

# REPORT AND FINANCIAL STATEMENTS UNDER IFRS

(International Financial Reporting Standards)  
For the Year Ended December 31, 2008

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## 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 consolidated financial statements of 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, 2008, 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, 2008 and of the loss 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 27, 2009

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2008

	NOTES	2008 US\$'000	2007 US\$'000 (Restated)
<b>Continuing operations</b>			
Revenues	7	225,020	167,559
Cost of revenues		(132,081)	(98,154)
Gross profit		92,939	69,405
Other income		25,749	17,901
Marketing and promotional expenses		(26,154)	(18,750)
Administrative expenses		(104,207)	(55,439)
Finance costs	8	(17,027)	(14,151)
Impairment loss recognised in respect of goodwill		(188,675)	(8,639)
Impairment loss arising on deconsolidation of a subsidiary	39	(81,457)	—
Fair value loss on principle protected note		(24,910)	(90)
Net (loss) gain on deemed disposal of partial interest in XFM	9	(15,852)	95,841
Other expenses		(60,775)	(11,475)
Share of losses of associates		(62)	(9)
(Loss) profit before taxation	10	(400,431)	74,594
Taxation	11	(5,396)	(1,664)
(Loss) profit for the year from continuing operations		(405,827)	72,930
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	12	(111,161)	(4,131)
(Loss) profit for the year		(516,988)	68,799
Attributable to			
— equity holders of the Company		(341,709)	56,466
— minority interests		(175,279)	12,333
		(516,988)	68,799
(Loss) earnings per share	14		
<b>From continuing and discontinued operations</b>			
— Basic		(US\$271.11)	US\$56.07
— Diluted		N/A	US\$51.68
<b>From continuing operations</b>			
— Basic		(US\$182.92)	US\$60.17
— Diluted		N/A	US\$55.50

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2008

	NOTES	2008 US\$'000	2007 US\$'000
Revenues		2,016	4,288
Cost of revenues		(4,437)	(6,717)
Gross loss		(2,421)	(2,429)
Other income		14,935	5,044
Administrative expenses		(30,607)	(15,372)
Finance costs	8	(7,706)	(6,810)
Impairment loss on investments in subsidiaries		(92,263)	(11,557)
Loss on disposal of a subsidiary		(10,115)	(8,305)
Impairment loss on amount due from a subsidiary		(2,607)	—
Impairment loss on interest in a listed associate		(64,260)	—
Loss before taxation	10	(195,044)	(39,429)
Taxation	11	—	—
Loss for the year		(195,044)	(39,429)

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 2008

	NOTES	2008 US\$'000	2007 US\$'000
<b>Non-current assets</b>			
Property, plant and equipment	15	1,996	23,947
License agreements	17	—	84,167
Operating agreement	18	—	49,610
Capitalised content production costs	19	—	1,801
Other intangible assets	20	1,033	66,650
Goodwill	21	5,738	509,244
Interests in associates	22	87,208	547
Debt securities		—	676
Available-for-sale investments	23	21	29,921
Deposits made for content production		—	7,055
Promissory note receivables	24	—	7,900
Principal protected note	25	—	24,910
Other long-term prepayments and deposits		—	1,900
Deferred tax assets	26	—	330
		<b>95,996</b>	<b>808,658</b>
<b>Current assets</b>			
Trade and other receivables, prepayments and deposits	27	14,723	98,234
Promissory note receivables	24	7,880	10,868
Early redemption option	32	946	5,079
Prepaid program expenses		—	5,389
Amount due from an associate		1,107	—
Amount due from a minority shareholder of a subsidiary		1,378	—
Taxation recoverable		110	688
Pledged bank deposits	28	18,005	57,397
Bank balances and cash	28	50,962	130,636
		<b>95,111</b>	<b>308,291</b>
Assets classified as held for sale	12 & 13	23,337	—
		<b>118,448</b>	<b>308,291</b>

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## CONSOLIDATED BALANCE SHEET (continued)

AT DECEMBER 31, 2008

	NOTES	2008 US\$'000	2007 US\$'000
<b>Current liabilities</b>			
Trade and other payables		12,778	46,887
Subscriptions received in advance		1,204	14,612
Consideration payable for acquisition of subsidiaries		—	67,915
Obligations under an onerous contract		—	250
Obligations under finance leases	29	9	699
Amount due to a minority shareholder of a subsidiary		—	1,970
Amount due to a director		9	185
Amount due to a former director	30	4,535	—
Taxation payable		1,693	8,886
Senior notes	32	41,701	—
Current portion of long-term bank loans		—	484
Short-term bank loans	31	16,071	42,308
Bank overdrafts		—	960
		<b>78,000</b>	185,156
Liabilities associated with assets classified as held for sale	12 & 13	5,915	—
		<b>83,915</b>	185,156
<b>Net current assets</b>			
		<b>34,533</b>	123,135
<b>Total assets less current liabilities</b>			
		<b>130,529</b>	931,793
<b>Non-current liabilities</b>			
Subscriptions received in advance		664	716
Consideration payable for acquisition of subsidiaries		—	76,642
Obligations under finance leases	29	4	69,033
Long-term bank loans		—	1,234
Amount due to a shareholder		400	700
Amount due to a former director	30	1,667	—
Senior notes	32	9,558	99,983
Derivative financial instrument	33	—	16,729
Other long-term payables		318	1,019
Deferred tax liabilities	26	191	12,252
		<b>12,802</b>	278,308
<b>Net assets</b>			
		<b>117,727</b>	653,485
<b>Capital and reserves</b>			
Share capital	35	3,810	2,649
Reserves		107,797	428,542
<b>Equity attributable to equity holders of the Company</b>			
Option and warrant reserve of a subsidiary		—	6,093
Minority interests		6,120	216,201
<b>Total equity</b>			
		<b>117,727</b>	653,485

The financial statements on pages 81 to 153 were approved and authorised for issue by the Board of Directors on February 27, 2009 and are signed on its behalf by:

**JAE LIE**  
DIRECTOR

**ALOYSIUS T. LAWN IV**  
DIRECTOR

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## BALANCE SHEET

AT DECEMBER 31, 2008

	NOTES	2008 US\$'000	2007 US\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	16	253,625	495,716
Interest in an associate	22	87,208	—
Amounts due from subsidiaries		—	11,351
		<b>340,833</b>	507,067
<b>Current assets</b>			
Other receivables		83	4,876
Promissory note receivables	24	1,708	—
Amounts due from subsidiaries		—	96
Amount due from an associate		955	—
Early redemption option	32	946	5,079
Bank balances		1,920	5,383
		<b>5,612</b>	15,434
Assets classified as held for sale	12	5,242	—
		<b>10,854</b>	15,434
<b>Current liabilities</b>			
Other payables		2,739	1,119
Consideration payable for acquisition for subsidiaries		—	36,148
Senior notes	32	41,701	—
Amounts due to subsidiaries		174,653	75,643
Amount due to a director		—	186
Amount due to a former director	30	4,535	—
		<b>223,628</b>	113,096
Net current liabilities		<b>(212,774)</b>	(97,662)
Total assets less current liabilities		<b>128,059</b>	409,405
<b>Non-current liabilities</b>			
Amount due to a former director	30	1,667	—
Senior notes	32	9,558	99,983
Derivative financial instrument	33	—	16,729
		<b>11,225</b>	116,712
Net assets		<b>116,834</b>	292,693
<b>Capital and reserves</b>			
Share capital	35	3,810	2,649
Reserves		113,024	290,044
Total equity		<b>116,834</b>	292,693

JAE LIE  
DIRECTOR

ALOYSIUS T. LAWN IV  
DIRECTOR

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2008

	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
<b>THE GROUP</b>														
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
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	—	—	—	—
Purchase of non wholly-owned subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	733	733
Purchase 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 minority shareholders of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	2,152	2,152
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
Fair value change of available-for-sale investments	—	—	—	—	—	815	—	—	—	—	815	—	227	1,042
Net adjustment on cash flow 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)
Disposal of available-for-sale investments	—	—	—	—	—	(112)	—	—	—	—	(112)	—	—	(112)
Transfers	—	—	—	—	—	—	—	—	1,345	(1,345)	—	—	—	—
Net income (expenses) 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 expenses 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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE YEAR ENDED DECEMBER 31, 2008

	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, 2008	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
Issue of shares	1,161	24,048	—	—	(1,970)	—	—	—	—	—	23,239	—	—	23,239
Recognition of share based payments as compensation to directors and staff	—	—	800	—	1,822	—	—	—	—	—	2,622	12,323	—	14,945
Cancellation of warrants	—	—	(169)	—	—	—	—	(30)	—	199	—	—	—	—
Forfeiture of unvested shares granted in prior years	—	—	—	—	(876)	—	—	—	—	876	—	—	—	—
Payment made on cancellation of unvested shares granted in prior years	—	—	—	—	(55)	—	—	—	—	—	(55)	—	—	(55)
Purchase of additional interests in subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	(757)	(757)
Changes in minority interests on deemed disposal/partial disposal of interests in a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	23,950	23,950
Capital contribution by a minority shareholder of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	29,332	29,332
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	(2,523)	(2,523)
Purchase of own shares by a subsidiary	—	—	—	—	—	—	—	—	—	1,566	1,566	—	(6,444)	(4,878)
	1,161	24,048	631	—	(1,079)	—	—	(30)	—	2,641	27,372	12,323	43,558	83,253
Fair value change of available-for-sale investments	—	—	—	—	—	(738)	—	—	—	—	(738)	—	(164)	(902)
Net adjustment on cash flow hedge	—	—	—	—	—	—	(3,071)	—	—	—	(3,071)	—	—	(3,071)
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	—	170	—	(11,932)	—	—	(11,762)	—	(133)	(11,895)
Net expenses directly recognised in equity	—	—	—	—	—	(568)	(3,071)	(11,932)	—	—	(15,571)	—	(297)	(15,868)
Loss for the year	—	—	—	—	—	—	—	—	—	(341,709)	(341,709)	—	(175,279)	(516,988)
Hedge reserve released during the year	—	—	—	—	—	—	10,432	—	—	—	10,432	—	—	10,432
Disposal of available-for-sale investments	—	—	—	—	—	(108)	—	—	—	—	(108)	—	—	(108)
Total recognised income and expenses for the year	—	—	—	—	—	(676)	7,361	(11,932)	—	(341,709)	(346,956)	—	(175,576)	(522,532)
Reserves released on deconsolidation of a subsidiary	—	—	—	—	—	—	—	—	(1,345)	1,345	—	(18,416)	(78,063)	(96,479)
At December 31, 2008	3,810	351,931	8,485	44,531	1,769	71	—	(24,362)	—	(274,628)	111,607	—	6,120	117,727

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.

