdings Limited ("Upper Step") in 2006, XFM issued to Sino Investment Holding Limited ("Sino Investment") 4,099,968 warrants to purchase 4,099,968 class A common shares with a strike price of US$3.659 per share on September 22, 2006. In addition, XFM issued 630,000 warrants to purchase 630,000 class A common shares to a consultant with a strike price of US$3.659 per share on December 7, 2006. The warrants are fully vested upon the date of grant. For the warrants to Sino Investment, a fair value of US$628,000 at the date of grant was capitalised as part of the consideration paid for the acquisition of Upper Step. The warrants to the consultant shall be subject to a 5-year lockup period. The related compensation expense of US$111,000 was recorded as consultancy fee in administrative expenses for the year ended December 31, 2006 and represents the fair value of the warrants on the grant date.

The fair value of the warrants granted to Sino Investment and the consultant were approximately US$0.15 per warrant and US$0.18 per warrant, respectively, at respective dates of grant, which were estimated on the basis of the Black-Scholes option pricing model with the following assumptions:

| | **Warrant to Sino Investment** | **Warrant to consultant** |
|---|---|---|
| Expected price volatility range | 45% | 44% |
| Risk-free interest rate | 5.11% | 4.91% |
| Expected life | 5 years | 5 years |
| Expected dividends | 0% | 0% |

The fair value was determined based on a valuation by an independent appraiser. As of December 31, 2007, there are 4,729,968 (2006: 4,729,968) warrants outstanding. These warrants are subject to transfer restrictions and do not have any voting rights, entitlement of dividends, rights to the surplus assets of XFM in the event of a winding-up or reorganisation of XFM and generally all of the rights attaching to common shares.

## 41. BUSINESS ACQUISITIONS

In 2007 (all acquisitions acquired from independent third parties):

In January 2007, the Group acquired the remaining 80.1% equity interest of Glass Lewis for a cash consideration of US$13,911,000 and the issuance of 43,796 ordinary shares of the Company of HK$20 each with an aggregate fair value of US$24,339,000 and incurred direct costs US$472,000. The Group has disposed the entire interest in Glass Lewis in October 2007, details are disclosed in note 42. Glass Lewis is engaged in the provision of investor advisory services.

In January 2007, the Group acquired the entire equity interests of Kinetic Information System Services Inc. ("Kinetic") for a cash consideration of US$9,889,000 and incurred direct cost of US$170,000. Kinetic is engaged in the provision of indices and related services.

In February 2007, the Group acquired 95% equity interest of Beijing Orient Agribusiness Consultants Co., Ltd. ("BOACC") for cash consideration of US$1,178,000 and incurred direct cost of US$26,000. BOACC is engaged in the provision of investment consultancy services.

In March 2007, the Group acquired 80% equity interest of Shanghai Tongxin Information Technology Consulting Co., ("Tongxin") for cash consideration of US$4,556,000 and incurred direct cost of US$30,000. Tongxin is engaged in the provision of information technology application and solution services.

In June 2007, the Group acquired the entire interest in Guangzhou Singhine Entertainment and Advertising Co., Ltd. ("Guangzhou Singshine") for cash consideration of US$1,605,000 and the issuance of 100,000 ordinary shares of US$0.001 each of a subsidiary with an aggregate fair value of US$195,000. Direct cost of US$326,000 was incurred. Guangzhen Singshine is engaged in the design and production of advertisements.

In June 2007, the Group acquired the entire interest in Shanghai Singshine Marketing Services Co., Ltd. ("SSMS") for cash consideration of US$6,393,000. Direct cost of US$179,000 was incurred. Pursuant to certain contingent consideration provision, which are based on predetermined earn-out formula, the Group made further provision of US$10,612,000 in respect of future consideration payable. The provision of US$10,612,000 is included in consideration payable for acquisition at December 31, 2007. SSMS is engaged in the provision of below the line marketing services.

In June 2007, the Group acquired the entire interest in Multi Interactive Communication Limited ("M-In") for cash consideration of US$10,744,000. Direct cost of US$135,000 was incurred. Pursuant to certain contingent consideration provision, which are based on predetermined earn-out formula, the Group made further provision of US$21,090,000 in respect of future consideration payable comprising US$12,654,000 payable in cash and US$8,436,000 payable in shares of US$0.001 each of a subsidiary. The number of shares to be issued will be determined based on the average trading price of the shares of the subsidiary at the date of issue. The provision of US$21,090,000 is included in consideration payable for acquisition at December 31, 2007. M-In is engaged in design and production of advertisements.

