南海控股
NAN HAI CORPORATION LIMITED
Stock Code：680 股份代號：680

2012
ANNUAL REPORT

南海控股有限公司
二零一二年度 年報

CONTENTS

CORPORATE INFORMATION

Directors

Executive
Mr. YU Pun Hoi *(Chairman)*
Ms. CHEN Dan
Ms. LIU Rong

Non-executive
Mr. WANG Gang
Mr. LAM Bing Kwan

Independent Non-executive
Mr. HUANG Yaowen
Prof. JIANG Ping
Mr. LAU Yip Leung

Company Secretary

Mr. WATT Ka Po James

Auditor

BDO Limited
Certified Public Accountants
Hong Kong

Bermuda Legal Advisers

Appleby

Principal Place of Business in Hong Kong

Units 15–18, 36/F.,
China Merchants Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal Registrar

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

Hong Kong Share Registrar and Transfer Office

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

Stock Code

680

Principal Bankers

DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

Website Address

http://www.nanhaicorp.com

CHAIRMAN'S STATEMENT

After years of efforts, the Company and its subsidiaries (collectively the "Group") have established its strategic presence with diversified core businesses. Property development, culture and media, and corporate IT application services are now the Group's focuses. The Group has not only strengthened its competitiveness in the business segments but also built up its overall anti-risk ability. In 2012, the Group continued to implement its internal rationalization and reduce its costs and expenses, which led to an improvement in its loss making position. However, due to the impacts from both the macro-economic environment and challenges faced by different phases of its businesses, overall operating income of the Group decreased to a certain extent, so its loss position has yet been turned around.

For the year ended 31 December 2012, net loss attributable to owners of the Company was approximately HK$346.1 million, a decrease of approximately 30% over 2011.

I. PROPERTY DEVELOPMENT

During the year, Phase 1 of "Free Man Garden" in Guangzhou was launched in May, and 78% of the units launched to the market for pre-sale were sold. The average selling price was relatively higher than those of other projects in its neighborhood, therefore, satisfactory results were achieved.

CHAIRMAN'S STATEMENT

However, pursuant to the accounting standard, pre-sale income from this project has yet been recognized as operating income for 2012, therefore, the property development segment remains in a loss position.

During the year, the Group disposed of 30% issued share capital of Listar Properties Limited, the holding company of "Free Man Garden", and the proceeds of the disposal were used for settlement of part of the indebtedness.

"The Peninsula" Project

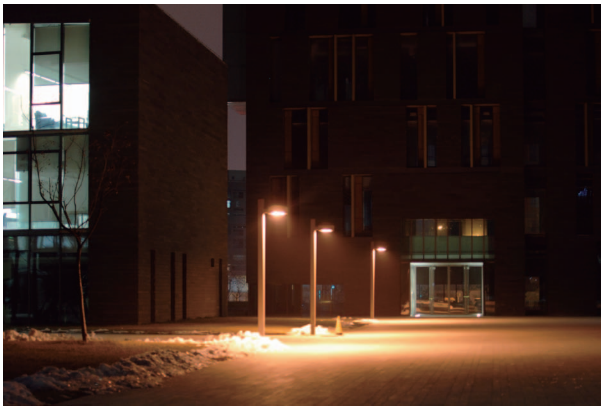
In 2012, governments at various levels in China stepped up their measures to control property market. Speculative activities in the property sector have been scotched and hammered, and the market gradually rationalized. The new central leadership proposed the stately objective of doubling the nation's GDP, which may also be seen as a considerable support to the domestic property market in China. In light of this, the Group is cautiously optimistic towards the future of the property sector.

The commencement of development of Phase 3 of "The Peninsula" project had been deferred by certain litigations, but those litigations achieved positive determinant progress. In addition to the withdrawal of petition in a litigation by the plaintiff as disclosed in the 2012 interim report of the Group, the Guangdong People's High Court has ruled in favour of "The Peninsula" project company in another litigation regarding the distribution of the advance profit of Phase 2 of "The Peninsula", and the appeal application by the plaintiff made to the People's Supreme Court was also dismissed on 20 November 2012. The project company of "The Peninsula" instituted an administrative proceeding in respect of the planning modification of "The Peninsula" project, and the project company got a favourable judgment in the first trial. Final outcome of such proceeding is expected to be available in the first half of 2013. If the final judgment is in favour of the project company, the changes to the planning design of Phase 3 of "The Peninsula" will be implemented forthwith, and construction is anticipated to commence in the second half of 2013.

Guangzhou "Free Man Garden" Project

11 residential blocks and a community centre under Phase 1 of the "Free Man Garden" in Guangzhou have been topped out. Exterior walls and non-delicate interior renovations have also been basically completed. The central park with an area of 100,000 sq.m. is beginning to take shape. Various divisional construction works are in progress as scheduled, and are undergoing individual inspection. Construction inspection is expected to be completed by the end of 2013, and then owner occupation will take place.

Summing up the year's property market situation, with the macro-economic controls by the Chinese government remain in place, the property market bubble has been fading, and solid demand has gradually emerged. "Integration of urban and rural development" proposed at the 18th National Congress of the Communist Party of China is beneficial to the "Free Man Garden" project. During the year, the State's flexible fiscal policies also contributed to the satisfactory result in pre-sale of the "Free Man Garden" project. Phase 1 of "Free Man Garden" project was officially launched for pre-sale in May 2012. Pre-sale permits were



CHAIRMAN'S STATEMENT

obtained for a total of 960 units of which 746 were sold, representing 78% of total units launched for pre-sale, contributing a contracted sales of approximately RMB748 million. Owing to some historical issues in relation to certain plots of land where the "Free Man Garden" project is located, which have yet been resolved by the former responsible department, the currently responsible department needs time to deal with and resolve those issues, therefore, 544 units have yet obtained pre-sale permits during the pre-sale period, which in turn indirectly has affected sales performance. The Group anticipates that all pre-sale permits for the remaining units would be obtained in the first half of 2013.

The Group will fully launch the remaining 544 units of Phase 1 of "Free Man Garden" project upon receipt of the pre-sale permits. Positive response to those to-be-launched units is expected from the market with an encouraging sales outlook. In the meantime, construction of Phase 2 of the "Free Man Garden" project has been officially commenced, with a gross floor area of approximately 181,000 sq.m., of which approximately 146,000 sq.m. is above ground, having a saleable area of approximately 141,000 sq.m. and a total of approximately 1,299 units; and approximately 35,000 sq.m. is underground which may provide approximately 1,052 parking spaces. All construction design works have been completed, the standard construction plan has been approved, and the specific construction plan has been submitted for approval. Construction is expected to be commenced in mid 2013 so as to meet the construction conditions for pre-sale by the third quarter of 2014.

II. CULTURE AND MEDIA

2012 was a year of tremendous adjustments for the Chinese film industry and market, unfolding an unprecedented healthy scenery. The release of the film titled "Lost in Thailand" (《人在囧途之泰囧》) at the end of the year and of another one titled "Journey to West: Conquering the Demons" (《西游•降魔篇》) at the beginning of 2013 has revealed the immense potentials of the Chinese film market. The aforesaid films achieved an accumulated box office of RMB1.26 billion and RMB1.24 billion respectively. The incredibly high return was totally out of expectation, which unveiled the industry prospects and awakened the industry participants to the Chinese film market. For Dadi group, subsidiaries of the Company, which has determined to build a new scenery in the film industry since 2006. Facing to the opportunities and changes, deliberate review and moving forward are crucial in the course of development as excellence is the fruit of diligence and success depends on forethought.

During the year, the operation of Dadi cinema has been on the track of rapid development, and the cinema business has successfully turned around.

In 2012, the gaming relation between large film productions and small investments was evident, and the diversity; care in reality; and artistic qualities of films were increasingly valued. The enhancement in film quality will definitely nurture the quality of the audience. The moving of the entire film industry toward a phase of positive development is coming up soon. In the coming year, well-prepared Dadi will continue to implement its cinema construction plan for speeding up the growth in the number of cinemas and screens. At the same time, Dadi will strive to obtain the domestic distribution rights for high-quality films by various means such as direct investment, participation in investment and advance purchase, so as to establish and continue to reinforce its market position in China.

III. CORPORATE IT APPLICATION SERVICES

In 2012, the Group continued to focus on the development of its corporate IT application services business through its subsidiary Sino-i Technology Limited ("Sino-i"). Sino-i's subsidiary, 中企動力科技股份有限公司 (CE Dongli Technology Company Limited) ("CE Dongli"), adhered to its strategies in application innovation. Further to the release of the

CHAIRMAN'S STATEMENT

market leading e-commerce product "Zshop online trading" in 2011, it took the lead to enter into the corporate mobile e-commerce application market, and successfully launched two service products, namely "ZtouchS" and "Zmobile", providing corporate customers with innovative mobile online e-commerce application service solutions.