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2008

	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
<b>THE COMPANY</b>									
At January 1, 2007	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 expenses directly recognised in equity	—	—	—	—	—	(7,361)	(13,230)	—	(20,591)
Loss for the year	—	—	—	—	—	—	—	(39,429)	(39,429)
Total recognised expenses 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
Issue of shares	1,161	24,048	—	—	(1,970)	—	—	—	23,239
Recognition of share based payments as compensation to directors and staffs	—	—	800	—	1,822	—	—	—	2,622
Cancellation of warrants	—	—	(169)	—	—	—	(30)	199	—
Forfeiture of unvested shares granted in prior years	—	—	—	—	(876)	—	—	876	—
Payment made on cancellation of unvested shares granted in prior years	—	—	—	—	(55)	—	—	—	(55)
	1,161	24,048	631	—	(1,079)	—	(30)	1,075	25,806
Net adjustment on cash flow hedge	—	—	—	—	—	(3,071)	—	—	(3,071)
Exchange differences arising from translation of financial statements	—	—	—	—	—	—	(13,982)	—	(13,982)
Net expenses directly recognised in equity	—	—	—	—	—	(3,071)	(13,982)	—	(17,053)
Loss for the year	—	—	—	—	—	—	—	(195,044)	(195,044)
Hedge reserve released during the year	—	—	—	—	—	10,432	—	—	10,432
Total recognised income and expenses for the year	—	—	—	—	—	7,361	(13,982)	(195,044)	(201,665)
At December 31, 2008	3,810	351,931	8,485	23,654	1,769	—	(27,242)	(245,573)	116,834

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

FOR THE YEAR ENDED DECEMBER 31, 2008

	2008 US\$'000	2007 US\$'000
Operating activities		
(Loss) profit before taxation	(509,648)	73,368
Adjustments for:		
Interest income	(3,811)	(10,153)
Interest expenses	17,081	14,294
Share of losses of associates	64	6
Depreciation and amortisation	25,153	22,901
Release of hedge reserve	10,432	—
Impairment loss on goodwill	295,537	15,094
Impairment loss on property, plant and equipment	2,188	234
Impairment loss on license agreements	2,648	—
Impairment loss on capitalised content production costs	122	—
Impairment loss on other intangible assets	23,041	—
Impairment loss on available-for-sale investments	1,333	—
Impairment loss arising on deconsolidation of a subsidiary	81,457	—
Loss on disposal of property, plant and equipment	273	72
Fair value gain on foreign exchange linked notes	—	(668)
Gain on disposal of available-for-sale investments	(108)	(112)
Gain on disposal of capitalised content production costs	(2,734)	—
Share based payments	14,945	9,106
Allowance for doubtful debts	12,429	553
Reversal of allowance for doubtful debts	(2,200)	(223)
Allowance for doubtful debts on promissory note receivables	14,728	5,546
Compensation for loss of office of a former director	1,592	—
Loss on disposal of businesses	2,459	5,351
Net loss (gain) on deemed disposal of partial interest in XFM	15,852	(95,841)
Fair value loss on principal protected note	24,910	90
Fair value loss on foreign exchange option	2,150	—
Fair value gain on convertible loan	(927)	—
Fair value loss on convertible loan and redeemable convertible preferred shares	—	5,695
Fair value loss (gain) on early redemption option	4,133	(168)
Gain on early settlement of cross currency swap	(4,297)	—
Operating cash flows before movements in working capital	28,802	45,145
Decrease (increase) in other long-term prepayments and deposits	1,711	(1,653)
Increase in trade and other receivables, repayments and deposits	(42,253)	(22,813)
Increase in amount due from an associate	(1,107)	—
Decrease (increase) in prepaid program expenses	3,065	(462)
(Increase) decrease in amount due from a minority shareholder of a subsidiary	(1,378)	60
Increase in trade and other payables	7,212	11,342
Increase (decrease) in subscriptions received in advance	10,729	(2,720)
Decrease in obligations under an onerous contract	(250)	(375)
(Decrease) increase in amount due to a minority shareholder of a subsidiary	(1,970)	2,227
(Decrease) increase in amount due to a director	(176)	3
Increase in amount due to a former director	2,902	—
Decrease in amount due to a shareholder	(300)	—
Settlement of derivative financial instrument	(19,750)	—
Purchase of foreign exchange options	(4,300)	—
Proceed from settlement of foreign exchange option	2,150	—
Cash from operations	(14,913)	30,754
Taxation paid	(6,957)	(4,064)
Net cash (used in) from operating activities	(21,870)	26,690

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## CONSOLIDATED CASH FLOW STATEMENT (continued)

FOR THE YEAR ENDED DECEMBER 31, 2008

	NOTES	2008 US\$'000	2007 US\$'000
Investing activities			
Interest received		3,811	10,153
Purchase of subsidiaries (net of cash and cash equivalents acquired)	38	—	(124,172)
Acquisition of additional interests in subsidiaries		(5,635)	(10,525)
Additional consideration paid for acquisition of subsidiaries		(61,273)	(25,938)
Net cash outflow from deconsolidation of XFM	39	(57,030)	—
Net cash inflow from disposal of operations	40	92,010	43,376
Purchase of property, plant and equipment		(5,500)	(11,057)
Proceeds from disposal of property, plant and equipment		379	482
Proceeds from disposal of content production costs		4,947	—
Proceeds from redemption of debt securities		676	—
Content production costs paid		(454)	(2,078)
Purchase of intangible assets		(13,466)	(1,178)
Purchase of available-for-sale investments		(2,062)	(5,413)
Proceeds from disposal of available-for-sale investments		4,328	573
Refund on deposit (deposits paid) for content production		7,055	(2,598)
Increase in promissory note receivables		(7,678)	(3,054)
Purchase of principal protected note		—	(25,000)
Purchase of foreign exchange linked notes		—	(40,000)
Proceeds from disposal of foreign exchange linked notes		—	40,668
Decrease (increase) in pledged bank deposits		8,798	(27,705)
Net cash used in investing activities		(31,094)	(183,466)

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## CONSOLIDATED CASH FLOW STATEMENT (continued)

FOR THE YEAR ENDED DECEMBER 31, 2008

	2008 US\$'000	2007 US\$'000
Financing activities		
Interest paid	(17,081)	(9,722)
Dividends paid to minority shareholders of subsidiaries	(2,523)	(6,149)
Proceeds from issue of shares	—	1,401
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)
Payment on cancellation of share options granted in previous years	(55)	—
Repayment of senior notes	(48,739)	—
Capital contribution by a minority shareholder of a subsidiary	29,332	686
Expenses incurred in connection with the issue of senior note	—	(77)
Net proceeds from issue of convertible loan	31,271	—
Repayment of obligations under finance leases	(133)	(16,461)
Bank loans raised	49,388	41,234
Repayment of bank loans	(49,475)	(17,082)
Repayment of other long-term payables	(700)	(187)
Net cash (used in) from financing activities	(8,715)	191,949
Net (decrease) increase in cash and cash equivalents	(61,679)	35,173
Cash and cash equivalents at January 1	129,676	96,999
Effect of foreign exchange rate changes	(10,713)	(2,496)
Cash and cash equivalents at December 31	57,284	129,676
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	50,962	130,636
Bank balances and cash included in assets classified as held for sale	6,322	—
Bank overdrafts	—	(960)
	57,284	129,676

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2008

	2008 US\$'000	2007 US\$'000
Operating activities		
Loss before taxation	(195,044)	(39,429)
Adjustments for:		
Interest income	(818)	(1,032)
Interest expenses	7,706	6,810
Release of hedge reserve	10,432	—
Share-based payments	2,622	6,034
Loss on disposal of a subsidiary	10,115	8,305
Impairment loss on investments in subsidiaries	92,263	11,557
Impairment loss on amount due from a subsidiary	2,607	—
Impairment loss on interest in a listed associate	64,260	—
Allowance for doubtful debts on promissory note receivables	—	3,765
Compensation for loss of office of a former director	1,592	—
Fair value loss (gain) on early redemption option	4,133	(168)
Fair value loss on foreign exchange option	2,150	—
Gain on early settlement of cross currency swap	(4,297)	—
Operating cash flows before movements in working capital	(2,279)	(4,158)
Decrease (increase) in other receivables	5,018	(4,258)
Increase in amount due from an associate	(522)	—
Decrease in other payables	1,646	(1,015)
Increase in amount due to a former director	2,902	—
Settlement of derivative financial instrument	(19,750)	—
Purchase of foreign exchange option	(4,300)	—
Proceed from settlement of foreign exchange options	2,150	—
Net cash used in operating activities	(15,135)	(9,431)
Investing activities		
Interest received	818	195
Capital contributions to subsidiaries	(163)	—
Additional considerations paid for acquisition of subsidiaries	(13,618)	—
Purchase of subsidiaries	—	(33,861)
Proceeds from disposal of a subsidiary	16,400	43,500
Repayment from (advances to) subsidiaries	96	(23,095)
Net cash from (used in) investing activities	3,533	(13,261)
Financing activities		
Interest paid	(7,706)	(6,810)
Proceeds from issue of shares	—	566
Payment on cancellation of share options granted in previous years	(55)	—
Repayment of senior notes	(48,739)	—
Borrowings from subsidiaries	64,935	34,175
Repayment to subsidiaries	(110)	—
Repayment to a director	(186)	—
Net cash from financing activities	8,139	27,931
Net (decrease) increase in cash and cash equivalents	(3,463)	5,239
Cash and cash equivalents at January 1	5,383	144
Cash and cash equivalents at December 31	1,920	5,383
Analysis of the balances of cash and cash equivalents		
Bank balances	1,920	5,383

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

### 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 and is also engaged in the provision of administrative services for certain group companies with its subsidiaries engaged in the provision of China-specific indices, financial news feeds, credit ratings, investor relations services and integrated solutions business. The Group was also engaged in publishing of 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 2103-4, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.

The functional currency of the Company is Renminbi ("RMB") and the consolidated financial statements are presented in United States Dollars ("US\$") as it is the currency which management uses to review the Group's operation.

The financial statements of the Company have been prepared on a going concern basis because its wholly-owned subsidiary has adequate funds to support the Company to meet in full its financial obligations as and when they fall due for the foreseeable future.

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

In the current year, the Group has applied the following amendments and interpretations ("new Amendments and Interpretations") issued by the International Accounting Standards Board.

IAS 39 & IFRS 7 (Amendments)	Reclassification of financial assets
IFRIC 11	IFRS 2: Group and treasury share transactions
IFRIC 12	Service concession arrangements
IFRIC 14	IAS 19 — The limited on a defined benefit asset, minimum funding requirements and their interaction

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

The Group has not early applied the following new, revised or amended International Accounting Standards ("IAS"), IFRSs and Interpretations that were issued but not yet effective:

IFRSs (Amendments)	Improvements to IFRSs <sup>1</sup>
IAS 1 (Revised)	Presentation of financial statements <sup>2</sup>
IAS 23 (Revised)	Borrowing costs <sup>2</sup>
IAS 27 (Revised)	Consolidated and separate financial statements <sup>3</sup>
IAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation <sup>2</sup>
IAS 39 (Amendment)	Eligible hedged items <sup>3</sup>
IFRS 1 & IAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate <sup>2</sup>
IFRS 2	Vesting conditions and cancellations <sup>2</sup>
IFRS 3 (Revised)	Business combinations <sup>3</sup>
IFRS 8	Operating segments <sup>2</sup>
IFRIC 13	Customer loyalty programmes <sup>4</sup>
IFRIC 15	Agreements for the construction of real estate <sup>2</sup>
IFRIC 16	Hedges of a net investment in a foreign operation <sup>5</sup>
IFRIC 17	Distributions of non-cash assets to owners <sup>3</sup>
IFRIC 18	Transfers of assets from customers <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after July 1, 2009.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2009.

<sup>3</sup> Effective for annual periods beginning on or after July 1, 2009.

<sup>4</sup> Effective for annual periods beginning on or after July 1, 2008.

<sup>5</sup> Effective for annual periods beginning on or after October 1, 2008.

The application of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company is not yet in a position to reasonably ascertain how the application of the other Standards or Interpretations may have impact on the results and the financial position of the Group.

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## 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

*Goodwill arising on acquisitions prior to January 1, 2005*

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before January 1, 2005 represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity after January 1, 2001, the Group has discontinued amortisation from January 1, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

## *Goodwill arising on acquisitions on or after January 1, 2005*

Goodwill arising on an acquisition of a business 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 fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

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

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

## **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.

## **INVESTMENTS IN ASSOCIATES**

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.

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

## **NON-CURRENT ASSETS HELD FOR SALE**

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

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

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

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.

Service fee for administrative services for group companies 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 Group is acting as the principal or as an agent in the transaction. The Group 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 Group finds advertising space for advertisers and it does not have substantial risks and rewards of ownership, the Group 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.

# Report and Financial Statements under IFRS

FOR THE YEAR ENDED DECEMBER 31, 2008

## 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).

## 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.

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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 or the fair value of the collateralised assets pledged.

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.

### *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/former director and other long-term payables are subsequently measured at amortised cost, using the effective interest method.

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## 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 (hedge reserve). 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.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately 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 exchange 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.

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## 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, with a corresponding increase in equity (option and warrant reserve) when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

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. Also, the value in use calculation requires the Group to estimate certain inputs based on subjective assumptions such as growth rates and discount rates, any changes in the assumptions made can materially affect the amount of impairment loss recognised. Details of the recoverable amount calculation and sensitivity analysis are disclosed in note 21.