In July 2007, the Group acquired the entire interest in Good Speed Holdings Limited ("Good Speed") for cash consideration of US$33,000,000. Direct cost of US$258,000 was incurred. Pursuant to certain contingent consideration provision, which are based on predetermined earn-out formula, the Group made further provision of US$27,011,000 in respect of future consideration payable comprising US$13,506,000 payable in cash and US$13,506,000 payable in shares of US$0.001 each of a subsidiary. The number of shares to be issued will be determined based on the average trading price of the shares of the subsidiary at the date of issue. The provision of US$27,011,000 is included in consideration payable for acquisition at December 31, 2007. Good Speed is engaged in outdoor advertisement design and production.

In August 2007, the Group acquired 70% equity interest of Small World Television Limited ("Small World") for a cash consideration of US$5,000,000 and the issuance of 2,000,000 shares of a subsidiary of US$0.001 each with a fair value of US$1,742,000. Direct cost of US$82,000 was incurred. Small World is engaged in television programming and production consulting.

In November 2007, the Group acquired the entire interest in Profittown Development Limited ("Profittown") for a cash consideration of US$43,074,000. Direct cost of US$880,000 was incurred. Pursuant to certain contingent consideration provision, which are based on predetermined earn-out formula, the Group made further provision of US$45,066,000 in respect of future consideration payable. Comprising US$26,007,000 payable in cash and US$19,059,000 payable in shares of US$0.001 each of a subsidiary. The number of shares to be issued will be determined based on the average trading price of the shares of the subsidiary at the date of issue. The provision of US$45,066,000 is included in consideration payable for acquisition at December 31, 2007. Profittown is engaged in advertising business and event organisation.

The net assets acquired at respective dates of acquisition were as follows:

## (A) ACQUISITION OF GLASS LEWIS IN JANUARY 2007

| | Book value US$'000 | Fair value adjustments US$'000 | Fair value US$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 1,084 | — | 1,084 |
| Intangible assets | 55 | 10,147 | 10,202 |
| Trade and other receivables | 1,617 | — | 1,617 |
| Pledged bank deposits | 1,303 | — | 1,303 |
| Bank balances and cash | 3 | — | 3 |
| Trade and other payables | (1,368) | — | (1,368) |
| Subscriptions received in advance | (4,119) | — | (4,119) |
| Short-term bank loans | (347) | — | (347) |
| Deferred tax liabilities | — | (4,081) | (4,081) |
| | (1,772) | 6,066 | 4,294 |
| Goodwill | | | 44,940 |
| | | | 49,234 |
| Less: Interest held prior to acquisition | | | |
| — available-for-sale investments | | | 10,512 |
| Total consideration | | | 38,722 |

Glass Lewis contributed a loss of US$2,954,000 for the period between the date of acquisition and the balance sheet date.

## (B) ACQUISITION OF KINETIC IN JANUARY 2007

| | Book value<br>US$'000 | Provisional fair value adjustments<br>US$'000 | Provisional fair value<br>US$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 94 | — | 94 |
| Intangible assets | — | 2,071 | 2,071 |
| Trade and other receivables | 46 | — | 46 |
| Bank balances and cash | 272 | — | 272 |
| Trade and other payables | (708) | — | (708) |
| Deferred tax liabilities | — | (828) | (828) |
| | (296) | 1,243 | 947 |
| Goodwill | | | 9,112 |
| Total consideration | | | 10,059 |

Kinetics contributed a profit of US$1,406,000 for the period between date of acquisition and the balance sheet date.

## (C) ACQUISITION OF SSMS IN JUNE 2007

| | Book value<br>US$'000 | Provisional fair value adjustments<br>US$'000 | Provisional fair value<br>US$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 365 | — | 365 |
| Intangible assets | — | 3,767 | 3,767 |
| Trade and other receivables | 1,874 | — | 1,874 |
| Bank balances and cash | 1,140 | — | 1,140 |
| Trade and other payables | (849) | — | (849) |
| Taxation payable | (95) | — | (95) |
| Deferred tax liabilities | — | (568) | (568) |
| | 2,435 | 3,199 | 5,634 |
| Minority interests | | | (126) |
| Goodwill | | | 11,676 |
| Total consideration | | | 17,184 |

SSMS contributed a profit of US$72,000 for the period between date of acquisition and the balance sheet date.

## (D) ACQUISITION OF M-IN IN JUNE 2007

| | Book value US$'000 | Provisional fair value adjustments US$'000 | Provisional fair value US$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 235 | — | 235 |
| Intangible assets | — | 9,592 | 9,592 |
| Trade and other receivables | 2,641 | — | 2,641 |
| Bank balances and cash | 1,087 | — | 1,087 |
| Trade and other payables | (945) | — | (945) |
| Taxation payables | (65) | — | (65) |
| Deferred tax liabilities | — | (1,149) | (1,149) |
| | 2,953 | 8,443 | 11,396 |
| Goodwill | | | 20,573 |
| Total consideration | | | 31,969 |

M-In contributed a profit of US$1,132,000 for the period between date of acquisition and the balance sheet date.