With respect to marketing channel, following the business network expansion in 2011, in order to enhance operating efficiency, CE Dongli streamlined its branch network to phase out some branch offices with low efficiencies and instead assigned core subsidiaries in the vicinity to cover the corresponding areas. At the same time, the overall operating efficiency of the business network was enhanced by the strengthened internal information control and consolidated customer service value chain.

With respect to cost control, CE Dongli achieved remarkable results in reducing the number of employees by optimizing workflow and streamlining internal structure. CE Dongli also enhanced the efficiency of technological operation and lowered product operating costs by way of technology advancement.

In the meantime, CE Dongli continued its last year's strategies of focusing on e-commerce business sector, by putting in relatively large efforts in the research and development of new products and the construction of operating infrastructure, in particular, the research and development for mobile business products and the construction of operating infrastructure for cloud computing technology. These investments will establish a solid foundation for the middle to long term development of CE Dongli, and its benefits will gradually materialize within the next two to three years.

Currently, the popularity of smartphones and cloud computing applications will undoubtedly trigger a fresh round of growth in the e-commerce market. In 2013, CE Dongli will continue to focus on the development of its corporate IT application services business, and will explore corporate IT infrastructure services and fundamental application services business. It will also continue its efforts in research and development, and accelerate the launching of new products, so as to further consolidate and strengthen its leading edge in products. It will continue to review the operating efficiency of its existing branch offices and implement optimization adjustments for enhancement in its overall business development capability and results contribution. At the same time, it will continue to implement measures for internal streamlining and consolidation, such as reforming its business support information system, so as to reduce costs and expenses and improve its operating efficiencies.

IV. CONCLUSION

Looking forward to the coming year, the Group will continue to focus on the development of its three business segments, namely property development, culture and media, and corporate IT application services business. It will continue to strengthen and enhance its market position in the culture and media as well as corporate IT application services sectors. Meanwhile, it will continue to refine and perfect its middle to long term development strategies in the property development sector, and to improve operating performance, so as to maximize value for shareholders.

Finally, I would like to express my gratitude to the shareholders for their concern and support to the Group, and also to the board of directors (the "Board") of the Company, executive committee and all staff for their dedication and contribution.

Yu Pun Hoi
Chairman

Hong Kong, 28 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

During the year under review, the Group were principally engaged in property development, culture and media, and corporate IT application services businesses. During the year, turnover was approximately HK$1,953.6 million (2011: HK$2,365.8 million, comprising HK$2,333.5 million from continuing operations and HK$32.3 million from discontinued operations) and net loss attributable to the owners of the Company was approximately HK$346.1 million (2011: HK$494.7 million). Net assets attributable to the owners of the Company were approximately HK$3,136.5 million (2011: HK$3,447.8 million), representing a value of approximately HK$0.046 (2011: HK$0.050) per share.

MANAGEMENT DISCUSSION AND ANALYSIS

Property Development

In 2012, turnover of this division was approximately HK$96.5 million (2011: HK$736.2 million). Net loss before income tax was approximately HK$88.7 million (2011: net profit before income tax HK$108.4 million).

In 2012, residential units of Phases 2 of "The Peninsula" in Shenzhen were sold with sales proceeds of approximately RMB73.4 million. As at 31 December 2012, approximately 97.9% of the residential area was sold, with 43 units left.

Pre-sale of Phase 1 of "Free Man Garden" in Guangzhou commenced in May 2012. As at 31 December 2012, 960 units have been launched for sale, of which 746 units were sold with contracted sales of approximately RMB748 million. Construction is currently underway as scheduled. 11 residential blocks and a community centre of Phase 1 have been topped-out. Exterior walls and non-delicate interior renovations have completed basically, and inspection for the basic parts has been completed. Construction inspection is expected to be completed by the end of 2013 and then owner occupation will take place.

Culture and Media

In 2012, turnover of this division was approximately HK$1,166.0 million (2011: HK$779.6 million), representing a growth of 49.6% over the corresponding period last year. Net profit before income tax was approximately HK$17.4 million (2011: net loss before income tax of HK$116.3 million).

During the year, the momentum of the Chinese film industry remained strong, showing continuing upward trend in box office, projecting brighter middle to long term prospects of the market. According to statistics released by the State Administration of Radio, Film and Television on 11 January 2013, gross box office receipts nationwide amounted to RMB17.073 billion, representing a growth of 30.2% over the corresponding period last year. According to the China Film Industry Report 2012–2013 issued by Entgroup, there was an addition of 3,832 screens commencing operation nationwide during the year, representing an average increase of 10.5 new screens nationwide every day, and all such were digital screens. As at 31 December 2012, there were a total of approximately 3,680 cinemas and 13,118 screens nationwide, of which over 12,000 were 2K digital screens, representing a market share of over 90%. It is indicating that cinema digitalization has been booming.

With respect to cinema investment and construction, as at 31 December 2012, Dadi Group had approximately 151 cinemas with approximately 693 screens in operation, representing approximately 5.3% of the total number of screens nationwide, providing approximately 107,832 seats. During the year, the box office receipts of Dadi's digital cinemas amounted to approximately RMB781.5 million, representing a growth of approximately 46.4% as compared with the corresponding period last year, and a share of 4.7% of the national box office. In the meantime, admissions increased by approximately 49.8% and showing times increased by approximately 70.6%. As a result, the loss situation of this division has successfully been turned around.

Film distribution segment has also made good progress in development. A professional and experienced film distribution and promotion team has been developed, which distributed 13 films during the year and is capable of distributing mega films across the nation on its own.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate IT Application Services

In 2012, the Group's corporate IT application services division through effective measures such as the launching of new products, streamlining expenses and tightening costs, the Group improved its overall loss position. Turnover was approximately HK$659.1 million (2011: HK$792.0 million).

Failure to achieve the growth in income from continuing operations was mainly due to two reasons:

Firstly, Sino-i group's major target customer group, being SMEs in China, in particular, manufacturing enterprises which account for the largest proportion of Sino-i group's business, were impacted to a larger extent by the deterioration in the global economic condition, prompting a relatively cautious approach in relation to IT investments and thus a fall in demand.

Secondly, the contribution from the large-scale expansion of branch operations carried out by CE Dongli in the second half of 2011 was not yet reflected in the results for 2012, mainly due to the fact that those new branch offices were still at its development stage, and that all the target regions for expansion were new markets which were still in their infancy.

Despite failure to achieve the growth in income from continuing operations, CE Dongli managed to cut down the number of employees by the way of operations rationalization, workflow optimization and internal structure streamlining. Enhancement in technological operating efficiency and reduction in product operating costs were also achieved by means of technology advancement, therefore, a reduction has been recorded in overall costs and expenses, overall loss decreased by approximately HK$83.3 million, representing a loss reduction of approximately 40.6%.

II. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continued to adopt prudent funding and treasury policies. As at 31 December 2012, net assets attributable to the owners of the Company amounted to approximately HK$3,136.5 million (2011: HK$3,447.8 million), including cash and bank balances of approximately HK$1,217.8 million (2011: HK$411.2 million) which were mainly denominated in US dollars, Renminbi and Hong Kong dollars. As at 31 December 2012, the Group's aggregate borrowings were approximately HK$6,747.8 million (2011: HK$4,917.6 million), of which approximately HK$4,096.6 million (2011: HK$3,154.9 million) were bearing interest at fixed rates while approximately HK$2,651.2 million (2011: HK$1,762.7 million) were at floating rates. The gearing ratio of the Group which is calculated as net debt divided by the adjusted capital plus net debt, increased from approximately 51.83% as at 31 December 2011 to approximately 58.95% as at 31 December 2012.

As at 31 December 2012, the Group's capital commitment was approximately HK$433.2 million, of which approximately HK$151.5 million would be used as the funding for the construction of the headquarters of corporate IT application services, and approximately HK$281.7 million would be used as capital expenditures for the expansion of its cinema business.

The Group's contingent liabilities as at 31 December 2012 were approximately HK$78.2 million in connection with the guarantees given to secure credit facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2012, certain interests in leasehold land, construction in progress, buildings, properties under development and completed properties held for sale, bank deposits, and property, plant and equipment and trade receivables with a total net carrying value of approximately HK$4,963.2 million were pledged to secure the credit facilities granted to the Group. In addition, trading securities having a carrying value of approximately HK$0.2 million and certain shares of several subsidiaries were pledged, bank accounts were charged and shareholders' loan of five subsidiaries was assigned for securing the Group's credit facilities.

III. EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The majority of the Group's borrowings and transactions were primarily denominated in US dollars, Renminbi and Hong Kong dollars. Both the operating expenses and revenue were primarily denominated in Renminbi. The continued growth in the economy of China is expected to warrant a continued appreciation of Renminbi. The Group's reported assets, liabilities and results may be affected by the Renminbi exchange rates. Although Renminbi exchange risk exposure did not have significant impact on the Group during the year under review, the Group will keep on reviewing and monitoring the fluctuation in exchange rates between Renminbi and Hong Kong dollars. For the funding in US dollars, although Hong Kong dollars are adopted as the reporting currency of the Group, the management of the Group considers the exposure to exchange risk is insignificant owing to the linked exchange rate system that pegs Hong Kong dollars to US dollars. The Group may make appropriate foreign exchange hedging arrangements when necessary.

IV. EMPLOYEES

The Company employs and remunerates its employees based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include housing, contributions to mandatory provident fund, group medical insurance, group personal accident insurance and examination leave etc. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the Board of the Company. In general, salary review is conducted annually. As at 31 December 2012, the Group had approximately 10,864 employees (2011: 12,018 employees). The salaries of and allowances for employees for the year ended 31 December 2012 were approximately HK$801.2 million (2011: HK$882.5 million).

V. PROSPECTS

Leading economic indicators of China have shown signs of bottoming-out since September 2012, and it is anticipated that China's economy will be on the track of periodic recovery cycle from the first half of 2013. In light of the stabilizing external environment as well as the smooth transition of political power, and the relaxation in monetary policies, the domestic demand momentum in China should be resumed.

Although the property market has become rational, there are still strong momentums that cannot be ignored. Looking forward, the Group will adhere to its attention to quality as its primary goal while continuing to enhance its service and consolidate development efforts, so as to build a perfect natural platform for the society.

MANAGEMENT DISCUSSION AND ANALYSIS

The correlation between the culture industry and the national economy is evident, and its development outlook is unquestionable. The Group will be committed to following the development route of continuous expansion of cinemas to enhance the quantity as well as quality of films distributed. In 2013, it is expected that the development of a larger portion of the Group's directly-operated cinemas will accelerate and move into mature phase and net return phase, and the overall business performance of the culture and media segment will improve continuously.

Information technology is currently on its way towards a new stage of development, in which the coupling relationship with social development, corporate development and urbanization is growing intensive. Many sizable IT enterprises having strong capital and client base in China are gradually shifting their focus from technology development to the end-user application services platform, therefore, the market competition will be more severe. In 2013, the Sino-i group will strive to turnaround its corporate IT application services business and at the same time maintain its efforts in research and development, so as to consolidate and enhance its leading edge on new product research and development.

In 2013, the Group will continue to adhere to its diversified core business strategy focusing on its three principal businesses; to facilitate the continuous enhancement of the business development capability of each business segment; and to improve its internal management and enhance operating efficiency, so as to continue to improve its profitability and maximize shareholders' value.

REPORT OF THE DIRECTORS

The Board of the Company herein presents their report and the audited financial statements of the Group for the year ended 31 December 2012.

Principal Activities

The principal activity of the Company is investment holding. During the year, the Group are principally engaged in property development, while culture and media services through Dadi group and corporate IT application services through Sino-i.

Segment Information

Particulars of the Group's turnover and segment information for the year are set out in notes 5 and 6 to the financial statements respectively.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on pages 35 and 36.

The directors do not recommend the declaration of the payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 138.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

Subsidiaries and Associates

Particulars of the Company's principal subsidiaries and associates as at 31 December 2012 are set out in notes 16 and 17 to the financial statements respectively.

Bank and Other Borrowings and Financing

Details of the bank and other borrowings and financing of the Group as at 31 December 2012 are set out in notes 27 and 29 to the financial statements respectively.

REPORT OF THE DIRECTORS

Share Capital

Details of the share capital of the Company during the year are set out in note 31 to the financial statements.

Reserves

Details of the movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements.

Distributable Reserves

As at 31 December 2012, the amount of the Company's reserves available for distribution was approximately HK$1,072,623,000. In addition, the Company's share premium account with a balance of HK$965,911,000 may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

The Group's sales to the five largest customers for the year ended 31 December 2012 accounted for less than 30% of the Group's total turnover.

For the year ended 31 December 2012, the percentage of purchase attributable to the Group's five largest suppliers was 57.74% with the largest supplier accounted for 50.95%.

Neither the directors, any of their associates nor any shareholders (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five larges customers and/or five largest suppliers during the year ended 31 December 2012.

Directors' Emoluments

Details of directors' emoluments are set out in note 36 to the financial statements.

Directors' Interest in Competing Business

As at 31 December 2012, none of the directors of the Company has an interest in a business which competes or may compete with the business of the Group.

Pension Costs

Details of retirement benefit plans in respect of the year are set out in note 35 to the financial statements.

REPORT OF THE DIRECTORS

Directors

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

Mr. YU Pun Hoi *(Chairman)*
Ms. CHEN Dan
Ms. LIU Rong
Mr. WANG Gang# (re-designated on 28 May 2012)
Mr. LAM Bing Kwan#
Mr. HUANG Yaowen*
Prof. JIANG Ping*
Mr. LAU Yip Leung*
Mr. QIN Tian Xiang# (deceased on 30 March 2012)

\# Non-executive directors
* Independent non-executive directors

The Company has received annual confirmation from each of the existing independent non-executive directors confirming his independence to the Company pursuant to Rule 3.13 of the Listing Rules and the Company considers that such directors are independent of the Company.

In accordance with Bye-law 99 of the Company's Bye-Laws, Mr. Lau Yip Leung shall retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Biographical Details of Directors and Senior Management

Biographical Details of Directors

Executive Directors

Mr. YU Pun Hoi, aged 54, joined the Board of the Company in September 2000. Mr. Yu is the chairman of the Board, the chairman of executive committee and nomination committee of, and a controlling shareholder of the Company.

Mr. Yu is also the chairman of the Board of and of the executive committee and nomination committee of Sino-i, and a director of a number of major subsidiaries of the Company and Sino-i.

Ms. CHEN Dan, aged 44, graduated from Beijing Finance & Trade College and conferred a Bachelor degree in Trade & Economics, and obtained a degree of EMBA in China Europe International Business School, and is also a qualified lawyer in the PRC.

Ms. Chen joined the Group in October 2000. In February 2006, Ms. Chen has been appointed as an executive director and executive committee member of the Company. In September 2011, Ms. Chen has been appointed as a general manager of the Company. In March 2012, Ms. Chen has been appointed as a member of nomination committee of the Company.

Ms. Chen is also an executive director, executive committee member, nomination committee member and general manager of Sino-i. Ms. Chen is also a director of a number of major subsidiaries of the Company and Sino-i.

REPORT OF THE DIRECTORS

Biographical Details of Directors and Senior Management (Continued)

Biographical Details of Directors (Continued)

Executive Directors (Continued)

Ms. LIU Rong, aged 41, graduated from the Law School of Anhui University and obtained a Bachelor degree in Laws, and got a Master of Laws conferred by the Law Institute of Chinese Academy of Social Science, and is also a qualified lawyer in the PRC. Prior to joining the Group, Ms. Liu worked in Chinese government departments and law firms.

Ms. Liu has been appointed as an executive director and executive committee member of the Company in March 2009. Ms. Liu is also a general manager of Dadi group and is responsible for the businesses in culture and media of the Group.

Ms. Liu is also an executive director of Sino-i, and a director of a number of major subsidiaries of the Company and Sino-i.

Non-Executive Directors

Mr. WANG Gang, aged 57, graduated from Capital University of Economics and Business in China and conferred a Bachelor degree in Business Economics and also obtained an MBA degree from National University of Singapore. Prior to joining the Group, Mr. Wang worked in the headquarters of China Agricultural Bank for many years, and was appointed as a general manager working in the bank's branch office in Singapore.

Mr. Wang joined the Group in December 2007 and then was appointed as a director and general manager of 深圳南海益田置業有限公司 (Shenzhen Nanhai Yitian Realty Company Limited) ("Nanhai Yitian"), a subsidiary of the Company, and is responsible for the related businesses in property development of the Group.

Mr. Wang has been appointed as an executive director of the Company in March 2009, and was re-designated as a non-executive director of the Company and Sino-i in May 2012.

Mr. LAM Bing Kwan, aged 63, graduated from the University of Oregon in the United States of America and conferred a Bachelor degree in Business Administration in 1974. Prior to joining the Group, Mr. Lam had been in senior management positions in the banking and financial industry for more than 10 years.

Mr. Lam joined the Board of the Company in September 2000, and was re-designated as a non-executive director in April 2002. Mr. Lam is also a non-executive director of Sino-i, and an independent non-executive director of Lai Sun Development Company Limited, Lai Fung Holdings Limited, eForce Holdings Limited and Lai Sun Garment (International) Limited.