### ESTIMATED IMPAIRMENT OF PROMISSORY NOTE RECEIVABLES

The estimated impairment losses on the Distressed Assets, as defined in note 24, were determined based on the estimated fair value of the Pledged Assets, also defined in note 24. The Pledged Assets mainly includes shares and warrants of an unlisted company and a term note receivable from an independent third party. The estimation of the fair value of the shares and warrants of an unlisted company requires subjective assumptions and selection of market comparables determined by management, any changes to the assumptions made can materially affect the amount of impairment losses recognised.

## 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 net debt, which includes obligations under finance leases, short-term bank loans and senior notes as disclosed in notes 29, 31 and 32, respectively, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and deficit. The capital structure of the Company consists of net debt, which includes the senior notes as disclosed in note 32, 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	
	2008 US\$'000	2007 US\$'000
<b>Financial assets</b>		
Held for trading	946	5,079
Designated as fair value through profit or loss	—	24,910
Loans and receivable (including cash and cash equivalents)	97,692	297,393
Available-for-sale financial assets	961	29,921
<b>Financial liabilities</b>		
Derivative instruments in designated hedge accounting relationship	—	16,729
Amortised cost	81,190	248,214

	THE COMPANY	
	2008 US\$'000	2007 US\$'000
<b>Financial assets</b>		
Held for trading	946	5,079
Loans and receivable (including cash and cash equivalents)	4,666	21,706
<b>Financial liabilities</b>		
Derivative instruments in designated hedge accounting relationship	—	16,729
Amortised cost	232,114	176,209

### 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, obligations under finance leases, bank loans and senior notes. The Company's major financial instruments comprise amounts due from subsidiaries, available-for-sale investments, promissory note receivables, early redemption option and senior notes. 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/former director are denominated in foreign currencies other than the functional currency of the Company. In order to reduce the foreign currency risk, management closely monitors such risks and will consider hedging significant foreign currency exposure should the need arises. It is the Group and the Company's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

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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	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
US\$	6,283	43,166	58,126	54,701
Hong Kong dollars ("HK\$")	326	337	6	29,901
RMB	256	103	31	411

	THE COMPANY			
	Assets		Liabilities	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
US\$	5,394	18,522	57,461	54,008
HK\$	219	337	—	71

#### Sensitivity analysis

The Group and the Company is mainly exposed to exchange rate fluctuations between US\$ and RMB.

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\$ strengthens 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	
	2008 US\$'000	2007 US\$'000
Profit or loss	(3,159)	(580)
Other equity <sup>(1)</sup>	—	239

	THE COMPANY	
	Impact	
	2008 US\$'000	2007 US\$'000
Profit or loss	(2,592)	(1,774)
Other equity <sup>(1)</sup>	—	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 32) and fixed-rate short-term bank loans (see note 31). The management of the Group monitors the related interest rate risk exposure closely. The Group and the Company does not have a formal hedging policy in place but 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 28). The management of the Group monitors the related interest rate risk exposure closely. The Group and the Company does not have a formal hedging policy in place but 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 loss for the year ended December 31, 2008 would increase/decrease by US\$240,000 (2007: profit for the year would decrease/increase by US\$612,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

If interest rates had been 50 basis points higher/lower and all variables here held constant, the Company's loss for the year ended December 31, 2008 would increase/decrease by US\$10,000 (2007: profit for the year would decrease/increase by US\$1,000). This is mainly attributable to the Company'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, 2008 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.

The credit risk on liquid funds 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 the amount outstanding are due from a few note holders only and the maximum exposure to credit risk in respect of such concentration is the carrying amount of promissory note receivable, see note 24 for details.

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## 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, 2008, the Group and the Company has available unutilised overdraft and bank loan facilities of approximately US\$23,393,000 (2007: US\$20,581,000).

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities that will result in cash outflow. 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 US\$'000	Less than 1 year US\$'000	1 – 5 years US\$'000	Over 5 years US\$'000	Total undiscounted cash flows US\$'000	Carrying amount US\$'000
At December 31, 2008							
Financial liabilities							
Non-interest bearing		1,120	9,486	491	252	11,349	11,349
Fixed interest rate instruments	9.8	—	60,864	13,218	—	74,082	69,841
		1,120	70,350	13,709	252	85,431	81,190
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

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

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THE COMPANY						
	Weighted average effective interest rate %	On demand US\$'000	Less than 1 year US\$'000	1 – 5 years US\$'000	Total undiscounted cash flows US\$'000	Carrying amount US\$'000
At December 31, 2008						
Financial liabilities						
Non-interest bearing	N/A	174,653	3,703	—	178,356	178,356
Fixed interest rate instruments	9.8	—	44,859	13,272	58,131	53,758
		174,653	48,562	13,272	236,487	232,114
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	215,393	176,209

## 6c. FAIR VALUE

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets 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 Company performs administrative services for group companies and charges certain group companies service fees based on 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.

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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.

During the year, the Group has either disposed or have plans to dispose substantial part of the Group's operation in the United States of America ("US"), accordingly this has been separately disclosed as discontinued operations (see note 12).

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

## FOR THE YEAR ENDED DECEMBER 31, 2008

	Continuing operations		Discontinued operations		Consolidated	
	Revenues US\$'000	Results US\$'000	Revenues US\$'000	Results US\$'000	Revenues US\$'000	Results US\$'000
Business segments						
— provision of news and financial information outside US	14,445	8,582	—	—	14,445	8,582
— provision of news and financial information in US	—	—	41,022	(53,534)	41,022	(53,534)
— provision of service and solutions outside US	24,551	(9,556)	—	—	24,551	(9,556)
— provision of service and solutions in US	—	—	13,309	(52,164)	13,309	(52,164)
— media and advertising business	186,024	(221,916)	—	—	186,024	(221,916)
	<b>225,020</b>	<b>(222,890)</b>	<b>54,331</b>	<b>(105,698)</b>	<b>279,351</b>	<b>(328,588)</b>
Interest income		3,635		176		3,811
Gain (loss) on disposal of businesses		1,180		(3,639)		(2,459)
Loss on deemed disposal of partial interest in XFM		(15,852)		—		(15,852)
Fair value loss on early redemption option		(4,133)		—		(4,133)
Fair value loss on foreign exchange option		(2,150)		—		(2,150)
Fair value loss on principal protected note		(24,910)		—		(24,910)
Impairment loss arising on deconsolidation of a subsidiary		(81,457)		—		(81,457)
Share of losses of associates		(62)		(2)		(64)
Finance costs		(17,027)		(54)		(17,081)
Unallocated corporate expenses		(36,765)		—		(36,765)
Loss before taxation		(400,431)		(109,217)		(509,648)
Taxation		(5,396)		(1,944)		(7,340)
Loss for the year		<b>(405,827)</b>		<b>(111,161)</b>		<b>(516,988)</b>

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## FOR THE YEAR ENDED DECEMBER 31, 2007

	Continuing operations		Discontinued operations		Consolidated	
	Revenues US\$'000	Results US\$'000	Revenues US\$'000	Results US\$'000	Revenues US\$'000	Results US\$'000
Business segments						
— provision of news and financial information outside US	9,326	306	—	—	9,326	306
— provision of new and financial information in US	—	—	68,043	1,252	68,043	1,252
— provision of service and solutions operating outside US	23,395	(7,426)	—	—	23,395	(7,426)
— provision of service and solutions in US	—	—	22,074	2,601	22,074	2,601
— media and advertising business	134,838	18,991	—	—	134,838	18,991
	167,559	11,871	90,117	3,853	257,676	15,724
Interest income		9,741		412		10,153
Loss on disposal of businesses		—		(5,351)		(5,351)
Net gain on deemed disposal of partial interest in XFM		95,841		—		95,841
Fair value gain on early redemption option		168		—		168
Fair value loss on convertible loan and redeemable convertible preferred shares		(5,695)		—		(5,695)
Fair value loss on principal protected note		(90)		—		(90)
Share of results of associates		(9)		3		(6)
Finance costs		(14,151)		(143)		(14,294)
Unallocated corporate expenses		(23,082)		—		(23,082)
Profit (loss) before taxation		74,594		(1,226)		73,368
Taxation		(1,664)		(2,905)		(4,569)
Profit (loss) for the year		72,930		(4,131)		68,799

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

	2008 US\$'000	2007 US\$'000
Assets		
Segment assets		
— provision of news and financial information	14,621	162,289
— provision of service and solutions	33,001	106,202
— media and advertising business	—	656,548
	47,622	925,039
Interests in associates	87,208	—
Unallocated corporate assets	79,614	191,910
	214,444	1,116,949
Liabilities		
Segment liabilities		
— provision of news and financial information	7,943	18,205
— provision of service and solutions	11,965	18,784
— media and advertising business	—	21,486
	19,908	58,475
Unallocated corporate liabilities	76,809	404,989
	96,717	463,464

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## OTHER INFORMATION

	2008 US\$'000	2007 US\$'000
<b>Capital additions</b>		
Continuing operations		
— provision of news and financial information	173	30
— provision of service and solutions	476	9,069
— media and advertising business	19,628	251,988
	<b>20,277</b>	261,087
Discontinued operations		
— provision of news and financial information	1,337	65,967
— provision of service and solutions	466	4,279
	<b>1,803</b>	70,246
	<b>22,080</b>	331,333
<b>Depreciation and amortisation</b>		
Continuing operations		
— provision of news and financial information	400	62
— provision of service and solutions	589	3,036
— media and advertising business	21,374	16,643
	<b>22,363</b>	19,741
Discontinued operations		
— provision of news and financial information	2,006	2,060
— provision of service and solutions	784	1,100
	<b>2,790</b>	3,160
	<b>25,153</b>	22,901

## GEOGRAPHICAL SEGMENTS

The Group's operations are located in Japan, Mainland China ("PRC") and elsewhere in Asia, 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 US, Asia and Europe. The media and advertising business is carried out in Asia. During the year, the Group has either disposed or have plans to dispose substantial part of the Group's operation in the US, accordingly this has been disclosed as discontinued operations (see note 12).

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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:

	Continuing operations		Discontinued operations		Consolidated	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
PRC	165,979	148,168	2,096	—	168,075	148,168
US	2,435	9,738	33,943	62,879	36,378	72,617
Europe	8,441	2,357	14,013	18,578	22,454	20,935
Asia (excluding Japan and PRC)	47,120	6,759	371	2,227	47,491	8,986
Japan	966	537	1,733	3,006	2,699	3,543
Others	79	—	2,175	3,427	2,254	3,427
	<b>225,020</b>	167,559	<b>54,331</b>	90,117	<b>279,351</b>	257,676

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	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
PRC	30,103	581,320	16,785	190,522
US	5,584	301,632	1,407	93,376
Europe	4,165	17,685	323	26,920
Asia (excluding Japan and PRC)	6,325	4,124	3,486	11,554
Japan	859	3,217	56	4,556
Others	586	17,061	23	4,405
	<b>47,622</b>	925,039	<b>22,080</b>	331,333

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## 8. FINANCE COSTS

	THE GROUP						THE COMPANY	
	Continuing operations		Discontinued operations		Consolidated			
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Interest on								
— bank borrowings	(3,669)	(2,644)	(51)	(111)	(3,720)	(2,755)	—	—
— convertible loan	(581)	(164)	—	—	(581)	(164)	—	—
— finance leases	(5,138)	(4,533)	(3)	(32)	(5,141)	(4,565)	—	—
— senior notes	(7,639)	(6,810)	—	—	(7,639)	(6,810)	(7,706)	(6,810)
	(17,027)	(14,151)	(54)	(143)	(17,081)	(14,294)	(7,706)	(6,810)

## 9. NET (LOSS) GAIN ON DEEMED DISPOSAL OF PARTIAL INTEREST IN XFM

During the year certain option holders of Xinhua Finance Media Limited (“XFM”), a former subsidiary of the Company principally engaged in the media and advertising business, exercised their share options in XFM which resulted in a loss on deemed disposal of partial interest in XFM of US\$12,032,000.

In addition during the year, XFM has issued Class A common shares (“Class A shares”) to independent third parties as consideration for acquisition of other intangible assets and as additional consideration for acquisition of certain subsidiaries which resulted in a loss on deemed disposal of US\$3,820,000. As a result of the foregoing the Group’s interest in XFM has fallen from 38.8% in 2007 to 34.1% at December 31, 2008.