## (E) ACQUISITION OF GOOD SPEED IN JULY 2007

| | Book value US$'000 | Provisional fair value adjustments US$'000 | Provisional fair value US$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 496 | — | 496 |
| Intangible assets | 64 | 17,416 | 17,480 |
| Trade and other receivables | 2,307 | — | 2,307 |
| Trade and other payables | (1,391) | — | (1,391) |
| Subscriptions received in advance | (454) | — | (454) |
| Short-term bank loans | (126) | — | (126) |
| Bank overdrafts | (319) | — | (319) |
| Other long term payables | (496) | — | (496) |
| Taxation payable | (17) | — | (17) |
| Deferred tax liabilities | (83) | (3,048) | (3,131) |
| | (19) | 14,368 | 14,349 |
| Goodwill | | | 45,919 |
| Total consideration | | | 60,269 |

Good Speed contributed a profit of US$1,131,000 for the period between date of acquisition and the balance sheet date.

## (F) ACQUISITION OF SMALL WORLD IN AUGUST 2007

| | Book value US$'000 | Provisional fair value adjustments US$'000 | Provisional fair value US$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 66 | — | 66 |
| Intangible assets | — | 2,075 | 2,075 |
| Trade and other receivables | 169 | — | 169 |
| Bank balances and cash | 320 | — | 320 |
| Trade and other payables | (28) | — | (28) |
| Deferred tax liabilities | — | (363) | (363) |
| | 527 | 1,712 | 2,239 |
| Minority interests | | | (672) |
| Goodwill | | | 5,257 |
| Total consideration | | | 6,824 |

Small World contributed a profit of US$17,000 for the period between date of acquisition and the balance sheet date.

## (G) ACQUISITION OF PROFITTOWN IN NOVEMBER 2007

| | Book value US$'000 | Provisional fair value adjustments US$'000 | Provisional fair value US$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 168 | — | 168 |
| Intangible assets | — | 12,504 | 12,504 |
| Trade and other receivables | 5,779 | — | 5,779 |
| Bank balances and cash | 922 | — | 922 |
| Trade and other payables | (2,859) | — | (2,859) |
| Other long term payables | (6) | — | (6) |
| Taxation payable | (1,087) | — | (1,087) |
| Deferred tax liabilities | — | (3,033) | (3,033) |
| | 2,917 | 9,471 | 12,388 |
| Goodwill | | | 76,632 |
| Total consideration | | | 89,020 |

Profittown contributed a profit of US$64,000 for the period between date of acquisition and the balance sheet date.

## (H) ACQUISITION OF OTHER SUBSIDIARIES IN 2007

| | Book value US$'000 | Provisional fair value adjustments US$'000 | Provisional fair value US$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 142 | — | 142 |
| Intangible assets | 5,307 | 6,306 | 11,613 |
| Trade and other receivables | 166 | — | 166 |
| Bank balances and cash | 339 | — | 339 |
| Trade and other payables | (834) | — | (834) |
| Obligation under finance lease | (5,541) | — | (5,541) |
| Other long term payables | (88) | — | (88) |
| Subscriptions received in advance | (17) | — | (17) |
| Deferred tax liabilities | — | (1,475) | (1,475) |
| | (526) | 4,831 | 4,305 |
| Minority interest | | | 64 |
| Goodwill | | | 3,547 |
| Total consideration | | | 7,916 |

In 2006 (all acquisitions acquired from independent third parties):

In January 2006, the Group acquired the entire interest in Xinhua Finance Advertising Limited ("XFA") for a cash consideration of US$42,607,000 and the issue of 37,012 ordinary shares of the Company of HK$20 each with a fair value of US$18,026,000. Direct cost of US$651,000 was incurred. Pursuant to certain contingent consideration provision, which are based on predetermined earn-out formula, the Group made further provision of US$37,243,000 in respect of future consideration payable comprising US$19,031,000 payable in cash and US$18,212,000 payable in ordinary shares of HK$20 each of the Company. The number of shares to be issued will be determined based on the average trading price of the Company at the date of issue.

In July 2006, the Group acquired 51% equity interest in Beijing Perspective Orient Movie and Television Intermediary Co., Ltd. ("Beijing Perspective") for a consideration of US$6,275,000 and incurred direct cost of US$662,000.

In August 2006, the Group acquired 51% equity interest in Shanghai Hyperlink Market Research Co., Ltd. ("Hyperlink") for an initial consideration of US$2,227,000 paid in cash. Direct cost of US$744,000 was incurred. Pursuant to certain contingent consideration provision, which are based on pre-determined earn-out formula, the Group made further provision of US$2,156,000 in respect of future consideration payable.