REPORT OF THE DIRECTORS

Biographical Details of Directors and Senior Management (Continued)

Biographical Details of Directors (Continued)

Independent Non-executive Directors

Mr. HUANG Yaowen, aged 42, graduated from South West University of Politics and Laws in China and conferred a Bachelor degree in Laws in 1992, and obtained a degree of EMBA in China Europe International Business School. Mr. Huang is also postgraduate in laws in Party School of the Central Committee of C.P.C. in the PRC, and a registered attorney at law in the PRC. Mr. Huang is the executive partner of Grandway Law Offices (formerly known as Kai Wen Law Firm) which is Chinese commercial law firms in the PRC.

In February 2006, Mr. Huang joined the Board of the Company and has been appointed as a chairman of audit committee and remuneration committee of the Company. In March 2012, Mr. Huang has been appointed as a member of nomination committee of the Company. Mr. Huang is also an independent non-executive director, chairman of audit committee and remuneration committee, and nomination committee member of Sino-i.

Prof. JIANG Ping, aged 82, graduated from Moscow University with a Bachelor degree in Laws in 1956. Prof. Jiang is the lifetime professor of China University of Political Science and Law, conducts lectures for doctoral degree class in civil and commercial laws, the honorary president of China Comparative Law Research Centre, chairman of Beijing Arbitration Commission, and honorary arbitrator in China International Economic and Trade Arbitration Commission.

In February 2006, Prof. Jiang joined the Board of the Company and has been appointed as a member of audit committee and remuneration committee of the Company. In March 2012, Prof. Jiang has been appointed as a member of nomination committee of the Company. Prof. Jiang is also an independent non-executive director, and member of audit committee, remuneration committee and nomination committee of Sino-i.

Mr. LAU Yip Leung, aged 52, graduated from the City University of Hong Kong and awarded an honours degree of Bachelor of Arts in Accountancy in 1991 and also holds an MBA conferred by the University of Hull, UK. Mr. Lau is a fellow member of The Association of Chartered Certified Accountants, member of The Institute of Chartered Accountants in England and Wales, and practising member of the Hong Kong Institute of Certified Public Accountants. Mr. Lau started his public practice business in 1998, and has been a partner of Messrs. Fung Lau & Company, Certified Public Accountants, since October 2000.

Mr. Lau joined the Board of the Company in May 2006 and is also a member of audit committee and remuneration committee of the Company. In March 2012, Mr. Lau has been appointed as a member of nomination committee of the Company.

REPORT OF THE DIRECTORS

Biographical Details of Directors and Senior Management (Continued)

Biographical Details of Senior Management

Mr. XUE Bo Ying (aged 44)
General Manager
Nan Hai Development Limited

General Manager
深圳南海益田置業有限公司 (Shenzhen Nanhai Yitian Realty Company Limited)

Mr. Xue graduated from Huazhong University and conferred a Master degree in architecture from Tsinghua University, and is a certified first-level architect, and a certified town planner in China. Prior to joining the Group, Mr. Xue worked in senior positions as deputy general manager, senior architect and architectural design director in a number of corporations, and also worked in Guangzhou City Construction Commission.

Mr. Xue joined the Group in January 2006 and was appointed as an architectural design director, and was responsible for overall architectural design of various property projects of the Group in China. In February 2009, Mr. Xue has been appointed as an executive deputy general manager of Nan Hai Development Limited ("Nan Hai Development"), a subsidiary of the Company, and was promoted to a general manager in July 2010 and is also a general manager of Nanhai Yitian.

Mr. Xue is also a member of executive committee of the Company.

Mr. KO Haowen (aged 49)
General Manager
廣州東鏡新城房地產有限公司 (Guangzhou Dongjing Xincheng Properties Co., Ltd.)

Mr. Ko graduated from International Trade Department of Chinese Culture University, Taiwan. Mr. Ko has worked in the position of sales director of advertising companies and well-known corporations, with extensive experience in sales planning, sales management and business management etc.. In 1994, he started his career in China.

In February 2009, Mr. Ko joined the Group and was appointed as a general manager of 廣州自由人男子籃球俱樂部股份有限公司 (Guangzhou Freeman Basketball Club Company Limited), a subsidiary of the Company, and was appointed as a general manager of 廣州東鏡新城房地產有限公司 (Guangzhou Dongjing Xincheng Properties Co., Ltd.) in July 2011.

REPORT OF THE DIRECTORS

Biographical Details of Directors and Senior Management (Continued)

Biographical Details of Senior Management (Continued)

Mr. CHENG Chih Hung (aged 57)
Executive Director
Nan Hai Development Limited

Prior to joining the Group, Mr. Cheng was in senior position in United Task Marketing Ltd. and United Communication Inc., and has experience in management of international information and media business for many years, and extensive experience in management of marketing and media.

Mr. Cheng was a general manager of 北京世華國際金融信息有限公司 (Beijing Shihua International Financial Information Company Limited), a former subsidiary of Sino-i, between 2004 and 2007 and was appointed as a deputy chairman in 2007, and subsequently has been appointed as an executive director of Nan Hai Development, and is responsible for marketing and sales.

Mr. CHEN Ming Fei (aged 36)
General Manager
中企動力科技股份有限公司 (CE Dongli Technology Company Limited)

Mr. Chen has more than 10 years' sales and possesses with acute insight in IT business, and has extensive and professional experiences in product creation, business strategy planning and business management. Prior to joining Sino-i Group, Mr. Chen worked in Vorwerk of Co. KG, a German company.

In 2000, Mr. Chen joined CE Dongli and was appointed as a national commercial director, sales deputy general manager, executive deputy general manager and business general manager. In January 2012, Mr. Chen was promoted to a general manager, and is responsible for operation management of CE Dongli.

Mr. Chen is also a member of executive committee of the Company and Sino-i.

Mr. ZHANG Bin (aged 47)
General Manager — Technology Research and Development
中企動力科技股份有限公司 (CE Dongli Technology Company Limited)

Mr. Zhang graduated from the Computer Faculty of The University of Defence Technology and his research was in computer architecture. Mr. Zhang has extensive experience in software development and management.

Mr. Zhang joined Sino-i Group in 1999, and was appointed as a chief technology officer, deputy general manager of technology development, and deputy general manager of CE Dongli. In April 2011, Mr. Zhang has been appointed as a general manager of technology research and development in CE Dongli.

Mr. Zhang is also a member of executive committee of Sino-i.

REPORT OF THE DIRECTORS

Biographical Details of Directors and Senior Management (Continued)

Biographical Details of Senior Management (Continued)

Ms. SHI Wenqing (aged 42)
Deputy General Manager — Sales
中企動力科技股份有限公司 (CE Dongli Technology Company Limited)

Ms. Shi holds a Bachelor degree in Engineering from Beijing University of Agriculture. Prior to joining Sino-i Group, Ms. Shi has worked as a senior sales director in various large size multinational corporations with extensive experience in sales management.

Ms. Shi joined CE Dongli in June 2009 and was appointed as a national business director and sales deputy general manager, and is responsible for sales and marketing businesses.

Ms. Shi is also a member of executive committee of Sino-i.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2012, the interests and short positions of the directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

The Company

Long position in shares in issue

	Number of shares of HK$0.01 each				
Name of Director	**Personal interest**	**Corporate interest**	**Family interest**	**Total interest**	**Approximate percentage holding**
Yu Pun Hoi ("Mr. Yu")	–	34,945,726,203 *(Note 1)*	69,326,400 *(Note 2)*	35,015,052,603	51.01%
Chen Dan	32,000,000	–	–	32,000,000	0.05%
Wang Gang	8,500,000	–	–	8,500,000	0.01%

Notes:

1. Out of these 34,945,726,203 shares, 31,203,232,705 shares were collectively held by Mr. Yu through Rosewood Assets Ltd., Pippen Limited and First Best Assets Limited, companies wholly owned by him; and 3,742,493,498 shares were held by Macro Resources Ltd., a company indirectly held as to 60% by Mr. Yu.

2. These 69,326,400 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

REPORT OF THE DIRECTORS

Directors' Interests and Short Positions in Shares and Underlying Shares (Continued)

Associated Corporations

As disclosed above, Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company or its controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO, including interests held by the Company in the shares of Sino-i. Sino-i is a company the shares of which are listed on the Stock Exchange and is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at 31 December 2012, the interests of the directors of the Company in shares and underlying shares of Sino-i were as follows:

Sino-i

Long position in shares in issue

	Number of shares of HK$0.01 each				
Name of Director	**Personal interest**	**Corporate interest**	**Family interest**	**Total interest**	**Approximate percentage holding**
Yu Pun Hoi	–	12,515,795,316 *(Note 1)*	44,000,000 *(Note 2)*	12,559,795,316	63.07%

Notes:

1. These 12,515,795,316 shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of the Company. Mr. Yu was taken to be interested in these shares by virtue of his controlling interests in shares of the Company.