In 2007, the Group spun off a 22% equity interest in XFM for a listing on Nasdaq in the United States of America (the “Spin-off”). XFM issued 34,615,846 Class A shares to public investors at a price of US\$6.5 per share, raising a gross proceed of approximately US\$225,003,000 before expenses. Pursuant to the redeemable convertible preferred shares (the “Convertible Shares”) and the convertible loan (the “Convertible Loan”) agreements entered by XFM, the Convertible Loan and Convertible Shares was automatically converted into ordinary shares of XFM upon the initial public offering of XFM 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 had resulted in a gain on deemed disposal of partial interest in XFM of approximately US\$97,511,000.

In addition, in 2007, XFM has issued Class A shares to independent third parties as consideration for acquisition of certain subsidiaries during the period. The issue of the Class A shares had resulted in a gain on deemed disposal of partial interest in XFM of approximately US\$540,000.

Also in 2007, 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 approximately 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. As a result of the foregoing the Group’s interest in XFM has fallen from 69.8% in 2006 to 38.8% at December 31, 2007.

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## 10. (LOSS) PROFIT BEFORE TAXATION

	THE GROUP					
	Continuing operations		Discontinued operations		Consolidated	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
(Loss) profit before taxation has been arrived at after charging:						
Directors' remuneration						
— fees	241	193	—	—	241	193
— share based payments	4,641	2,013	—	—	4,641	2,013
— compensation for loss of office	4,092	—	—	—	4,092	—
— retirement benefits scheme contributions	2	2	5	—	7	2
— other emoluments	3,754	1,848	187	—	3,941	1,848
	<b>12,730</b>	4,056	<b>192</b>	—	<b>12,922</b>	4,056
Other staff's share based payments	10,304	7,093	—	—	10,304	7,093
Other staff's retirement benefits scheme contributions	791	660	—	—	791	660
Other staff costs	38,713	36,269	27,197	41,000	65,910	77,269
Total staff costs	<b>62,538</b>	48,078	<b>27,389</b>	41,000	<b>89,927</b>	89,078
Allowance for doubtful debts on promissory note receivables	14,728	5,546	—	—	14,728	5,546
Amortisation of						
— license agreements	4,823	5,658	—	—	4,823	5,658
— operating agreement	1,141	913	—	—	1,141	913
— capitalised content production costs	154	1,674	—	—	154	1,674
— other intangible assets	12,541	8,833	1,118	142	13,659	8,975
Depreciation of property, plant and equipment						
— owned by the Group	3,574	2,469	1,672	3,019	5,246	5,488
— held under finance leases	130	193	—	—	130	193
Fair value loss on early redemption option	4,133	—	—	—	4,133	—
Fair value loss on foreign exchange option	2,150	—	—	—	2,150	—
Fair value loss on convertible loan and redeemable convertible preferred shares	—	5,695	—	—	—	5,695
Impairment loss on						
— property, plant and equipment	2,188	234	—	—	2,188	234
— license agreements	2,648	—	—	—	2,648	—
— capitalised content production costs	122	—	—	—	122	—
— other intangible assets	23,041	—	—	—	23,041	—
— available-for-sale investments	1,333	—	—	—	1,333	—
— goodwill	188,675	8,639	106,862	6,455	295,537	15,094
Loss on disposal of property, plant and equipment	207	23	66	49	273	72
Loss on disposal of businesses	4,720	—	3,639	5,351	8,359	5,351
Net exchange loss	—	—	343	707	343	707
Operating lease rentals in respect of rented premises	5,978	4,149	3,473	4,917	9,451	9,066
Release of hedge reserve	10,432	—	—	—	10,432	—
and after crediting:						
Fair value gain on convertible loan	927	—	—	—	927	—
Fair value gain on foreign exchange linked notes	—	668	—	—	—	668
Fair value gain on early redemption option	—	168	—	—	—	168
Gain on disposal of available-for-sale investments	108	112	—	—	108	112
Gain on disposal of businesses	5,900	—	—	—	5,900	—
Gain on disposal of capitalised content production costs	2,734	—	—	—	2,734	—
Gain on early settlement of cross currency swap	4,297	—	—	—	4,297	—
Interest income	3,635	9,741	176	412	3,811	10,153
Net exchange gain	8,569	3,781	—	—	8,569	3,781

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	THE COMPANY	
	2008 US\$'000	2007 US\$'000
Loss before taxation has been arrived at after charging:		
Directors' remuneration		
— fees	241	193
— share based payments	53	—
— retirement benefits scheme contributions	2	2
— compensation for loss of office	4,092	—
— other emoluments	3,004	1,515
	7,392	1,710
Other staff's share based payments	2,569	6,034
Other staff's retirement benefits scheme contributions	2	2
Other staff costs	1,461	782
Total staff costs	11,424	8,528
Allowance for doubtful debts on promissory note receivables	—	3,765
Fair value loss on early redemption option	4,133	—
Fair value loss on foreign exchange option	2,150	—
Impairment loss on amount due from a subsidiary	2,607	—
Release of hedge reserve	10,432	—
and after crediting:		
Fair value gain on early redemption options	—	168
Gain on early settlement of cross currency swap	4,297	—
Interest income	818	1,032
Net exchange gain	9,679	3,844

The impairment loss of US\$2,607,000 was recognised as the operations of the subsidiary has been disposed of during the year and the Company has deemed the whole amount to be irrecoverable, hence full provision of the amount was made.

## 11. TAXATION

	THE GROUP					
	Continuing operations		Discontinued operations		Consolidated	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Hong Kong Profits Tax	(3,688)	(2,583)	—	—	(3,688)	(2,583)
PRC income tax	(4,994)	(2,188)	—	—	(4,994)	(2,188)
Overseas taxation	(32)	(19)	(1,647)	(2,709)	(1,679)	(2,728)
Over(under)provision of taxation in prior years	(56)	160	(220)	97	(276)	257
	<b>(8,770)</b>	(4,630)	<b>(1,867)</b>	(2,612)	<b>(10,637)</b>	(7,242)
Deferred taxation						
— current year	3,374	2,854	(77)	(293)	3,297	2,561
— attributable to a change in tax rate	—	112	—	—	—	112
	<b>3,374</b>	2,966	<b>(77)</b>	(293)	<b>3,297</b>	2,673
	<b>(5,396)</b>	(1,664)	<b>(1,944)</b>	(2,905)	<b>(7,340)</b>	(4,569)

On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profit for the year.

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 changed 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.

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

	THE GROUP				THE COMPANY			
	2008 US\$'000		2007 US\$'000		2008 US\$'000		2007 US\$'000	
		%		%		%		%
(Loss) profit before taxation								
— continuing operations	<b>(400,431)</b>		74,594		<b>(195,044)</b>		(39,429)	
— discontinued operation	<b>(109,217)</b>		(1,226)		—		—	
	<b>(509,648)</b>		73,368		<b>(195,044)</b>		(39,429)	
Tax at the applicable income tax rate	<b>84,092</b>	<b>(16.5)</b>	(12,839)	(17.5)	<b>32,183</b>	<b>(16.5)</b>	6,900	(17.5)
Tax effect of expenses not deductible for tax purposes	<b>(84,950)</b>	<b>16.7</b>	(12,983)	(17.7)	<b>(32,318)</b>	<b>16.5</b>	(7,080)	17.7
Tax effect of income not taxable for tax purposes	<b>508</b>	<b>(0.1)</b>	19,150	26.1	<b>135</b>	—	180	(0.2)
Tax effect of unrecognised tax losses	<b>(4,251)</b>	<b>0.8</b>	(585)	(0.8)	—	—	—	—
Tax effect on utilisation of tax losses not previously recognised	<b>926</b>	<b>(0.2)</b>	1,470	2.0	—	—	—	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(3,410)</b>	<b>0.7</b>	(3,211)	(4.4)	—	—	—	—
Effect of tax exemption and concessionary rate granted to PRC subsidiaries	—	—	7,022	9.5	—	—	—	—
(Under)overprovision in prior years	<b>(276)</b>	—	257	0.4	—	—	—	—
Others	<b>21</b>	—	(2,850)	(3.8)	—	—	—	—
Tax charge and effective tax rate for the year	<b>(7,340)</b>	<b>1.4</b>	(4,569)	(6.2)	—	—	—	—

## 12. DISCONTINUED OPERATIONS

During the year, the Group has either disposed of or have plans to dispose a substantial part of the Group's operations in the US (the "US Operations"). The assets and liabilities attributable to the US Operations, which are expected to be sold within twelve months since December 2008, have been classified as a disposal group held for sale and are presented separately in the balance sheet (see below).

The major classes of assets and liabilities of the US Operation as at December 31, 2008, which have been presented separately in the balance sheet are as follows:

	US\$'000
<b>THE GROUP</b>	
Property, plant and equipment	562
Goodwill	6,607
Trade and other receivables, prepayments and deposits	2,172
Bank balances and cash	1,957
<b>Total assets classified as held for sale</b>	<b>11,298</b>
Trade and other payables	2,230
Subscriptions received in advance	483
Taxation payable	57
<b>Total liabilities associated with assets classified as held for sale</b>	<b>2,770</b>

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	US\$'000
<b>THE COMPANY</b>	
Investment in a subsidiary	5,242

The net proceeds from the disposal is expected to be less than the net carrying amount of the relevant assets and liabilities. Accordingly an impairment loss of goodwill of US\$8,430,000 has been charged to the consolidated income statement and an impairment loss in respect of investment in a subsidiary of US\$11,245,000 has been charged to the income statement of the Company.

The results of the US Operations for the year ended December 31, 2008, which have been included in the consolidated income statement and presented as discontinued operations were as follows:

	NOTES	2008 US\$'000	2007 US\$'000
Revenues	7	54,331	90,117
Cost of revenues		(22,193)	(41,377)
Gross profit		32,138	48,740
Other income		350	762
Marketing and promotional expenses		(922)	(2,481)
Administrative expenses		(30,226)	(36,301)
Finance costs	8	(54)	(143)
Loss on disposal of businesses		(3,639)	(5,351)
Share of results of associates		(2)	3
(Loss) profit before taxation	10	(2,355)	5,229
Taxation	11	(1,944)	(2,905)
(Loss) profit for the year attributable to equity holders of the Company		(4,299)	2,324

During the year, the US Operations paid US\$15 million (2007: contributed US\$25 million) in respect of the Group's operating cash flows, contributed US\$3 million (2007: paid US\$19 million) to the Group's investing activities and contributed US\$8 million (2007: US\$2 million) to the Group's financing activities.

The carrying amounts of the assets and liabilities at respective dates of disposal of Mergent Inc. ("Mergent"), Kinetic Information System Services Inc. ("Kinetic"), Washington Analysis Corporation ("Washington Analysis") and the operations of Taylor Rafferty Associates, Inc. ("Taylor Rafferty") and G7 Group, Inc. ("G7"), all of which are businesses operating in the US, are disclosed in note 40.

As a result of the disposal of the US Operations, certain comparative figures were restated so as to reflect the results for the discontinued operations. Loss for the year from discontinued operations is analysed as follows:

	2008 US\$'000	2007 US\$'000
(Loss) profit from US operations	(4,299)	2,324
Impairment loss recognised in respect of goodwill (see note 21)	(106,862)	(6,455)
	(111,161)	(4,131)

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## 13. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

During the year, the Group entered into an agreement to dispose of its entire equity interest in Shanghai Far East Credit Rating Co., Ltd. ("SFE") to an independent third party. The disposal was completed in January 2009. The assets and liabilities attributable to SFE have been classified as disposal groups held for sale and are presented separately in the balance sheet (see below). The net proceeds from the disposal is expected to be less than the net carrying amount of the relevant assets and liabilities and accordingly an impairment loss on goodwill of US\$1,786,000 has been charged to the consolidated income statement.