In September 2006, the Group acquired 80% equity interest in Accord Group Investment Limited ("Accord Group") for a consideration of US$1,074,000 which was settled by a cash consideration of US$440,000 and the issuance of 576,160 ordinary shares of US$0.001 of a subsidiary each with a fair value of US$634,000.

In March 2006, the Group acquired the entire interests in Beijing Alpha Financial Ltd. ("Beijing Alpha") for an initial consideration of US$378,000. Pursuant to certain contingent consideration provision, which are based on pre-determined earn-out formula, the Group made further provision of US$494,000 in respect of future consideration payable.

In July 2006, the Group acquired the entire interests in Praedea Acquisition Corp., LLC ("Praedea") with a total consideration of US$2,697,000, of which US$1,697,000 was paid.

The net assets acquired at the respective dates of acquisition were as follows:

(a) Acquisition of XFA in January 2006:

| | Book value US$'000 | Fair value adjustments US$'000 | Fair value US$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 830 | — | 830 |
| Other intangible assets | — | 9,900 | 9,900 |
| Deferred tax assets | 147 | — | 147 |
| Trade and other receivables | 3,508 | — | 3,508 |
| Prepaid advertising program space and airtime | 1,083 | — | 1,083 |
| Amounts due from related parties | 1,104 | — | 1,104 |
| Pledged bank deposits | 115 | — | 115 |
| Bank balances and cash | 1,181 | — | 1,181 |
| Trade and other payables | (2,516) | — | (2,516) |
| Subscriptions received in advance | (41) | — | (41) |
| Amounts due to related parties | (4,600) | — | (4,600) |
| Taxation payable | (265) | — | (265) |
| Deferred tax liabilities | — | (3,267) | (3,267) |
| Net asset | 546 | 6,633 | 7,179 |
| Minority interests | | | (637) |
| Goodwill | | | 91,985 |
| Total consideration and direct costs | | | 98,527 |

(b) Acquisition of Beijing Perspective in July 2006:

| | Book value US$'000 | Fair value adjustments US$'000 | Fair value US$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 1,585 | — | 1,585 |
| Other intangible assets | 669 | 1,157 | 1,826 |
| Trade and other receivables | 122 | — | 122 |
| Amount due from a related company | 2 | — | 2 |
| Bank balances and cash | 2,734 | — | 2,734 |
| Trade and other payables | (844) | — | (844) |
| Subscriptions received in advance | (141) | — | (141) |
| Amounts due to related companies | (52) | — | (52) |
| Deferred tax liabilities | — | (603) | (603) |
| Net assets | 4,075 | 554 | 4,629 |
| Minority interests | | | (2,269) |
| Goodwill | | | 4,577 |
| Total consideration | | | 6,937 |

(c) Acquisition of Hyperlink in August 2006:

| | Book value US$'000 | Fair value adjustments US$'000 | Fair value US$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 278 | — | 278 |
| Other intangible assets | — | 845 | 845 |
| Trade and other receivables | 301 | — | 301 |
| Amount due from a shareholder | 37 | — | 37 |
| Bank balances and cash | 305 | — | 305 |
| Trade and other payables | (417) | — | (417) |
| Amount due to a shareholder | (38) | — | (38) |
| Amount due to a director | (50) | — | (50) |
| Taxation payable | (136) | — | (136) |
| Deferred tax liabilities | — | (279) | (279) |
| Net assets | 280 | 566 | 846 |
| Minority interests | | | (414) |
| Goodwill | | | 4,695 |
| Total consideration | | | 5,127 |

(d) Acquisition of Accord Group in September 2006:

| | Book value US$'000 | Fair value adjustments US$'000 | Fair value US$'000 |
|---|---|---|---|
| Net liabilities acquired: | | | |
| Property, plant and equipment | 134 | — | 134 |
| Other intangible assets | 1,315 | 28 | 1,343 |
| Trade and other receivables | 283 | — | 283 |
| Bank balances and cash | 260 | — | 260 |
| Trade and other payables | (295) | — | (295) |
| Loan from shareholders | (2) | — | (2) |
| Amounts due to related parties | (1,626) | — | (1,626) |
| Subscriptions received in advance | (372) | — | (372) |
| Amount due to a related company | (821) | — | (821) |
| Deferred tax liabilities | (443) | — | (443) |
| Net liabilities | (1,567) | 28 | (1,539) |
| Goodwill | | | 2,613 |
| Total consideration | | | 1,074 |