2. These 44,000,000 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

Save as disclosed above, as at 31 December 2012, none of the directors nor chief executive of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

REPORT OF THE DIRECTORS

Share Option Scheme

On 28 May 2012, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board of the Company.

During the year ended 31 December 2012, no share options have been granted under the Scheme by the Company.

A summary of the Scheme is as follows:

(1) Purpose

The purpose of the Scheme is to provide incentives or rewards to participants for their contribution or would-be contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which any member of the Group holds any equity interests (the "Invested Entity").

(2) Participants

The participants include:

a. any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, its subsidiaries and any Invested Entity;

b. any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity;

c. any supplier of goods or services to any member of the Group or any Invested Entity;

d. any customer of the Group or any Invested Entity;

e. any person or entity that provides research, development or technological support or other services to the Group or any Invested Entity;

f. any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and

g. any ex-employee who has contributed or may contribute to the development and growth of the Group and any Invested Entity.

REPORT OF THE DIRECTORS

Share Option Scheme (Continued)

(3) Maximum number of shares

The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Scheme or 30% of the issued share capital of the Company from time to time. No share options may be granted under the Scheme if this will result in such limit exceeded. As at the date of this report, the number of shares available for issue in respect thereof is 6,864,553,579 shares representing approximately 10% of the issued share capital of the Company.

(4) Maximum entitlement of each participant

The total number of shares issued and which may fall to be issued upon exercise of the share options granted under the Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each participant in any 12-month period shall not exceed 1 per cent. of the issued share capital of the Company in issue. Any grant of further share options above this limit shall be subject to certain requirements as stipulated in the rules of the Scheme.

(5) The period within which the shares must be taken up under a share option

The period within which the shares must be taken up a share option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant share option.

(6) Minimum period for exercising a share option

The Board of the Company may at its discretion determine the minimum period for which a share option must be held before it can be exercised.

(7) Acceptance and payment on acceptance

The share option shall be deemed to have been accepted when the duplicate letter duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company. To the extent that the offer is not accepted within 28 days in the manner aforesaid, it will be deemed to have been irrevocable declined and lapsed automatically.

(8) Basis of determining the subscription price

The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

(9) Remaining life of the Scheme

The Scheme will remain in force for a period of 10 years commencing on 29 May 2012 up to 28 May 2022.

REPORT OF THE DIRECTORS

Arrangements to Purchase Shares or Debentures

Except for the Scheme disclosed above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company.

Directors' Service Contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than the statutory compensation.

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

Directors' Interests in Contracts

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

REPORT OF THE DIRECTORS

Substantial Shareholders' Interests and Short Positions

As at 31 December 2012, those persons (other than directors and chief executive of the Company) who had interests and short positions in shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of person holding an interest in shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO	Nature of interest	Number of shares in issue subject to long position	Approximate percentage of issued share capital of the Company	*Notes*
Kung Ai Ming	Family and Corporate interest	35,015,052,603	51.01%	1
Rosewood Assets Ltd.	Beneficial interest	7,668,000,210	11.17%	3
Pippen Limited	Beneficial interest	14,830,245,497	21.60%	3
Righteous International Limited	Corporate interest	3,742,493,498	5.45%	3
Macro Resources Ltd.	Beneficial interest	3,742,493,498	5.45%	2&3
First Best Assets Limited	Beneficial interest	8,704,986,998	12.68%	3
CITIC Group Corporation	Corporate interest	8,635,691,472	12.58%	2
Lim Siew Choon	Corporate interest	8,819,673,777	12.85%	4
Empire Gate Industrial Limited	Beneficial interest	5,514,986,997	8.03%	4
Lee Tat Man	Beneficial interest Security interest	60,900,000 7,700,000,000	0.09% 11.22%	

Notes:

1. Ms. Kung Ai Ming is the spouse of Mr. Yu and was taken to be interested in those shares in which Mr. Yu and herself (together with their respective corporate interests) held an interest.

2. CITIC Group Corporation was indirectly interested in 8,635,691,472 shares, of which interests are held by its wholly-owned subsidiary, Staverley Assets Limited, and its 40% owned company, Macro Resources Ltd.

3. Rosewood Assets Ltd., Pippen Limited, Righteous International Limited and First Best Assets Limited are companies wholly owned by Mr. Yu and Macro Resources Ltd. is held as to 60% by Righteous International Limited. Their interests in shares are disclosed as the corporate interests of Mr. Yu above. Interest held by Macro Resources Ltd. was included as the interest of Righteous International Limited.

4. Empire Gate Industrial Limited is wholly owned by Mr. Lim Siew Choon. Its interest in shares was included as interest held by Mr. Lim Siew Choon.

Save as disclosed above, as at 31 December 2012, no person (other than directors and chief executive of the Company) had notified to the Company any interests or short positions in shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under Section 336 of the SFO.

REPORT OF THE DIRECTORS

Related Party Transactions

Details of related party transactions of the Company and the Group are set out in note 41 to the financial statements.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's Bye-Laws or the law in Bermuda.

Purchase, Sale or Redemption of Listed Securities

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

Public Float

Based on the publicly available information and to the best knowledge of the directors, the Company has maintained during the year sufficient public float as required under the Listing Rules.

Corporate Governance

Particulars of the Company's corporate governance practices are set out in the "Corporate Governance Report" on pages 26 to 32.

Audit Committee

The Audit Committee comprises all the independent non-executive directors of the Company, namely Mr. Huang Yaowen, Prof. Jiang Ping and Mr. Lau Yip Leung. The Audit Committee has reviewed with the auditor of the Company and management the accounting principles and practices adopted by the Group, the audited accounts for the year ended 31 December 2012, and discussed the auditing, financial control, internal control and risk management systems.

Auditor

The financial statements for the year ended 31 December 2009 were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Due to a merger of the businesses of GTHK and BDO Limited ("BDO") to practice in the name of BDO, GTHK resigned and BDO was appointed as auditor of the Company with effective from 19 November 2010. The financial statements for the years ended 31 December 2010, 2011 and 2012 were audited by BDO. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

On behalf of the Board

Yu Pun Hoi
Chairman

Hong Kong, 28 March 2013

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain high corporate governance standard and unambiguous procedures to ensure the integrity, transparency and quality of disclosure in order to enhance its shareholders' value.

Code On Corporate Governance Practices

In the opinion of the Board of the Company, the Company has complied with the Corporate Governance Code (the "CG Code") and Corporate Governance Report as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2012, except for the deviations from Code Provisions A.2.1 and A.4.1 which, in the Company's opinion, are unsuitable or inappropriate for adoption. Explanations for such non-compliance are provided below.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made to all the directors and the directors have confirmed that they have complied with the Model Code as set out in Appendix 10 to the Listing Rules throughout the year ended 31 December 2012.

The Company has also established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

Board of Directors

The current Board of the Company is made up of eight directors including three executive directors, two non-executive directors and three independent non-executive directors (the "INEDs"). The directors are, collectively and individually, aware of their responsibilities to the shareholders. The directors' biographical information is set out on pages 14 to 16 under the heading "Biographical Details of Directors and Senior Management". The Board consists of the following:

Executive Directors

Mr. YU Pun Hoi *(Chairman)*
Ms. CHEN Dan
Ms. LIU Rong

Non-executive Directors

Mr. WANG Gang
Mr. LAM Bing Kwan

Independent Non-executive Directors

Mr. HUANG Yaowen
Prof. JIANG Ping
Mr. LAU Yip Leung

CORPORATE GOVERNANCE REPORT

Board of Directors (Continued)

The overall management of the Company's businesses is vested in the Board of the Company, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and monitoring its affairs. All directors should take decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned senior management of the Company.

The Board of the Company has the full support of its board committees and the senior management of the Company to discharge its responsibilities.

To the best knowledge of the Company, the Board members do not have any financial, business and family or other material/relevant relationship with each other. During the year, the Board held 11 meetings.

Chairman and Chief Executive Officer

Code Provision A.2.1 stipulated that the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same individual.

The Company has not appointed a CEO. The role of the CEO is also performed by Mr. Yu Pun Hoi who is the chairman of the Company. The Board of the Company believes that vesting the roles of both chairman and CEO in the same person provides the Company with strong and consistent leadership, and allows for effective and efficient planning and implementation of business decisions and strategies.

Non-executive Directors

Code Provision A.4.1 stipulated that non-executive directors should be appointed for a specific term subject to re-election.

The non-executive directors of the Company are not appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation requirements in accordance with the Company's Bye-Laws. As such, the Board of the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three INEDs of whom Mr. Lau Yip Leung is a certified public accountant in Hong Kong. Besides, Mr. Huang Yaowen is a practicing lawyer in the PRC.