The major classes of assets and liabilities of the disposal groups classified as held for sale are as follows:

	US\$'000
Property, plant and equipment	3,213
Goodwill	3,215
Interests in associates	188
Available-for-sale investments	940
Trade and other receivables, prepayments and deposits	118
Bank balances and cash	4,365
<b>Total assets classified as held for sale</b>	<b>12,039</b>
Trade and other payables	3,057
Taxation payable	88
<b>Total liabilities associated with assets classified as held for sale</b>	<b>3,145</b>

## 14. EARNINGS PER SHARE

### FOR CONTINUING AND DISCONTINUED OPERATIONS

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

	THE GROUP	
	2008 US\$'000	2007 US\$'000
(Loss) profit for the year attributable to equity holders of the Company for calculating basic and diluted earnings per share	(341,709)	56,466
Effect of options and warrants of a subsidiary	—	(519)
	<b>(341,709)</b>	<b>55,947</b>

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	THE GROUP	
	Number of shares	
	2008	2007
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,260,397	1,007,037
Effect of dilutive potential ordinary shares		
— warrants		1,581
— options		2,277
— contingent issuable shares		63,702
— unvested shares		7,882
		75,442
Weighted average number of shares for the purpose of calculating diluted earnings per share		1,082,479

No diluted loss per share is presented for the year, since the exercise of warrants and options or unvested shares would result in a decrease in loss per share.

The calculation of diluted earnings per share in 2007 did 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 of the Company's shares.

## FROM CONTINUING OPERATIONS

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

	THE GROUP	
	2008 US\$'000	2007 US\$'000
(Loss) profit for the year attributable to equity holders of the Company for calculating basic and diluted earnings per share	(230,548)	60,597
Effect of options and warrants of a subsidiary	—	(519)
	(230,548)	60,078

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

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## FROM DISCONTINUED OPERATIONS

The loss per share for the discontinued operations is as follows:

	<b>2008</b> <b>US\$</b>	<b>2007</b> <b>US\$</b>
Basic	<b>(88.20)</b>	(4.10)
Diluted	<b>N/A</b>	N/A

The calculation of the loss per share for the discontinued operations is based on the following data:

	<b>2008</b> <b>US\$'000</b>	<b>2007</b> <b>US\$'000</b>
Loss from discontinued operations attributable to equity holders of the Company	<b>(111,161)</b>	(4,131)

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

No diluted loss per share is presented for both years, since the exercise of warrants and options or unvested shares would result in a decrease in loss per share.

## 15. 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 improvements US\$'000	Motor vehicles US\$'000	Total US\$'000
<b>THE GROUP</b>							
<b>COST</b>							
At January 1, 2007	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	1,586	2,321	262	11,057
Eliminated on disposal of a subsidiary	—	—	(1,160)	(155)	(211)	—	(1,526)
Disposals	—	—	(460)	(98)	(117)	(77)	(752)
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
Currency realignment	223	191	679	115	150	72	1,430
Additions	—	644	3,133	860	704	159	5,500
Eliminated on disposals/ deconsolidation of subsidiaries	—	(3,704)	(18,349)	(3,352)	(3,301)	(653)	(29,359)
Disposals	—	(24)	(319)	(644)	(478)	(246)	(1,711)
Transferred to assets classified as held for sale	(3,406)	—	(1,921)	(290)	(153)	—	(5,770)
At December 31, 2008	—	—	2,851	653	1,609	65	5,178
<b>DEPRECIATION AND IMPAIRMENT</b>							
At January 1, 2007	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	652	794	279	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)
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
Currency realignment	8	18	599	(30)	14	29	638
Provided for the year	155	505	3,050	632	879	155	5,376
Impairment loss	—	2,188	—	—	—	—	2,188
Eliminated on disposals/ deconsolidation of subsidiaries	—	(3,027)	(7,657)	(1,084)	(1,206)	(133)	(13,107)
Eliminated on disposals	—	(2)	(217)	(319)	(369)	(152)	(1,059)
Transferred to assets classified as held for sale	(414)	—	(1,290)	(160)	(131)	—	(1,995)
At December 31, 2008	—	—	1,666	484	1,008	24	3,182
<b>NET BOOK VALUES</b>							
At December 31, 2008	—	—	1,185	169	601	41	1,996
At December 31, 2007	2,932	2,575	12,447	2,519	2,866	608	23,947

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

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

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At the balance sheet date, the net book value of furniture, fixtures and equipment held under finance leases by the Group was US\$7,000 (2007: US\$137,000).

The impairment loss recognised for the individual assets during the year was determined based on the estimated future cash flows discounted at a rate of 15%. The impairment loss was made for property, plant and equipment in connection with media and advertising business and was recognised as actual cash flows from these assets did not meet management's forecasts.

## 16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2008 US\$'000	2007 US\$'000
US listed shares, at cost	—	128,445
Unlisted shares, at cost	346,200	378,828
Impairment loss	(92,575)	(11,557)
	<b>253,625</b>	495,716

During the year, the Company recognised impairment loss of US\$81,018,000 (2007: US\$11,557,000) on its investments in subsidiaries. The impairment loss was recognised based on estimated fair value less cost to sale.

Also, during the year the Company recognised impairment loss of US\$11,245,000 on its investment in a subsidiary which was classified as assets held for sale, see note 12 for details.

Details of the Company's principal subsidiaries at December 31, 2008 are set out in note 47.

## 17. LICENSE AGREEMENTS

	US\$'000
<b>THE GROUP</b>	
<b>COST</b>	
At January 1, 2007	86,111
Additions	3,955
At December 31, 2007	90,066
Currency realignment	6,985
Eliminated on deconsolidation of a subsidiary	(97,051)
At December 31, 2008	—
<b>AMORTISATION AND IMPAIRMENT</b>	
At January 1, 2007	241
Amortised for the year	5,658
At December 31, 2007	5,899
Currency realignment	392
Amortised for the year	4,823
Impairment loss	2,648
Eliminated on deconsolidation of a subsidiary	(13,762)
At December 31, 2008	—
<b>CARRYING VALUE</b>	
At December 31, 2008	—
At December 31, 2007	84,167

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

The impairment loss recognised for the year was determined based on the estimated future cash flows discounted at a rate of 15%. The impairment loss was made for license agreements in connection with media and advertising business and was recognised as actual cash flows from these assets did not meet management's forecasts.

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## 18. OPERATING AGREEMENT

	US\$'000
<b>THE GROUP</b>	
<b>COST</b>	
At January 1, 2007	50,496
Additions	686
At December 31, 2007	51,182
Currency realignment	4,076
Eliminated on deconsolidation of a subsidiary	(55,258)
At December 31, 2008	—
<b>AMORTISATION</b>	
At January 1, 2007	659
Amortised for the year	913
At December 31, 2007	1,572
Currency realignment	94
Amortised for the year	1,141
Eliminated on deconsolidation of a subsidiary	(2,807)
At December 31, 2008	—
<b>CARRYING VALUE</b>	
At December 31, 2008	—
At December 31, 2007	49,610

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

## 19. CAPITALISED CONTENT PRODUCTION COSTS

	US\$'000
<b>THE GROUP</b>	
At January 1, 2007	2,951
Additions	2,078
At December 31, 2007	5,029
Currency realignment	498
Additions	454
Disposals	(2,213)
Eliminated on deconsolidation of a subsidiary	(3,768)
At December 31, 2008	—
<b>AMORTISATION AND IMPAIRMENT</b>	
At January 1, 2007	1,554
Amortised for the year	1,674
At December 31, 2007	3,228
Currency realignment	264
Amortised for the year	154
Impairment loss	122
Eliminated on deconsolidation of a subsidiary	(3,768)
At December 31, 2008	—
<b>CARRYING VALUE</b>	
At December 31, 2008	—
At December 31, 2007	1,801

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

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## 20. OTHER INTANGIBLE ASSETS

	Brand name and distribution right	Trademarks	Customer base	Advertising rights	Radio contracts	Non- competing agreements	Others	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>THE GROUP</b>								
<b>COST</b>								
At January 1, 2007	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
Currency realignment	—	54	—	(58)	429	—	92	517
Additions	302	—	—	15,824	—	—	—	16,126
Eliminated on disposals/ deconsolidation of subsidiaries	(5,853)	(12,018)	(28,201)	(31,999)	(7,657)	(5,881)	(4,307)	(95,916)
Adjustment on finalisation of fair values provisionally determined in prior year	(226)	44	5,718	694	6	(2,793)	81	3,524
At December 31, 2008	1,100	—	—	—	—	974	—	2,074
<b>AMORTISATION AND IMPAIRMENT</b>								
At January 1, 2007	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, 2008	911	260	3,133	3,471	512	2,190	696	11,173
Currency realignment	—	15	—	—	42	1	1	59
Amortised for the year	737	331	5,146	4,067	1,003	1,355	1,020	13,659
Eliminated on disposals/ deconsolidation of subsidiaries	(956)	(1,172)	(14,375)	(14,385)	(7,657)	(4,323)	(4,023)	(46,891)
Impairment loss	8	566	6,096	6,847	6,100	1,118	2,306	23,041
At December 31, 2008	700	—	—	—	—	341	—	1,041
<b>CARRYING VALUES</b>								
At December 31, 2008	400	—	—	—	—	633	—	1,033
At December 31, 2007	5,966	11,660	19,350	12,068	6,710	7,458	3,438	66,650

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

During the year, the Group performed an impairment review of its other intangible assets and have determined that certain of its other intangible assets in connection with media and advertising business were impaired with reference to their value in use. The value in use were determined based on the estimated future cash flows discounted at a rate of 15% per annum. Accordingly, impairment losses of US\$23,041,000 have been recognised. Impairment loss was recognised as actual cash flows from these assets did not meet management's forecast.

## 21. GOODWILL

	US\$'000
<b>THE GROUP</b>	
COST LESS IMPAIRMENT	
At January 1, 2007	332,103
Arising on acquisition of subsidiaries	217,656
Arising on acquisition of additional interests in subsidiaries	15,450
Arising on adjustments to the cost of business combinations relating to contingent purchase consideration for subsidiaries acquired in previous years	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
Arising on adjustments to the cost of business combinations relating to contingent purchase consideration for subsidiaries acquired in previous years	20,391
Adjustment on finalisation of fair values provisionally determined in prior year	(2,757)
Eliminated on disposal of subsidiaries	(112,628)
Eliminated on deconsolidation of a subsidiary	(103,153)
Impairment loss	(295,537)
Transferred to assets classified as held for sale	(9,822)
At December 31, 2008	5,738

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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	
	2008 US\$'000	2007 US\$'000
Provision of news and financial information	—	102,578
Provision of service and solutions	5,738	82,811
Media and advertising business	—	323,855
	5,738	509,244

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 4% per annum (2007: 3.5% to 5% 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 15% (2007: 9%, 11% and 13%) for the provision of news and financial information CGU, the provision of services and solutions CGU, and the media and advertising business 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 and assumptions used by management as compared to 2007.

## FROM CONTINUING OPERATIONS

During the year ended December 31, 2008, the Group recognised impairment losses of US\$3,572,000 (2007: US\$4,459,000), US\$366,000 (2007: US\$4,180,000) and US\$182,951,000 (2007: Nil) in relation to goodwill acquired on business combinations of the provision of news and financial information CGU, the provision of service and solutions CGU and the media and advertising CGU, respectively. Impairment losses were recognised as the individual CGUs actual results did not meet management’s forecasts.

In addition, during the year, the Group recognised impairment losses of US\$1,786,000 (2007: Nil) in relation to goodwill acquired on business combinations of the provision of news and financial information CGU which were recognised based on the lower of the carrying amount of the assets held for sale and fair value less costs to sell.

## FROM DISCONTINUED OPERATIONS

During the year ended December 31, 2008, the Group recognised impairment losses of US\$12,617,000 (2007: US\$6,455,000) and US\$47,110,000 (2007: Nil), 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.

In addition, during the year, the Group recognised impairment losses of US\$8,430,000 (2007: Nil) and US\$38,705,000 (2007: Nil) 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, which were recognised based on the lower of the carrying amount of the assets held for sale and fair value less costs to sell.

### *Sensitivity analysis*

The sensitivity analyses below details the Group’s sensitivity to the key assumptions used by management. A 2% (2007: 2%) increase in discount rates and a 2% (2007: 2%) drop in the constant growth rate is used and is considered to be a reasonably possible change in market conditions by management.

If discount rates had been 2% (2007: 2%) higher, additional impairment losses of US\$1,208,000 (2007: US\$1,722,000) would be recognised for the CGU of provision of service and solutions.