(e) Acquisition of other subsidiaries in 2006:

| | US$'000 |
|---|---|
| Net assets acquired: | |
| Property, plant and equipment | 34 |
| Other intangible assets | 1,770 |
| Trade and other receivables | 17 |
| Bank balances and cash | 106 |
| Trade and other payables | (969) |
| Subscriptions received in advance | (57) |
| Deferred tax liabilities | (335) |
| Net assets | 566 |
| Goodwill | 3,003 |
| Total consideration | 3,569 |

The net book value of the net assets of other subsidiaries at the date of acquisition approximates their fair values and, accordingly, no fair value adjustment was required.

| | **2007 US$'000** | 2006 US$'000 |
|---|---|---|
| The above acquisitions were satisfied by | | |
| — cash | **127,936** | 55,681 |
| — consideration payable | **106,670** | 40,893 |
| — shares of the Company | **24,339** | 18,026 |
| — share of XFM | **1,938** | 634 |
| — other payables | **1,081** | — |
| | **261,964** | 115,234 |
| Net cash outflow arising on acquisition | | |
| — cash consideration paid | **(127,936)** | (55,681) |
| — bank balances and cash acquired | **4,083** | 4,586 |
| — bank overdraft assumed | **(319)** | — |
| — transferred from deposits paid | **—** | 29,000 |
| | **(124,172)** | (22,095) |

The goodwill is attributable to the anticipated profitability arising from the distribution of the Group's products in the new markets and the future operating synergies from the combination.

These newly acquired subsidiaries contributed a net profit of US$2,317,000 (2006: US$7,285,000) for the period between the date of acquisition and the balance sheet date.

As at the date of this report, the Group is still in the midst of finalising the fair values of certain of the business combinations during the year, which are to be determined by professional valuers. Therefore, the initial accounting for these business combinations has been determined only provisionally and thus the carrying value of the goodwill, provisional values and the related deferred tax liabilities arising from business combinations during the year is subject to changes on completion of initial accounting.

### PRO FORMA GROUP'S REVENUE AND RESULTS

If the acquisitions had been completed on the first day of the year based on the unaudited management accounts for the whole year of the subsidiaries, the Group's revenue for the year would have been US$317,627,000 (2006: US$179,493,000) and the Group's profit for the year attributable to equity holders of the Company would have been US$60,209,000 (2006: US$14,112,000). These pro forma information is presented for illustrative purposes only and is not necessarily an indication of revenue and of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2007 (2006: January 1, 2006), nor is it intended to be a projection of future results.

## 42. DISPOSAL OF A SUBSIDIARY

In October 2007, the Group disposed of its entire interest in Glass Lewis to an independent third party for a consideration of US$46,000,000 and incurred direct cost of US$2,500,000. The net assets of Glass Lewis at the date of disposal were as follows:

| | US$'000 |
|---|---|
| Property, plant and equipment | 884 |
| Intangible assets | 8,676 |
| Trade and other receivables | 2,181 |
| Bank balances and cash | 124 |
| Trade and other payables | (1,216) |
| Subscriptions received in advance | (3,269) |
| Deferred tax liabilities | (3,469) |
| | 3,911 |
| Attributable goodwill | 44,940 |
| | 48,851 |
| Loss on disposal | (5,351) |
| Total consideration | 43,500 |
| Satisfied by: | |
| Cash | 43,500 |
| Net cash inflow arising on disposal: | |
| Cash consideration | 43,500 |
| Bank balances and cash disposed of | (124) |
| | 43,376 |

During the year, Glass Lewis contributed a loss of US$2,954,000 to the Group's profit for the year. Glass Lewis also paid US$842,000 in respect of operating activities, contributed US$14,000 to the Group's net investing cashflows and paid US$362,000 in respect of financing activities.

## 43. MAJOR NON-CASH TRANSACTIONS

### THE GROUP

In 2007,

(a) the Company issued 43,796 ordinary shares of HK$20 each with a fair value of US$24,239,000 for acquisition of certain subsidiaries;

(b) the Company issued 52,284 ordinary shares of HK$20 each with a fair value of US$26,058,000 for settlement of consideration payable.

(c) a subsidiary of the Company issued 2,043,347 class A common shares of US$0.001 each with a fair value of US$8,296,000 for acquisition of additional interests of a subsidiary.

In 2006,

(a) the Company issued 43,614 ordinary shares of HK$20 each with a fair value of US$22,280,000 for acquisition of certain subsidiary.

(b) the Company issued 43,157 ordinary shares of HK$20 each with a fair value of US$23,134,000 for settlement of consideration payable;

(c) the Company issued 1,500 ordinary shares of HK$20 each with a fair value of US$751,000 for consultancy services;

(d) the Company issued 2,000 ordinary shares of HK$20 each with a fair value of US$1,169,000 for acquisition of available-for-sales investments;

(e) A subsidiary of the Company issued 18,646,772 class A common shares of US$0.001 each with a fair value of US$25,637,064 for acquisition of license agreements and operating agreement;

(f) A subsidiary of the Company issued 2,314,382 class A common shares of US$0.001 each with a fair value of US$2,645,863 for acquisition of additional interests of certain subsidiaries.