The Company has received, from each of the INEDs, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

CORPORATE GOVERNANCE REPORT

Board of Directors (Continued)

Directors' Training

According to the Code Provision A.6.5, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors.

From time to time, Directors are provided with written materials to develop and refresh their professional skills on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties. The Company had received from each of the Directors the confirmations on taking continuous professional training during the year.

Board Committees

The Board of the Company has established four board committees, namely Executive Committee, Audit Committee, Remuneration Committee and Nomination Committee, to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities.

Executive Committee

The Company formulated written terms of reference for the Executive Committee, which consists of executive directors and senior management as follows:

Mr. YU Pun Hoi *(Chairman)*
Ms. CHEN Dan
Ms. LIU Rong
Mr. XUE Bo Ying*
Mr. CHEN Ming Fei*

* Senior Management

The duties of the Executive Committee are empowered to plan, determine, approve, implement, handle, arrange, review and amend all policies, operations and internal control of the Group, ensuring that the delegation of its powers to the senior management is clearly defined, and that a transparent reporting procedural system is in place and effectively monitored. The Executive Committee held 5 meetings during the year.

CORPORATE GOVERNANCE REPORT

Board Committees (Continued)

Audit Committee

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee consists of all INEDs as follows:

Mr. HUANG Yaowen *(Chairman of the Audit Committee)*
Prof. JIANG Ping
Mr. LAU Yip Leung

The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reports and internal control procedures as well as to maintain an appropriate relationship with the external auditor of the Company.

During the year, the Audit Committee held 2 meetings, in particular, to review with management the accounting principles and practices adopted by the Group, the audited accounts for the year ended 31 December 2011 and the unaudited interim results for the six months ended 30 June 2012, and discussed the auditing, financial control, internal control and risk management systems.

Remuneration Committee

The Company formulated written terms of reference for the Remuneration Committee in accordance with the requirements of the Listing Rules. The Remuneration Committee consists of all the INEDs as follows:

Mr. HUANG Yaowen *(Chairman of the Remuneration Committee)*
Prof. JIANG Ping
Mr. LAU Yip Leung

The Remuneration Committee is responsible for making recommendations to the Board on the establishment of a formal and transparent procedures for developing remuneration policies and the remuneration packages of individual executive directors and senior management. It takes into consideration on salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group. The Remuneration Committee held 2 meetings during the year.

For the year ended 31 December 2012, the emoluments paid or payable to members of senior management was within the following band:

Emolument band	**Number of individuals**	
	2012	2011
HK$Nil–HK$1,000,000	**6**	8

CORPORATE GOVERNANCE REPORT

Board Committees (Continued)

Nomination Committee

The Company established a Nomination Committee on 28 March 2012 with written terms of reference for the Nomination Committee in accordance with the requirements of the Listing Rules. The Nomination Committee consists of the directors as follows:

Mr. YU Pun Hoi *(Chairman of the Nomination Committee)*
Ms. CHEN Dan
Mr. HUANG Yaowen*
Prof. JIANG Ping*
Mr. LAU Yip Leung*

* INED

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become directors, assessing the independence of INEDs, and making recommendations to the Board on relevant of appointment of directors. The Nomination Committee has the authority given by the Board to seek external professional advice in the selection and recommendation for directorship, when required, fulfilling the requirements for professional knowledge and industry experience of any proposed candidates. The Nomination Committee held 1 meeting during the year.

Corporate Governance Functions

The Executive Committee of the Company is responsible for performing the duties on corporate governance functions set out below:

a. To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

b. To develop and monitor the training and continuous professional development of directors and senior management;

c. To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

d. To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

e. To review the Company's compliance with the code and disclosure in the Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

Number of Meetings and Directors' Attendance

The following table shows the individual attendance of each director at the meetings of the full Board ("BM"), the Shareholders ("GM"), the Executive Committee ("ECM"), the Audit Committee ("ACM"), the Remuneration Committee ("RCM") and the Nomination Committee ("NCM") for the year ended 31 December 2012:

	Attendance/Number of Meetings					
Name of Director	**BM**	**GM**	**ECM**	**ACM**	**RCM**	**NCM**
Executive Directors						
Mr. YU Pun Hoi	11	1	5	N/A	N/A	1
Ms. CHEN Dan	11	1	5	N/A	N/A	1
Ms. LIU Rong	11	0	4	N/A	N/A	N/A
Non-executive Directors						
Mr. WANG Gang (re-designated on 28 May 2012)	7	0	N/A	N/A	N/A	N/A
Mr. LAM Bing Kwan	11	0	N/A	N/A	N/A	N/A
Mr. QIN Tian Xiang (deceased on 30 March 2012)	0	0	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. HUANG Yaowen	11	1	N/A	2	2	1
Prof. JIANG Ping	11	0	N/A	2	2	1
Mr. LAU Yip Leung	11	1	N/A	2	2	1
Number of meetings held during the year	11	2	5	2	2	1

Responsibilities in Respect of the Financial Statements and Auditors' Remuneration

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2012.

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 33 and 34.

The remuneration paid to the external auditors of the Group in respect of audit services and non-audit services for the year ended 31 December 2012 amounted to HK$9,795,000 and HK$975,000 respectively. An analysis of the remuneration paid to the external auditors of the Group is set out in note 8 to the financial statements.

Internal Controls

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibilities and authorities to the senior management.

During the year under review, the Board, Audit Committee and Executive Committee have conducted regular reviews of the effectiveness of the internal control procedures of the Group.

CORPORATE GOVERNANCE REPORT

Company Secretary

Mr. Watt Ka Po James was appointed as Company Secretary of the Company. According to Rule 3.29 of the Listing Rules, Mr. Watt will take no less than 15 hours of relevant professional training.

Shareholders' Rights

(a) Procedures for shareholders to convene a Special General Meeting ("SGM")

Shareholders holding not less than one-twentieth of paid-up capital of the Company may request the Board to convene a SGM pursuant to section 113 of the Companies Ordinance. The objects of the meeting must be stated in the related requisition deposited at the Company's principal place of business in Hong Kong at Units 15–18, 36/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

(b) Procedure for putting forward proposals at shareholders' meeting

Shareholders holding not less than one-fortieth of the total voting rights of all shareholders can submit a written requisition to move a resolution at shareholders' meeting, or who are no less than 50 shareholders, pursuant to section 115A of the Companies Ordinance. The written requisition must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution of the business to be dealt with at the shareholders' meeting. It must also be signed by all requisitionists and be deposited at the Company's principal place of business in Hong Kong at Units 15–18, 36/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong, for the attention of the Company Secretary not less than 6 weeks before the shareholders' meeting in case of a requisition requiring notice of a resolution and not less than 1 week before the shareholders' meeting in case of any other requisition.

(c) Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the branch share registrar of the Company in Hong Kong. Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary at the Company's principal place of business in Hong Kong at Units 15–18, 36/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong, or to the Company by email at info@nanhaicorp.com. Shareholders may also make enquiries with the Board at the general meetings of the Company.

The details of the rights of shareholders of the Company can be found in the Company's website at www.nanhaicorp.com.

Investor Relations

There is no significant change in the Company's constitutional documents during the year.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Nan Hai Corporation Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Nan Hai Corporation Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 35 to 136, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Yu Tsui Fong
Practising Certificate Number P05440

Hong Kong, 28 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	**2012 HK$'000**	2011 HK$'000
Continuing operations			
Revenue/Turnover	5(a)	**1,953,568**	2,333,452
Cost of sales and services provided	8	**(738,189)**	(882,752)
Gross profit		**1,215,379**	1,450,700
Other operating income	5(b)	**121,940**	125,363
Gain/(Loss) on disposal and dissolution of subsidiaries	34(a)	**49,793**	(50,608)
Gain on restructuring of finance	29	**12,173**	–
Selling and marketing expenses		**(702,594)**	(613,363)
Administrative expenses		**(422,923)**	(536,904)
Other operating expenses		**(363,222)**	(340,266)
Finance costs	7	**(147,416)**	(293,619)
Share of results of associates	17	**(5,179)**	535
Loss before income tax	8	**(242,049)**	(258,162)
Income tax expense	9	**(130,244)**	(280,725)
Loss for the year from continuing operations		**(372,293)**	(538,887)
Discontinued operations			
Loss for the year from discontinued operations	10	**–**	(47,113)
Loss for the year		**(372,293)**	(586,000)
Loss for the year attributable to:			
Owners of the Company	11	**(346,063)**	(494,746)
Non-controlling interests		**(26,230)**	(91,254)
		(372,293)	(586,000)

CONSOLIDATED INCOME STATEMENT (Continued)