If the constant growth rates had been 2% (2007: 2%) lower, additional impairment losses of US\$638,000 (2007: US\$923,000) would be recognised for the CGU of provision of service and solutions.

## 22. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Cost of investment in associates				
— listed in the US	<b>87,208</b>	—	<b>151,468</b>	—
— unlisted	—	339	—	—
Currency realignment	—	18	—	—
Share of post-acquisition profits	—	190	—	—
Impairment loss	—	—	<b>(64,260)</b>	—
	<b>87,208</b>	547	<b>87,208</b>	—
Fair value of listed investment	<b>15,517</b>	N/A	<b>15,517</b>	N/A

The investment in an associate at December 31, 2008 represents the Group's 34.1% equity interest in XFM, a company incorporated in the Cayman Islands and is engaged in media and advertising business with its shares listed on Nasdaq in the US. XFM is a former subsidiary of the Company, see note 39 for details of deconsolidation.

Out of the 50,054,168 Class A shares of XFM held by the Group, 12,500,000 shares have been pledged to secure an amount of US\$2,500,000 due to Madam Loretta Fredy Bush, a former director of the Company, see note 30 for details.

During the year, the Company performed an impairment review of its interest in the associate based on the cash flow forecast derived from the most recent financial budget of the associate for the next five years and after the fifth year, the projections are extrapolated using a constant growth rate of 4% per annum. The forecast was discounted using a discount rate of 15%. The discount rate was determined with reference to the cost of equity of the associate. Based on the share of the estimated future cash flow, management identified impairment losses of US\$64.3 million for the Company.

Summarised financial information of XFM is set out below:

	2008 US\$'000
Total assets	<b>516,945</b>
Total liabilities	<b>(260,982)</b>
	<b>255,963</b>
Group's share of net assets of XFM	<b>87,208</b>
Revenue	<b>186,024</b>
Loss for the year	<b>(274,352)</b>
Group's share of loss of XFM for the year	—

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## 23. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP	
	2008 US\$'000	2007 US\$'000
PRC listed equity securities	—	787
US listed equity securities	—	4,784
Unlisted trust funds, at cost	—	303
Unlisted equity securities, at cost	<b>21</b>	24,047
	<b>21</b>	29,921

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.

## 24. PROMISSORY NOTE RECEIVABLES

	THE GROUP		THE COMPANY	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Promissory note receivables	<b>22,608</b>	24,314	<b>1,708</b>	3,765
Less: Allowance for doubtful debts	<b>(14,728)</b>	(5,546)	—	(3,765)
	<b>7,880</b>	18,768	<b>1,708</b>	—
The promissory notes are due as follows:				
Within one year	<b>7,880</b>	10,868	<b>1,708</b>	—
Between one to five years	—	7,900	—	—
	<b>7,880</b>	18,768	<b>1,708</b>	—
Less: Amount due within one year shown under current assets	<b>7,880</b>	10,868	<b>1,708</b>	—
Amount due after one year	—	7,900	—	—

The following is a movement in allowance for doubtful debts:

	THE GROUP		THE COMPANY	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
At January 1	<b>5,546</b>	—	<b>3,765</b>	—
Allowance for doubtful debts	<b>14,728</b>	5,546	—	3,765
Eliminated on disposal	<b>(5,546)</b>	—	<b>(3,765)</b>	—
At December 31	<b>14,728</b>	5,546	—	3,765

In December 2008, the Company entered into a separation agreement (the "Separation Agreement") with Madam Loretta Fredy Bush, a former director of the Company, and as part of the settlement on termination of her employment with the Company, the Company agreed to acquire a promissory note of US\$3,300,000 due from an independent third party from Madam Loretta Fredy Bush. Management have estimated the fair value of the promissory note at the date of acquisition to be US\$1,708,000, the difference of US\$1,592,000 was recognised as a compensation to the former director for her loss of office. The fair value was estimated by management based on the assets pledged to secure the promissory notes acquired.

During the year, management have assessed its promissory note receivables for indicators of impairment. As a result, management has identified certain counterparties of the Group and the Company with a total balance of US\$22,608,000 (2007: US\$11,092,000) and US\$1,708,000 (2007: US\$3,765,000), respectively, outstanding as at balance sheet date to be impaired since these parties were in significant financial difficulties or have defaulted on interest and principal payments (the "Distressed Assets"). Consequently, the Group has recognised impairment losses of US\$14,728,000 (2007: US\$5,546,000) on these Distressed Assets. No further impairment loss was recognised on the Distressed Assets of the Company as they were written down to its fair value at date of acquisition of the promissory notes in December 2008, as mentioned above (2007: US\$3,765,000).

Management has either made full provisions on these Distressed Assets or has impaired them up to the estimated fair value of the assets pledged to the Group (the "Pledged Assets"). The Pledged Assets mainly includes shares and warrants of an unlisted company and a term note receivable from an independent third party. The fair value of the shares and warrants of the unlisted company were determined by management based on market comparable companies to derive its share value and its respective volatility used to determine the value of the warrants.

## 25. PRINCIPAL PROTECTED NOTE

In October 2007, XFM purchased from UBS Financial Services, Inc. a US\$25 million principal protected note (the "Principal Protected Note") issued by Lehman Brothers Holdings Inc. ("Lehman Brothers") which matured on January 30, 2009 (the "Maturity Date"). On the Maturity Date, the Principal Protected Note will be redeemed at 100% plus a variable amount based on the performance of the FTSE/Xinhua China 25 Index. The Principal Protected Note includes the loan component and an embedded derivative (index linked contract).

The Principal Protected Note was designated as financial assets at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the Principal Protected Note was measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arisen.

As a result of Lehman Brothers filing for bankruptcy in September 2008, the Group has determined that the Principal Protected Note was irrecoverable and hence a fair value loss of US\$24.9 million was recognised during the year.

## 26. DEFERRED TAXATION

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

	Accelerated tax depreciation US\$'000	Allowance for bad and doubtful debts US\$'000	Intangible assets US\$'000	Others US\$'000	Total US\$'000
<b>THE GROUP</b>					
At January 1, 2007	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)
Currency realignment	—	—	8	—	8
Arising on finalisation of fair value of intangible assets	—	—	(767)	—	(767)
Disposals/deconsolidation of subsidiaries	—	(1,042)	10,235	—	9,193
Credit (charge) to income statement for the year	(92)	1,042	2,466	(119)	3,297
At December 31, 2008	(36)	—	(155)	—	(191)

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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	
	2008 US\$'000	2007 US\$'000
Deferred tax assets	—	330
Deferred tax liabilities	(191)	(12,252)
	(191)	(11,922)

At the balance sheet date, the Group has unutilised tax losses of US\$4,955,000 (2007: US\$10,667,000) 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 in 2007, are tax losses of US\$9,154,000 which will expire gradually up to 2024. Other tax losses may be carried forward indefinitely.

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

	THE GROUP	
	2008 US\$'000	2007 US\$'000
Trade receivables	3,827	71,577
Less: Allowance for doubtful debts	(248)	(1,291)
	3,579	70,286
Other receivables, prepayments and deposits	11,144	27,948
	14,723	98,234

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\$1,065,000 (2007: US\$12,882,000) 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	
	2008 US\$'000	2007 US\$'000
<b>Age</b>		
Overdue 0–60 days	1,065	12,882

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.

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

	THE GROUP	
	2008 US\$'000	2007 US\$'000
At January 1	1,291	978
Allowance for doubtful debts	12,429	536
Reversal of allowance for doubtful debts	(2,200)	(223)
Transferred to assets classified as held for sale	(161)	—
Eliminated on disposals/deconsolidation of subsidiaries	(11,111)	—
At December 31	248	1,291

## 28. 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% (0% to 4.9%) per annum.

## 29. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Amount payable under finance leases:				
Within one year	9	4,771	9	699
Between one to two years	4	11,066	4	7,415
Between two to five years	—	22,585	—	14,087
After five years	—	64,640	—	47,531
	13	103,062	13	69,732
Less: Future finance charges	—	33,330	—	—
Present value of lease obligations	13	69,732	13	69,732
Less: Amount due within one year shown under current liabilities			9	699
Amount due after one year			4	69,033

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

## 30. AMOUNT DUE TO A FORMER DIRECTOR

Included in the amount due to a former director is an amount of US\$2,500,000 payable to Madam Loretta Fredy Bush as a compensation for her loss of office in the Company according to the Separation Agreement. The amount is payable in three equal annual installments of US\$833,000 from December 29, 2009 and carries interest at 5% per annum. The amount is secured by a pledge of 12,500,000 Class A shares of XFM held by the Company, see note 22.

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The remaining balance due to Madam Loretta Fredy Bush is unsecured, interest-free and is repayable on demand.

## 31. SHORT-TERM BANK LOANS

The short-term bank loans are denominated in RMB, except for an amount of US\$102,000 which is denominated in Korean Won. The loans carry interest at fixed rates ranging from 5.53% to 8.69% (2007: 4.79% to 6.56%) per annum.

Short-term bank loans of US\$16,071,000 (2007: US\$42,146,000) have been secured by pledged deposits of subsidiaries.

## 32. 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 (the "Restricted Subsidiaries"). 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, 2008, the fair value of the Senior Notes is US\$30,757,000 (2007: US\$89,500,000) which is determined based on its market price.

The fair value of the Senior Notes have been split between the liability element and the early redemption option embedded. The Senior Notes may be early redeemed at any time prior to November 21, 2009 at the Company's option at 100% of principal amount of the Senior Notes outstanding plus a premium and any unpaid interest, if any. At any time after November 21, 2009 the Company may early redeem the Senior Notes at various rates subject to certain terms. During the year, the Company has early redeemed US\$48,739,000 of the Senior Notes as a result of the disposals of certain Restricted Subsidiaries.

Also, as a result of certain disposals of Restricted Subsidiaries before December 31, 2008, the Group is obliged to tender offer to early redeem its Senior Notes of an amount up to US\$41,701,000 and accordingly the amount has been reclassified as current liabilities.

## 33. DERIVATIVE FINANCIAL INSTRUMENT

	THE GROUP AND THE COMPANY	
	2008 US\$'000	2007 US\$'000
Cash flow hedge — cross currency swap	—	16,729

In 2007, the Group entered into cross currency swap contract to minimise its exposure to foreign exchange rate fluctuations of its Senior Notes (see note 32) by swapping US\$ to RMB. The cross currency swap and the Senior Notes had similar terms and the directors of the Company considered the cross currency swap was a highly effective hedging instrument. Major terms of the cross currency swap were:

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

In 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, 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 were measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

During the year, the Group early settled its cross currency swap. As a result, a fair value gain of US\$4,297,000, being the fair value change of the cross currency swap from March 31, 2008, the last date when the cross currency swap was assessed to be an effective hedge instrument, to the date of settlement, was recognised in the consolidated income statement. During the year, the Group released loss of US\$10,432,000 from the hedge reserve as the forecast transaction is no longer expected to occur.

## 34. OTHER FINANCIAL ASSETS AND LIABILITIES

### THE GROUP

#### **Financial assets**

The amount due from an associate and amount due from a minority shareholder of a subsidiary are unsecured, interest-free and are repayable on demand.

#### **Financial liabilities**

The amount due to a director is unsecured, interest-free and is repayable on demand.

The amount due to shareholder is unsecured, interest-free and is repayable after one year.

### THE COMPANY

#### **Financial assets**

The amount due from an associate is unsecured, interest-free and is repayable on demand.

The amounts due from subsidiaries in 2007, were unsecured and were fully repaid during the year. The amounts were interest-free except for an amount of US\$11,447,000 which carried interest at 4%–6% per annum.