### THE COMPANY

In 2007,

(a) the Company issued 43,796 ordinary shares of HK$20 each with a fair value of US$24,339,000 for acquisition of certain subsidiaries;

(b) the Company issued 52,284 ordinary shares of HK$20 each with a fair value of US$26,058,000 for settlement of consideration payable;

(c) during the year, the Company subscribed new shares in certain subsidiaries for a consideration of US$290,984,000, the amounts were settled through current accounts with the subsidiaries.

In 2006,

(a) the Company issued 43,157 ordinary shares of HK$20 each with a fair value of US$23,134,000 for settlement of consideration payable;

(b) the Company issued 1,500 ordinary shares of HK$20 each with a fair value of US$751,000 for consultancy services;

(c) the Company issued 2,000 ordinary shares of HK$20 each with a fair value of US$1,169,000 for acquisition of available-for-sales investments.

## 44. COMMITMENTS

### (A) OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

| | THE GROUP | |
|---|---|---|
| | **2007** | 2006 |
| | **US$'000** | US$'000 |
| Within one year | **7,749** | 5,397 |
| In the second to fifth year inclusive | **11,224** | 11,618 |
| After five years | **10,730** | 10,452 |
| | **29,703** | 27,467 |

The Company has no operating lease commitment at the balance sheet date.

### (B) PURCHASE OF PROGRAM RIGHTS

The Group entered into an agreement for the purchase of program rights for a total consideration of US$4,521,000 (2006: Nil). Unpaid balance totaled US$2,053,000 (2006: Nil) at December 31, 2007.

### (C) OTHERS

The Group also has a number of agreements to purchase advertising airtime from radio stations. As of December 31, 2007, future minimum purchase commitments under the agreements amounted to US$72,960,000 (2006: US$75,925,000). The Group is committed to pay approximately US$3 million to US$4 million in each of the five years and the remainder of approximately US$55 million in fifteen years thereafter.

The Group also has a number of agreements to produce television programs. As of December 31, 2007, future minimum production fee commitments under the agreements amounted to US$1,142,000 (2006: US$8,364,000) and will be paid next year.

The Group also has a number of agreements to obtain advertising rights from publishers and other parties in the PRC. As of December 31, 2007, future minimum services fees commitment under the agreements amounted to US$10,263,000 (2006: US$2,053,000).

The Group entered into a number of agreements to obtain advertising production and network services from various services providers. As of December 31, 2007, future minimum service fee commitments under the agreements amounted to US$737,000 (2006: US$1,339,000) in which US$88,000 will be paid in 2008 and 2009, and US$92,000 will be paid in 2010 and 2011 and US$95,000 will be paid in each of 2012 through 2015.

## 45. CONTINGENT LIABILITIES

XFM is subject to a class action complaint for violations of US federal securities laws. Plaintiffs in the class action assert claims under the US Securities Act of 1933, as amended (the "US Securities Act"), against XFM, Chief Executive Officer and former Chief Financial Officer ("CFO") as well as underwriters of XFM's initial public offering for failing to disclose in registration statements required under the US Securities Act certain background information concerning the former CFO. That background information comprised a list of lawsuits and proceedings that were brought against other entities with which the former CFO was associated and that are completely unrelated to XFM. XFM and other defendants have filed motions to dismiss the class action complaint. The management of XFM is of the view, that the plaintiffs' complaint is without merit, and XFM will continue to vigorously defend itself against the class action complaint. Given the early stage of the litigation, it is premature to predict potential outcomes or estimate potential damages. Accordingly, no reliable estimate can be made of the amount of the obligations, if any. Hence no provision has been made in this regard.

## 46. RETIREMENT BENEFITS SCHEME

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

The employees of the Group's subsidiaries in PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The Group has a defined-contribution retirement plan (the "Plan") covering the employees in the US subsidiaries who have completed at least three months of service. The first amendment to the Plan dated September 1, 2004 provides that the former employees of certain acquired subsidiaries would become immediately eligible to participate in the Plan and would receive prior service credit. Employees may make salary contributions up to 15% of their salary on a pre-tax basis, subject to a maximum contribution. The Group makes matching contributions and may make discretionary profit sharing contributions.



## 47. RELATED PARTY TRANSACTIONS

The remuneration of directors (key management personnel) is disclosed in notes 10, 39 and 40.