For the year ended 31 December 2012

	Notes	2012 HK cent	2011 HK cent
Loss per share for loss from continuing operations attributable to the owners of the Company during the year	12(b)		
— Basic		**(0.5041)**	(0.6870)
— Diluted		**N/A**	N/A
Loss per share for loss from discontinued operations attributable to the owners of the Company during the year	12(c)		
— Basic		**–**	(0.0337)
— Diluted		**N/A**	N/A
Loss per share for loss attributable to the owners of the Company during the year	12(a)		
— Basic		**(0.5041)**	(0.7207)
— Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 **HK$'000**	2011 HK$'000
Loss for the year	**(372,293)**	(586,000)
Other comprehensive income, including reclassification adjustments		
Exchange gain on translation of financial statements of foreign operations	**36,271**	209,683
Exchange differences reclassified on disposal and dissolution of subsidiaries	**93**	1,940
Other comprehensive income for the year, including reclassification adjustments	**36,364**	211,623
Total comprehensive income for the year	**(335,929)**	(374,377)
Total comprehensive income attributable to:		
Owners of the Company	**(311,320)**	(285,882)
Non-controlling interests	**(24,609)**	(88,495)
	(335,929)	(374,377)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**1,795,921**	1,511,961
Prepaid land lease payments under operating leases	15	**28,213**	28,365
Interest in associates	17	**110,047**	114,385
Available-for-sale financial assets		**324**	479
Deposits and other receivables	18	**436,709**	153,571
Intangible assets	19	**310,004**	332,528
Deferred tax assets	30	**108,609**	112,268
Pledged and restricted bank deposits	23	**32,960**	25,670
		2,822,787	2,279,227
Current assets			
Inventories	20	**8,611,770**	8,039,098
Financial assets at fair value through profit or loss	21	**1,226**	1,684
Trade receivables	22	**52,278**	41,988
Deposits, prepayments and other receivables	18	**1,019,074**	1,072,174
Prepaid tax		**6,306**	–
Amount due from an associate	26(c)	**530**	530
Pledged and restricted bank deposits	23	**956,067**	246,822
Time deposits maturing over three months	23	**41,667**	–
Cash and cash equivalents	23	**187,116**	138,675
		10,876,034	9,540,971
Current liabilities			
Trade payables	24	**496,806**	465,255
Other payables and accruals	25	**1,184,836**	863,997
Deferred revenue		**45,664**	44,304
Provision for tax		**948,854**	880,107
Amount due to a director	26(a)	**94,563**	124,309
Amounts due to shareholders	26(b)	**5,006**	5,006
Amount due to an associate	26(c)	**5,501**	5,502
Amount due to a former subsidiary	26(e)	**49,085**	59,035
Bank and other borrowings	27	**2,682,088**	1,125,110
Finance lease liabilities	28	**126**	120
Finance from a connected party	29	**1,681,952**	2,543,762
		7,194,481	6,116,507
Net current assets		**3,681,553**	3,424,464
Total assets less current liabilities		**6,504,340**	5,703,691

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Bank and other borrowings	27	**1,306,001**	1,248,270
Finance lease liabilities	28	**228**	354
Finance from a connected party	29	**1,077,446**	–
Deferred tax liabilities	30	**269,074**	267,547
		2,652,749	1,516,171
Net assets		**3,851,591**	4,187,520
EQUITY			
Share capital	31	**686,455**	686,455
Reserves	33	**2,450,054**	2,761,367
Equity attributable to the Company's owners		**3,136,509**	3,447,822
Non-controlling interests		**715,082**	739,698
Total equity		**3,851,591**	4,187,520

Yu Pun Hoi
Director

Chen Dan
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	**2012 HK$'000**	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**4**	41
Interests in subsidiaries	16	**–**	–
Amounts due from subsidiaries	26(d)	**164,139**	105,916
		164,143	105,957
Current assets			
Amounts due from subsidiaries	26(d)	**4,822,587**	4,914,704
Other receivables and deposits		**266**	238
Cash and cash equivalents	23	**477**	9,314
		4,823,330	4,924,256
Current liabilities			
Other payables and accruals		**31,070**	13,451
Amount due to a former subsidiary	26(e)	**108,333**	111,628
Amount due to a director	26(a)	**84,089**	112,515
Amounts due to subsidiaries	26(e)	**249,388**	302,281
Loan from subsidiaries	26(f)	**1,436,406**	–
Finance lease liabilities	28	**16**	16
Bank and other borrowings	27	**345,699**	191,081
		2,255,001	730,972
Net current assets		**2,568,329**	4,193,284
Total assets less current liabilities		**2,732,472**	4,299,241
Non-current liabilities			
Loan from subsidiaries	26(f)	**–**	1,357,377
Finance lease liabilities	28	**3**	18
		3	1,357,395
Net assets		**2,732,469**	2,941,846
EQUITY			
Share capital	31	**686,455**	686,455
Reserves	33	**2,046,014**	2,255,391
Total equity		**2,732,469**	2,941,846

Yu Pun Hoi
Director

Chen Dan
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from operating activities of continuing and discontinued operations			
Loss before income tax			
Continuing operations		**(242,049)**	(258,162)
Discontinued operations		**–**	(47,113)
Total		**(242,049)**	(305,275)
Adjustments for:			
Interest income		**(19,575)**	(18,421)
Interest expenses		**77,701**	72,534
Finance costs on finance from a connected party		**69,715**	221,085
Gain on restructuring of finance		**(12,173)**	–
Dividend income		**–**	(5)
Depreciation of property, plant and equipment		**156,225**	109,992
Amortisation of intangible assets other than goodwill		**39,787**	64,657
Write-off of property, plant and equipment		**2,521**	1,850
Write-off of intangible assets		**905**	–
(Gain)/Loss on disposal and dissolution of subsidiaries		**(49,793)**	37,107
Operating lease charges on prepaid land leases		**365**	593
Bad debts written off and provision for impairment of receivables		**404**	544
(Gain)/Loss on disposal of property, plant and equipment		**(5,165)**	6,150
Gain on disposal of non-current assets classified as held for sale		**–**	(31,426)
Net fair value loss/(gain) on financial assets at fair value through profit or loss		**707**	(10,690)
Provision for impairment of available-for-sale financial assets		**155**	–
Share of results of associates		**5,179**	(535)
Operating profit before working capital changes		**24,909**	148,160
Increase in inventories		**(356,219)**	(236,601)
Increase in trade receivables, deposits, prepayments and other receivables		**(33,851)**	(381,594)
Increase in trade payables, other payables and accruals		**594,194**	204,212
Increase in deferred revenue		**1,002**	21,861
Decrease in amount due to a former subsidiary		**(9,950)**	(321)
(Decrease)/Increase in amount due to an associate		**(1)**	4,620
(Increase)/Decrease in financial assets at fair value through profit or loss		**(244)**	224,286
Cash generated from/(used in) operations		**219,840**	(15,377)
Interest received		**15,330**	11,015
Interest paid		**(199,172)**	(123,085)
Finance costs on finance from a connected party paid		**–**	(182,850)
Income taxes paid		**(69,895)**	(13,309)
Net cash used in operating activities		**(33,897)**	(323,606)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from investing activities of continuing and discontinued operations			
Payments to acquire intangible assets		**(38,554)**	(48,473)
Payments to acquire property, plant and equipment	34(b)	**(375,237)**	(666,778)
Payments to acquire prepaid land lease payments under operating leases		**–**	(13,309)
Net cash outflow arising from acquisition of additional interest in subsidiaries		**–**	(3,009)
Increase in deposits and other receivables		**(318,902)**	(74,361)
Increase in pledged and restricted bank deposits		**(709,731)**	(229,028)
Increase in time deposits maturing over three months		**(41,226)**	–
Proceeds from disposal of property, plant and equipment		**6,231**	351
Net cash outflow arising from disposal and dissolution of subsidiaries	34(a)	**(5,567)**	(13,173)
Proceeds from disposal of non-current assets classified as held for sale		**–**	108,395
Dividend income		**–**	5
Capital contribution by non-controlling equity holder of a subsidiary		**–**	10,832
Net cash used in investing activities		**(1,482,986)**	(928,548)
Cash flows from financing activities of continuing and discontinued operations			
Repayments of bank and other borrowings		**(802,109)**	(413,725)
Repayments of finance lease liabilities		**(120)**	(123)
Repayments of finance from a connected party		**–**	(388,675)
Proceeds from bank and other borrowings		**2,398,473**	1,728,228
Proceeds from security brokers and margin financiers		**–**	408
(Repayment to)/Advanced from a director		**(29,746)**	56,766
Payment of arrangement fee for restructuring of finance		**(3,458)**	–
Net cash generated from financing activities		**1,563,040**	982,879
Net increase/(decrease) in cash and cash equivalents		**46,157**	(269,275)
Cash and cash equivalents at 1 January		**138,675**	397,405
Effect of foreign exchange rate changes, on cash held		**2,284**	10,545
Cash and cash equivalents at 31 December		**187,116**	138,675
Analysis of the balances of cash and cash equivalents			
Cash at banks and in hand		**187,116**	138,675