#### **Financial liabilities**

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

## 35. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$20 each		
At January 1, 2007, December 31, 2007 and December 31, 2008	2,500,000	50,000
Issued and fully paid:		
Ordinary shares of HK\$20 each		
— at January 31, 2007	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
— issued as compensation for directors and staff	7,201	144
— issued for acquisition of subsidiaries	445,797	8,915
— at December 31, 2008	1,486,052	29,721
Shown in the financial statements		
— at December 31, 2008 as		US\$3,810,000
— at December 31, 2007 as		US\$2,649,000

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## 36. WARRANTS

Movements of warrants (each warrant converts into one share) issued to consultants, advisors and other independent parties in 2008 are as follows:

Date of grant	Exercise price	Vesting period	Exercise period	Number of warrants and number of underlying shares			
				Outstanding at 1.1.2008	Cancelled during the year	Lapsed during the year	Outstanding at 12.31.2008
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 2007 are as follows:

Date of grant	Exercise price	Vesting period	Exercise period	Number of warrants and number of underlying shares		
				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

## 37. SHARE BASED ARRANGEMENTS

### (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.

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The movements of the unexercised options granted to the directors and employees of the Group under the share option plan in 2008 are as follows:

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of options and number of underlying shares			
					Outstanding at 1.1.2008	Forfeited during the year	Outstanding at 12.31.2008	
<i>Director:</i>								
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	
Resigned directors	1.31.2006	Yen 71,844	1.31.2006-4.30.2006	4.30.2006-2.1.2016	1,000	(625)	375	
			1.31.2006-7.31.2006	7.31.2006-2.1.2016	1,000	(625)	375	
			1.31.2006-10.31.2006	10.31.2006-2.1.2016	1,000	(625)	375	
			1.31.2006-1.31.2007	1.31.2007-2.1.2016	1,000	(625)	375	
	1.31.2006	Yen 74,247	N/A	1.31.2006-2.1.2009	1.31.2006-2.1.2009	834	—	834
				1.31.2006-4.30.2006	4.30.2006-2.1.2009	834	—	834
				1.31.2006-7.31.2006	7.31.2006-2.1.2009	834	—	834
				1.31.2006-10.31.2006	10.31.2006-2.1.2009	834	—	834
				1.31.2006-1.31.2007	1.31.2007-2.1.2009	834	—	834
				1.31.2006-4.30.2007	4.30.2007-2.1.2009	834	—	834
Other employees	2.9.2005	Yen 49,316	2.9.2005-12.31.2005	1.1.2006-2.9.2015	3,698	(740)	2,958	
			2.9.2005-12.31.2006	1.1.2007-2.9.2015	3,700	(784)	2,916	
			2.9.2005-12.31.2007	1.1.2008-2.9.2015	3,700	—	3,700	
	4.30.2006	Yen 71,844	4.30.2006-31.12.2006	1.1.2007-4.30.2016	6,880	(1,277)	5,603	
			4.30.2006-31.12.2007	1.1.2007-4.30.2016	7,779	(384)	7,395	
			4.30.2006-31.12.2008	1.1.2007-4.30.2016	8,684	(3,037)	5,647	

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

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of options and number of underlying shares				
					Outstanding at 1.1.2007	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2007	
Director:									
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	
Resigned directors	1.31.2006	Yen 71,844	1.31.2006-4.30.2006	4.30.2006-2.1.2016	1,250	—	(250)	1,000	
			1.31.2006-7.31.2006	7.31.2006-2.1.2016	1,250	—	(250)	1,000	
			1.31.2006-10.31.2006	10.31.2006-2.1.2016	1,250	—	(250)	1,000	
			1.31.2006-1.31.2007	1.31.2007-2.1.2016	1,250	—	(250)	1,000	
	1.31.2006	Yen 74,247	N/A	1.31.2006-2.1.2009	1.31.2006-2.1.2009	834	—	—	834
				1.31.2006-4.30.2006	4.30.2006-2.1.2009	834	—	—	834
				1.31.2006-7.31.2006	7.31.2006-2.1.2009	834	—	—	834
				1.31.2006-10.31.2006	10.31.2006-2.1.2009	834	—	—	834
				1.31.2006-1.31.2007	1.31.2007-2.1.2009	834	—	—	834
				1.31.2006-4.30.2007	4.30.2007-2.1.2009	834	—	—	834
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	

During the year ended December 31, 2008, share compensation expense of US\$800,000 (2007: US\$2,350,000) was recognised and charged to income statement 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	
	2008	2007
At January 1	21,174	60
Granted during the year	266	26,189
Lapsed during the year	(4,414)	(1,009)
Buyout during the year	(1,967)	—
Issued during the year	(7,201)	(4,066)
Shares issuable at December 31	7,858	21,174

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

6,092 shares were vested on December 31, 2008\*

1,766 shares will vest on December 31, 2009

\* These shares have been vested before December 31, 2008 but have not yet been issued as at the balance sheet date.

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

	Number of shares	
	2008	2007
At January 1	1,300	—
Granted during the year	—	1,300
Lapsed during the year	(175)	—
Issued during the year	(650)	—
Shares issuable at December 31	475	1,300

During the year ended December 31, 2008, share compensation expense of US\$1,822,000 (2007: US\$3,684,000) was recognised and charged to income statement 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.

## (C) SHARE OPTIONS TO DIRECTORS, STAFF AND CONSULTANTS OF XFM

A summary of XFM's options under its share option plan as of December 31, 2008 and its movements is presented below:

XFM's share option	Number of XFM's options
Outstanding as of January 1, 2007	10,698,141
Granted during the year	431,280
Forfeited during the year	(351,480)
Exercised during the year	(2,877,934)
Outstanding as of December 31, 2007	7,900,007
Granted during the year	580,000
Forfeited during the year	(995,682)
Exercised during the year	(194,662)
Outstanding as of December 31, 2008	7,289,663
Exercisable as of December 31, 2008	5,986,160
Exercisable as of December 31, 2007	2,688,836

During the year XFM, granted 400,000, 120,000 and 60,000 share options to certain of its directors, staff and consultants which entitles the option holders to acquire shares of XFM at an exercise price of US\$1.33, US\$1.27, and US\$1.64 each, respectively.

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

Exercise price	US\$1.33	US\$1.27	US\$1.64
Share price	US\$1.62	US\$1.26	US\$2.08
Expected volatility	88.5%	93.4%	88.5%
Contractual life	3.75 years	10 years	10 years
Risk free rate	2.30%	4.27%	3.77%
Expected dividend yield	0%	0%	0%

During the year ended December 31, 2008, compensation expenses of US\$670,000 (2007: US\$1,059,000) was recognised and included in administrative expenses.

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 be subject to vesting conditions as stated in the individual agreement.

Option exercise — the term of options granted under individual option agreements may not exceed ten 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 options granted prior to 2007 have an exercise price of US\$0.78 each. The weighted average exercise price of the share options granted in 2007 was US\$5.1 each.

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

## (D) NON-VESTED SHARES TO A DIRECTOR OF XFM

In June 2006, XFM granted 11,050,000 Class A shares ("Non-vested Shares") to a director, Madam Loretta Fredy Bush as fully paid shares at par. These Non-vested Shares were held by the family trust fund of Madam Loretta Fredy Bush. The Non-vested Shares shall be subject to a 5-year vesting period and one-fifth of the total Non-vested Shares granted, being 2,210,000 common shares, shall become vested on each of the first annual anniversary dates after the date of grant.

Pursuant to a resolution passed on March 7, 2007, 1,500,000 Non-vested Shares became vested on March 9, 2007. Pursuant to a resolution passed on January 22, 2008, 725,000 and 2,170,000 Non-vested Shares became vested on January 22, 2008 and June 13, 2008, respectively. Pursuant to a resolution passed on December 17, 2008, the remaining 6,655,000 Non-vested Shares became early vested on December 17, 2008.

The following table summarises movement of the Non-vested Shares:

	Number of shares issuable
At January 1, 2007	11,050,000
Vested during the year	(1,500,000)
At December 31, 2007	9,550,000
Vested during the year	(9,550,000)
At December 31, 2008	—

Accordingly, XFM recorded compensation expense of US\$2,962,000 (2007: US\$2,013,000) for the year ended December 31, 2008 which represents amortisation on the fair value of the Non-vested Shares.

## (E) RESTRICTED SHARE UNITS TO DIRECTORS AND STAFF OF XFM

Pursuant to a resolution of the directors of XFM on January 23, 2008, XFM granted 5,576,000 Class A shares to certain directors and staff of XFM which were subject to vesting requirements ("Restricted Share Units"). The Restricted Share Units will expire immediately upon termination of service with XFM.

The fair value of Restricted Share Units was determined as US\$2.24 per share, based on the closing market price of XFM at the appraisal date. The compensation expenses was calculated based on the fair value after the forfeiture rate which is estimated based on the historical staff turnover rate.

The vesting period of the 2,010,800 Restricted Share Units outstanding as of December 31, 2008 is presented as below:

1,021,800 shares will vest on March 31, 2009  
989,000 shares will vest on March 31, 2010

Pursuant to a resolution passed on December 17, 2008, 1,084,000 Restricted Share Units held by some senior executives became early vested on December 17, 2008.

A summary of Restricted Share Units as of December 31, 2008 and its movements is presented below:

	Number of shares
Granted during the year	5,576,000
Vested during the year	(2,946,400)
Forfeited during the year	(618,800)
Outstanding as of December 31, 2008	2,010,800

The Restricted Share Units 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 its shares until they are vested.

Accordingly, XFM recorded compensation expense of US\$8,691,000 for the year ended December 31, 2008 which represents amortisation on the fair value of the Restricted Share Units.

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## 38. 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 & Co. ("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. 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 a 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 a 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 a cash consideration of US\$1,605,000 and the issuance of 100,000 shares of XFM 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 a 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. 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 a 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 XFM. The number of shares to be issued will be determined based on the average trading price of the shares of XFM at the date of issue. 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 a 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 XFM. The number of shares to be issued will be determined based on the average trading price of the shares of XFM at the date of issue. 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 XFM 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 Profitown Development Limited ("Profitown") 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 XFM. The number of shares to be issued will be determined based on the average trading price of the shares of XFM at the date of issue. Profitown is engaged in advertising business and event organisation.

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

	<b>Book value</b>	<b>Fair value</b>	<b>Fair value</b>
	US\$'000	adjustments	US\$'000
		US\$'000	US\$'000
Net assets acquired:			
Property, plant and equipment	2,650	—	2,650
Intangible assets	5,426	63,878	69,304
Trade and other receivables	14,600	—	14,600
Pledged bank deposits	1,303	—	1,303
Bank balances and cash	4,083	—	4,083
Trade and other payables	(8,982)	—	(8,982)
Subscriptions received in advance	(4,590)	—	(4,590)
Obligations under finance leases	(5,541)	—	(5,541)
Taxation payable	(1,264)	—	(1,264)
Short-term bank loans	(473)	—	(473)
Bank overdrafts	(319)	—	(319)
Other long-term payables	(590)	—	(590)
Deferred tax liabilities	(83)	(14,545)	(14,628)
	<u>6,220</u>	<u>49,333</u>	<u>55,553</u>
Minority interests			(733)
Goodwill			217,656
			<u>272,476</u>
Less: Interest held prior to acquisition			
— available-for-sale investments			10,512
Total consideration			<u>261,964</u>

In 2007, these newly acquired subsidiaries contributed a net profit of US\$3,185,000 for the period between the date of acquisition to December 31, 2007.

	2007
	US\$'000
The above acquisitions were satisfied by	
— cash	127,936
— consideration payable	106,670
— shares of the Company	24,339
— shares of XFM	1,938
— other payables	1,081
	<u>261,964</u>
Net cash outflow arising on acquisition	
— cash consideration paid	(127,936)
— bank balances and cash acquired	4,083
— bank overdraft assumed	(319)
	<u>(124,172)</u>

The goodwill was 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.

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In 2007, the Group was still in the midst of finalising the fair values of certain of the business combinations during that year, which were to be determined by professional valuers. Therefore, the initial accounting for its business combinations were determined only provisionally. During the year, the initial accounting for the business combinations was finalised and as a result an adjustment of US\$2,757,000 was credited against the goodwill account and the corresponding adjustments were made to other intangible assets and deferred tax liabilities account.