In addition to the above and the related party information disclosed elsewhere in the financial statements, during the year, the Group paid system service fees of US$128,000 (2006: US$128,000) to FTSE International Limited, a minority shareholder of a subsidiary which has significant influence on that subsidiary.

During the year, the Company has the following significant transactions with its group companies:

| | THE COMPANY | |
|---|---|---|
| | **2007**<br>**US$'000** | 2006<br>US$'000 |
| Group service fee income from subsidiaries | **4,288** | 5,834 |
| Interest income from subsidiaries | **659** | 97 |
| Group service fee paid to a subsidiary | **6,717** | 5,709 |

## 48. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at the balance sheet date are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Attributable proportion of nominal value of issued capital/registered capital held by the Company — Directly 2007 | Directly 2006 | Indirectly 2007 | Indirectly 2006 | Principal activities |
|---|---|---|---|---|---|---|
| Market News International Inc. | US | **100%** | 100% | | — | Production of fixed income/forex news analysis |
| Stone & McCarthy Research Associates, Inc. | US | **100%** | 100% | | — | Production of economic statistics analysis |
| Taylor Rafferty, Associates Inc. | US | **100%** | 100% | | — | Provision of investor relations consulting services |
| Washington Analysis Corporation | US | **100%** | 100% | | — | Provision of economic political advisory services |
| XFM* | Cayman Islands | **38.82%** | 69.78% | | — | Production and distribution of media |
| Xinhua Financial Network Limited | Hong Kong | **100%** | 100% | | — | Provision of China-specific indices, financial news feeds, credit ratings and investor relations services |
| AFX-Asia Pte. Limited | Republic of Singapore | — | — | **100%** | 100% | Production and distribution of news |
| Beijing Century Media Culture Co., Limited | PRC | — | — | **100%** | 100% | Provision of television consulting services |
| China Finance Limited | Taiwan | — | — | **100%** | 100% | Provision of financial information services and public relation services |
| Ford Investor Services, Inc. | US | — | — | **100%** | 100% | Independent equity research |
| Fortune China Public Relations Limited | Hong Kong | — | — | **100%** | 100% | Provision of public relations services |
| Market News (Service) International Inc. | US | — | — | **100%** | 100% | Production of fixed income/forex news analysis |
| Mergent Inc. | US | — | — | **100%** | 100% | Production of database and analysis |
| Mergent Japan K.K. | Japan | — | — | **100%** | 100% | Production of database and analysis |
| Mergent Pricing & Evaluation Services Inc. | US | — | — | **100%** | 100% | Independent valuations of US fixed income securities |
| SMRA International Inc. | US | — | — | **100%** | 100% | Production of economic statistics analysis |
| Xinhua Financial Network (Beijing) Ltd. | PRC | — | — | **100%** | 100% | Provision of financial information services andpublic relations services |
| Xinhua Financial Network (Korea) Limited | Korea | — | — | **100%** | 100% | Provision of financial information services |
| Xinhua Financial Network (Shanghai) Ltd. | PRC | — | — | **100%** | 100% | Provision of financial information services andpublic relations services |
| Xinhua Finance Japan Limited | Japan | — | — | **100%** | 100% | Provision of China financial information and services |
| EconWorld Media Limited # | Hong Kong | — | — | **38.82%** | 69.78% | Production and circulation of magazines |
| Accord Group Investments Limited # | British Virgin Islands | — | — | **38.82%** | 69.78% | Design, production and distribution of advertisements |
| Beijing Jingguan Xincheng Advertising Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Design, production and distribution of advertisements |
| Shanghai Hyperlink Market Research # | PRC | — | — | **38.82%** | 69.78% | Provision of research service on products, advertisements and markets |
| Upper Step Holdings Limited # | British Virgin Islands | — | — | **38.82%** | 69.78% | Distribution of economic investment, advertising and trade related information |
| Xinhua Finance Advertising Limited # | British Virgin Islands | — | — | **38.82%** | 69.78% | Design, production and distribution of advertisements |
| Active Advertising Agency (Guangzhou) Ltd. # | PRC | — | — | **38.82%** | 69.78% | Advertising agency |
| Active Advertising Agency Ltd. # | Hong Kong | — | — | **38.82%** | 69.78% | Advertising agency |
| Beijing EWEO Advertising Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Magazine publishing |
| Beijing Golden Ways Animation Production Co., Ltd. (formerly Culture Development Co Ltd.) # | PRC | — | — | **38.44%** | 67.34% | Content production known as Beijing Golden Ways |
| Beijing JinGuan XinCheng Advertising Co., Ltd. # | PRC | — | — | **#31.1%** | 69.78% | Newspaper publishing |
| Beijing Jinlong Runxin Advertising Co. Ltd. # | PRC | — | — | **#31.1%** | 69.78% | Advertising agency |
| Beijing Longmei TV & Broadcast Advertising Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Advertising agency |
| Beijing Perspective Orient Advertising Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Financial television production |
| Beijing Perspective Orient Movie Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Financial television production and Television Intermediary |

| Name of subsidiary | Place of incorporation/ establishment | Attributable proportion of nominal value of issued capital/registered capital held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|
| | | Directly | | Indirectly | | |
| | | **2007** | 2006 | **2007** | 2006 | |
| Beijing Qiannuo Advertising Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Magazine publishing |
| Beijing Shiji Guangnian Advertising Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Radio broadcast |
| Beijing Taide Advertising Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Advertising agency |
| Beijing Workshop Communications Co., Ltd. # | PRC | — | — | **37.53%** | 68.81% | Content production |
| EconWorld (Shanghai) Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Magazine publishing |
| EconWorld Publishing Ltd. # | Hong Kong | — | — | **38.82%** | 69.78% | Magazine publishing |
| Financial World (Shanghai) Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Magazine publishing |
| Guangzhou Hyperlink Market Research Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Market research |
| Guangzhou Jingshi Culture Intermediary Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Magazine publishing |
| Kinetic Information System Services Limited | UK | — | — | **100%** | — | Provision of indices and related services |
| Money Journal Advertising Co., Ltd. # | Hong Kong | — | — | **38.82%** | 69.78% | Magazine publishing |
| Money Journal Publication Ltd. # | Hong Kong | — | — | **38.82%** | 69.78% | Magazine publishing |
| Shanghai Hyperlink Market Research Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Market research |
| Shanghai Yuanxin Advertising Media Co. Ltd. # | PRC | — | — | **38.82%** | 69.78% | Advertising agency |
| Shangtuo Zhiyang International Advertising (Beijing) Co. Ltd. # | PRC | — | — | **31.06%** | 68.98% | Advertising agency |
| Shenzhen Active Trinity Ltd. # | PRC | — | — | **38.82%** | 69.78% | Advertising agency |
| Xinhua Finance Media (Beijing) Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Management services |
| Xinhua Finance Media (Shanghai) Co., Ltd. # | PRC | — | — | **38.82%** | 69.78% | Management services |
| Beijing Mobile Interactive Co., Ltd. # | PRC | — | — | **38.82%** | — | Value-added service — SP business |
| Guangzhou Singshine Communication Co., Ltd. # | PRC | — | — | **38.82%** | — | Radio broadcast |
| Shanghai Liangdian Zhongduan Zhanshi Co., Ltd. # | PRC | — | — | **23.29%** | — | Marketing service — below-the-line marketing |
| Shanghai Singshine Marketing Service Co., Ltd. # | PRC | — | — | **38.82%** | — | Marketing service — below-the-line marketing |
| Shanghai Tongxin Information Technology Consulting Co. Ltd. | PRC | — | — | **80.00%** | — | Provision of information technology application and solution services |
| Convey Advertising (China) Limited (previously G Whale Holdings Limited) # | Hong Kong | — | — | **38.32%** | — | Outdoor advertising |
| Convey Advertising Company Limited # | Hong Kong | — | — | **38.32%** | — | Outdoor advertising |
| Small World Television Limited # | Hong Kong | — | — | **27.18%** | — | TV Programming and production consulting |
| JTT Advertising Limited # | Hong Kong | — | — | **38.82%** | — | Marketing service — below-the-line marketing |
| Shanghai Paxi Advertising Co., Ltd. # | PRC | — | — | **38.82%** | — | Marketing service — below-the-line marketing |
| Beijing Jinjiu Tianyi Tianjiu Lianhe Advertising Co., Ltd. # | PRC | — | — | **38.82%** | — | Advertising agency |
| Shanghai IF Advertisement Design and Production Co., Ltd. # | PRC | — | — | **38.82%** | — | Marketing service — below-the-line marketing |
| Beijing Linghang Dongli Advertising Co., Ltd. # | PRC | — | — | **38.82%** | — | Television advertising agency |
| Beijing Pioneer Media Advertising Co., Ltd. # | PRC | — | — | **38.82%** | — | Television broadcasting |
| Beijing Xin Tai Hua De Advertising Co., Ltd. # | PRC | — | — | **38.82%** | — | Advertising agency |
| Shanghai Renhe Movie and Television Intermediary Co., Ltd. # | PRC | — | — | **38.82%** | — | Content production |

* *XFM is listed on Nasdaq in the US and is accounted for as a subsidiary of the Company as the Company holds class B shares of XFM which entitles the holder to 10 voting rights to 1 non-class B shares. Hence the Company directly controls more than 50% of XFM's voting power.*

\# *These entities are subsidiaries of XFM and XFM directly or indirectly holds more than 50% equity interests in them.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group.