## 39. DECONSOLIDATION OF A SUBSIDIARY

On December 31, 2008, the Company converted its interests in XFM from Class B common shares (“Class B shares”) to Class A shares (the “Conversion”), thus relinquishing the Company’s super voting rights in XFM. The Class B shares previously held by the Company have ten voting rights per share, compared with one voting right per share for Class A shares, and had given the Company control of approximately 83.8% of the voting rights in XFM. Apart from the difference in voting rights, the two classes of shares are identical. After the Conversion, the Company holds and is entitled to vote approximately 34.1% of the outstanding Class A shares. As at December 31, 2008, there are no Class B shares outstanding. The 34.1% equity interest in XFM held by the Company immediately before and after the Conversion remains unchanged. As a result of the Conversion, XFM became an associate of the Company. The net assets of XFM immediately prior to the Conversion were:

	US\$'000
Property, plant and equipment	6,437
Licence agreements	83,289
Operating agreements	52,451
Other intangible assets	26,910
Goodwill	96,538
Consideration receivable on disposal of a subsidiary	65,257
Other long-term deposits	189
Available-for-sale investments	12,992
Derivative financial instruments	516
Prepaid advertising programme space and time	2,324
Trade and other receivables, prepayment and deposits	75,503
Pledged bank deposits	37,510
Bank balances and cash	57,030
Trade and other payables	(25,175)
Obligation under finance leases	(74,509)
Subscriptions received in advance	(3,953)
Consideration payable for acquisition	(74,997)
Convertible loan (note (i))	(30,344)
Short-term bank loans	(36,374)
Taxation payable	(8,561)
Deferred tax liabilities	(4,504)
Minority interests	(2,565)
	255,964
Minority interests	(75,498)
Reserves released	(18,416)
Attributable goodwill	6,615
Impairment loss arising on deconsolidation of XFM (note (ii))	(81,457)
Net assets disposed of	87,208
Transferred to interests in associates	(87,208)
	—
Net cash outflow arising on deconsolidation:	
Bank balances and cash of XFM deconsolidated	(57,030)

Notes:

- (i) During the year, XFM issued convertible bonds of US\$33,200,000 (the "Convertible Bond") to affiliates of Patriarch Partners LLC, an existing shareholder of XFM. The Convertible Bond bears interest at London-Interbank Offering Rate plus 6% per annum, payable monthly and will mature in October 2012. The Convertible Bond is convertible into Class A shares after the first anniversary date from the date of issue of the Convertible Bond, at various conversion price depending on the date of exercise. XFM has designated the Convertible Loan as financial liabilities at fair value through profit and loss on initial recognition and have recognised fair value gain of US\$927,000, during the year. Assuming the Convertible Bond was fully converted at the lowest conversion price, the Company's interest in XFM will be diluted from 34.1% to 31.0%.
- (ii) On deconsolidation of XFM, the Group recognised an impairment loss of US\$81,457,000 being the difference between the net carrying amount of the interest in XFM held by the Group and the share of net assets of XFM attributable to the Company at date of Conversion. The difference arose mainly due to the deemed capital contribution in XFM on waiver of amounts due from XFM in previous years.

## 40. DISPOSAL OF BUSINESSES

During the year, the Group disposed of its entire interests in Mergent, Kinetic, Washington Analysis and the operations of Taylor Rafferty and G7, all of which formed a substantial part of the Group's operation in the US, to independent third parties for an aggregate consideration of US\$109,452,000 and incurred direct costs of US\$13,272,000. In addition, the Group is entitled to receive certain contingent consideration in subsequent years based on the performance of certain of the disposed entities. The net assets at the date of disposals were as follows:

	US\$'000
Property, plant and equipment	8,872
Other intangible assets	6,292
Investment in an associate	197
Available-for-sale investments	23,452
Trade and other receivables, prepayments and deposits	20,805
Promissory note receivables	5,546
Bank balances and cash	7,425
Trade and other payables	(5,538)
Obligations under finance leases	(45)
Short-term bank loans	(1,346)
Taxation payable	(596)
Subscriptions received in advance	(17,189)
Deferred tax liabilities	(1,966)
	45,909
Attributable goodwill	53,910
Loss on disposal	(3,639)
<b>Total consideration, net of transaction costs</b>	<b>96,180</b>
Satisfied by:	
Cash	96,180
Net cash inflow arising on disposal:	
Cash consideration	96,180
Bank balances and cash disposed of	(7,425)
	<b>88,755</b>

The impact of these subsidiaries on the Group's results and cash flows in the current and prior periods is disclosed in note 12.

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Also during the year, the Group disposed of 85% interests in Xinhua Finance Media (Convey) Limited and the entire operation of Xinhua PR Newswire to independent third parties for an aggregate consideration at a fair value of US\$71,140,000 and incurred direct costs of US\$663,000. In addition, the Group is entitled to receive certain contingent consideration in subsequent years based on the performance of the disposed entity. The net assets at the date of disposal were as follows:

	US\$'000
Property, plant and equipment	943
Other intangible assets	15,823
Trade and other receivables, prepayments and deposits	16,937
Bank balances and cash	1,965
Trade and other payables	(5,321)
Obligations under finance leases	(105)
Short-term bank loans	(75)
Subscriptions received in advance	(2,564)
Taxation payable	(1,959)
Deferred tax liabilities	(2,723)
	22,921
Attributable goodwill	58,718
Interests retained in available-for-sale investments	(12,342)
Gain on disposal	1,180
Total consideration, net of transaction costs	70,477
Satisfied by:	
Cash	5,220
Consideration receivable	65,257
	70,477
Net cash inflow arising on disposal:	
Cash consideration	5,220
Bank balances and cash disposed of	(1,965)
	3,255

During the year, the above businesses contributed a profit of US\$8,484,000 to the Group's loss for the year.

The businesses disposed of during the year contributed US\$2,120,000 in respect of the Group's operating activities, paid US\$618,000 in respect of the Group's investing activities and paid US\$516,000 in respect of the Group's financing activities.

In 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

Glass Lewis contributed a loss of US\$2,954,000 to the Group's profit in 2007. Glass Lewis also paid US\$842,000 in respect of the Group's operating activities, contributed US\$14,000 to the Group's net investing cashflows and paid US\$362,000 in respect of the Group's financing activities in 2007.

## 41. MAJOR NON-CASH TRANSACTIONS

### THE GROUP

In 2008,

- (a) the Company issued 445,797 ordinary shares of HK\$20 each with a fair value of US\$23,238,000 for settlement of consideration payable.
- (b) XFM issued Class A shares with a fair value of US\$2,660,000 for acquisition of other intangible assets.

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) XFM issued Class A shares with a fair value of US\$8,296,000 for acquisition of additional interests of a subsidiary.

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## THE COMPANY

In 2008,

- (a) the Company issued 445,797 ordinary shares of HK\$20 each with a fair value of US\$23,238,000 for settlement of consideration payable.
- (b) the Company waived an amount of US\$24,104,000 due from XFM which was deemed as capital contribution in XFM.
- (c) the Company waived an amount of US\$8,421,000 due from a subsidiary which was deemed as capital contribution in that subsidiary.

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) the Company subscribed new shares in a subsidiary for a consideration of US\$176,077,000, the amounts were settled through current accounts with the subsidiary.
- (d) the Company waived an amount of US\$115,286,000 due from a subsidiary which was deemed as capital contribution in that subsidiary.
- (e) the Company transferred its investment cost of US\$379,000 in a subsidiary to another subsidiary, the amount was settled through current accounts.

## 42. 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	
	2008 US\$'000	2007 US\$'000
Within one year	1,369	7,749
In the second to fifth year inclusive	985	11,224
After five years	—	10,730
	<b>2,354</b>	<b>29,703</b>

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

## 43. LITIGATIONS

### LITIGATIONS OF THE GROUP

On or about November 10, 2008, a former employee of a subsidiary, filed a demand for arbitration and statement of claim with the American Arbitration Association against the subsidiary. The statement claim alleges that the employee is owed money pursuant to an employment agreement with the subsidiary in connection with his termination on or about October 13, 2008. The employee claims approximately US\$400,000 in damages. On or about December 9, 2008, the subsidiary filed a response and asserted various counterclaims against the employee. The counterclaims stem from the employee's breach of the employment agreement and breach of fiduciary duty to the subsidiary during his employment. The subsidiary claims approximately US\$500,000 in damages. As at the date of this report, it is possible that a second employee of the subsidiary may bring a similar arbitration action against the subsidiary for the termination of the employee's employment agreement with the subsidiary. If the employee were to bring such an action, management anticipate his claims and the subsidiary's response would be similar to the currently pending arbitration.

During the year, an arbitration demand over the disagreement of the first and second earned out calculations totalling US\$8,500,000 plus interest, payable in cash and shares of the Company, in respect of the acquisition of Mergent Data Technology, Inc. (formerly known as Praeada Acquisition Corporation) ("MDT") was submitted by the former holding company of MDT, PSI Capital, Inc. (formerly known as Praeada Solutions, Inc.) against the Company.

Given the early stage of the litigations mentioned above, 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.

### LITIGATIONS OF AN ASSOCIATE

In August 2008, XFM borrowed US\$14 million from UBS AG using the Principal Protected Note as collateral (the "UBS Loan"). On September 15, 2008, Lehman Brothers filed for bankruptcy, and after XFM refused to post additional collateral for the UBS Loan, on September 25, 2008, UBS AG filed a demand for arbitration with the American Arbitration Association against XFM seeking repayment of the UBS Loan. On October 28, 2008, XFM filed its defense to the demand as well as a cross claim against UBS Financial Services, Inc. for an amount in excess of US\$25 million.

## 44. 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.

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## 45. RELATED PARTY TRANSACTIONS

The remuneration of directors (key management personnel) is disclosed in notes 10, 30 and 37.

In addition to the above and the related party information disclosed elsewhere in the financial statements, during the year, the Group has the following significant transactions with FTSE International Limited ("FTSE"), a minority shareholder of a subsidiary of the Group:

	THE GROUP	
	2008 US\$'000	2007 US\$'000
Service fee recharge	200	260
System service fee	256	128
Claw-back fee paid for exchange traded fund licensing revenue	490	249
Revenue collected on behalf of FTSE	1,606	—

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

	THE COMPANY	
	2008 US\$'000	2007 US\$'000
Group service fee income from subsidiaries	2,016	4,288
Interest income from subsidiaries	222	659
Group service fee paid to a subsidiary	4,437	6,717
Deemed capital contributions on waiver of amounts due from XFM	24,104	115,286
Deemed capital contributions on waiver of an amount due from a subsidiary	8,421	—

## 46. POST BALANCE SHEET EVENTS

In January 2009, the Group disposed of its entire interest in SFE and Market News International Inc., to independent third parties for an aggregate consideration of US\$15,900,000. The gain or loss arising on disposal of these subsidiaries subsequent to the balance sheet date, were insignificant.

Also, in January 2009, the shareholders of XFM has resolved to change XFM's name from Xinhua Finance Media Limited to Xinhua Sports and Entertainment Limited which is in line with XFM's plan to grow its media platforms beyond finance with a particular focus on sports and entertainment news and information.

## 47. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries are as follows:

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		
		2008	2007	2008	2007	
Market News International Inc.	US	100%	100%	—	—	Production of fixed income/forex news analysis and investment holding
Xinhua Financial Network Limited	Hong Kong	100%	100%	—	—	Provision of China-specific indices, credit ratings and investor relations services
Washington Analysis	US	—	100%	—	—	Provision of economic political advisory services
XFM#	Cayman Islands	—	38.82%	—	—	Media and advertising business
China Finance Limited	Taiwan	—	—	100%	100%	Provision of financial information services and public relation services
Fortune China Public Relations Limited	Hong Kong	—	—	100%	100%	Provision of public relations services
FTSE/Xinhua Index Limited*	Hong Kong	—	—	50%	50%	Provision of index related products and services
Market News (Service) International Inc.	US	—	—	100%	100%	Production of fixed income/forex news analysis
Mergent	US	—	—	—	100%	Production of database and analysis
Xinhua Financial Network (Beijing) Ltd.	PRC	—	—	100%	100%	Provision of financial information services and public 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 and public relations services
Xinhua Finance Japan Limited	Japan	—	—	100%	100%	Provision of China financial information and services
Shanghai Tongxin Information Technology Consulting Co. Ltd.	PRC	—	—	80%	80%	Provision of information technology application and information and services

# XFM was accounted for as a subsidiary of the Company in 2007, as the Company held Class B shares of XFM which entitles the holder to 10 voting rights to 1 non-Class B shares. Hence the Company controlled more than 50% of XFM's voting power.

\* The Company is accounted for as subsidiary of the Group as the Group has the power to govern the financial and operating policies of the Company.

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.