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Equity attributable to the Company's owners									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011	686,455	965,911	1,911,436	168,813	4,927	492,116	(489,467)	3,740,191	780,029	4,520,220
Loss for the year	–	–	–	–	–	–	(494,746)	(494,746)	(91,254)	(586,000)
Other comprehensive income										
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	206,924	–	206,924	2,759	209,683
Exchange differences reclassified on disposal and dissolution of subsidiaries	–	–	–	–	–	1,940	–	1,940	–	1,940
Total comprehensive income for the year	–	–	–	–	–	208,864	(494,746)	(285,882)	(88,495)	(374,377)
Reserve released on disposal and dissolution of subsidiaries	–	–	–	(4,694)	–	–	4,694	–	–	–
Released on disposal and dissolution of subsidiaries	–	–	–	–	–	–	–	–	33,854	33,854
Released on expiry/forfeiture of share options	–	–	–	–	(4,927)	–	4,927	–	–	–
Transfer to general reserve	–	–	–	7,565	–	–	(7,565)	–	–	–
Released on deemed acquisition and acquisition of additional interest in subsidiaries	–	–	–	–	–	–	(6,488)	(6,488)	3,479	(3,009)
Capital contribution by non-controlling equity holder of a subsidiary	–	–	–	–	–	–	–	–	10,832	10,832
Released on deemed partial disposal of subsidiaries	–	–	–	–	–	–	1	1	(1)	–
At 31 December 2011	686,455	965,911*	1,911,436*	171,684*	–	700,980*	(988,644)*	3,447,822	739,698	4,187,520

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended 31 December 2012

	Equity attributable to the Company's owners									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012	686,455	965,911	1,911,436	171,684	–	700,980	(988,644)	3,447,822	739,698	4,187,520
Loss for the year	–	–	–	–	–	–	(346,063)	(346,063)	(26,230)	(372,293)
Other comprehensive income										
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	34,650	–	34,650	1,621	36,271
Exchange differences reclassified on disposal and dissolution of subsidiaries	–	–	–	–	–	93	–	93	–	93
Total comprehensive income for the year	–	–	–	–	–	34,743	(346,063)	(311,320)	(24,609)	(335,929)
Transfer to general reserve	–	–	–	1,234	–	–	(1,234)	–	–	–
Released on deemed partial disposal of subsidiary	–	–	–	–	–	–	7	7	(7)	–
At 31 December 2012	686,455	965,911*	1,911,436*	172,918*	–	735,723*	(1,335,934)*	3,136,509	715,082	3,851,591

* These reserve accounts comprise the consolidated reserves of HK$2,450,054,000 (2011: HK$2,761,367,000) in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. General information

Nan Hai Corporation Limited (the "Company") is a limited liability company incorporated in Bermuda. The address of the Company's registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and, its principal place of business in Hong Kong is Units 15–18, 36/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

Subsequent to the disposal of the financial information services and distance learning education services businesses during the year ended 31 December 2011, the principal businesses of the Company and its subsidiaries (the "Group") are property development, culture and media services and corporate IT application services. Details of the principal activities of the Company's subsidiaries are set out in note 16.

The financial statements for the year ended 31 December 2012 were approved for issue by the board of directors (the "Board") on 28 March 2013.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements on pages 35 to 136 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared on the historical cost basis except for financial instruments classified as available-for-sale and at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.2 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates 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.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.2 Business combination and basis of consolidation (Continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interest in the subsidiary is the amount of those interests at initial recognition plus non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

2.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of 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, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.4 Associates (Continued)

Under the equity method, the Group's interest in the associates is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associates recognised for the year.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associates are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

2.5 Foreign currency translation

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

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 and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.5 Foreign currency translation (Continued)

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the reporting date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

Other exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income and accumulated in equity as exchange reserve. On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	5%
Leasehold improvements, furniture, fixtures and equipment	10% to 33-$^{1}/_{3}$%, or over lease terms whichever involves shorter period
Motor vehicles/Yachts	10% to 33-$^{1}/_{3}$%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.6 Property, plant and equipment (Continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

Construction in progress represents assets under construction and is carried at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment and depreciation commences when the construction work is completed and the asset is ready for use.

The buildings comprise a portion that is held to earn rentals and the other portion that is held for administrative purpose. As the portion held to earn rentals cannot be sold separately and is insignificant, the building is classified as owner-occupied property rather than investment property.

2.7 Operating lease prepayments and land use right

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any accumulated impairment losses. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 2.15. Amortisation is calculated on a straight-line basis over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

2.8 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 2.4.

Goodwill represents the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2.21).

If the consideration transferred and the amount recognised for non-controlling interests is less than the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the consolidated income statement, after re-assessment.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.9 Other intangible assets and research and development activities

Other intangible assets

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Computer software	4 years
Customer relationships	2 years
Development cost	4 years

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the computer software to which it relates. All other expenditure is expensed as incurred.

Intangible assets, such as trademark and masthead, with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in note 2.21.

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to the development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated developments are recognised as intangible assets. They are subject to the same subsequent measurement method as externally acquired intangible assets.

All other development costs are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.10 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries and associates are set out below.

Financial assets are classified into the following categories:

— financial assets at fair value through profit or loss

— loans and receivables

— available-for-sale financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-making. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

(i) Financial assets at fair value through profit or loss (Continued)

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met:

— the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

— the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

— the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 2.18 to these financial statements.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iii) Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group, national or local economic conditions that correlate with defaults on the assets in the group, and the failure to renegotiate the repayment terms of loan and receivables that would otherwise be past due or impaired.

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the profit or loss. The subsequent increase in fair value is recognised directly in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in the profit of loss.

Financial assets other than financial assets at fair value through profit or loss and loans and receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of loans and receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of loans and receivables is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2.11 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

(i) Properties under development

The cost of properties under development comprises the acquisition cost of land, materials, labour and other direct expenses and an appropriate proportion of overheads, and capitalised finance cost (see note 2.24).

(ii) Completed properties held for sale

Cost is determined by apportionment of the total land and development costs for that development project attributable to the unsold properties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.11 Inventories (Continued)

(iii) *Confectionery*

Cost comprises the cost of purchased goods calculated using FIFO method.

(iv) *Movie projectors servers and spare parts*

Cost comprises the manufacturing cost of product and the cost of purchased raw materials calculated using FIFO method.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks or other financial institutions, and short-terms highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of cash flow statement presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

2.13 Financial liabilities

The Group's financial liabilities include bank and other borrowings, finance from a connected party, trade and other payables, and finance lease liabilities. They are included in line items in the statement of financial position as bank and other borrowings, finance lease liabilities, finance from a connected party, trade payables, other payables and accruals, amount due to a director, amounts due to shareholders, amount due to an associate, amount due to a former subsidiary, amounts due to subsidiaries and loan from subsidiaries.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All related finance costs are recognised in accordance with the Group's accounting policy for finance costs (see note 2.24).

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.13 Financial liabilities (Continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 2.15).

Finance from a connected party

The finance from a connected party is recognised initially at fair value, net of transaction costs incurred. The finance from a connected party is subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the finance contract on a systematic basis.

2.14 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred revenue.

The amount of the guarantee initially recognised as deferred revenue is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.15 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets, are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) *Operating lease charges as the lessee*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

(iv) *Assets leased out under operating leases as the lessor*

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.16 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition, unless the fair value cannot be measured reliably, and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

2.17 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, rendering of services and the use by others of the Group's assets yielding interest and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.18 Revenue recognition (Continued)

Revenue arising from the sale of properties held for sale is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under other payables and accruals.

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. When services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period of time unless there is evidence that some other method better represents the stage of completion.

Ticket income from the sale of tickets owned and controlled by the Group is recognised as income when the ticket is issued.

Sales of confectionery, merchandise and souvenir are recognised when goods are delivered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend is recognised when the right to receive payment is established.

2.19 Deferred revenue

Deferred revenue consists primarily of deferred revenue from prepaid service fees received from subscribers and fair value of bonus liabilities granted to customers in accordance with the announced bonus point scheme and the Group's past experience on the level of redemption of points. Revenue from prepaid service fees and bonus liabilities are recognised when the relevant services are rendered.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are included in liabilities as deferred government grants in the statement of financial position and are recognised in profit or loss on a straight-line basis over the expected lives of the related assets.

Government grants relating to income is presented in gross under "Other operating income" in the profit or loss.

2.21 Impairment of non-financial assets

Goodwill arising on an acquisition of subsidiary, other intangible assets, property, plant and equipment, prepaid land lease payments under operating leases, non-current portion of deposits and, interests in subsidiaries and associates are subject to impairment testing.

Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.21 Impairment of non-financial assets (Continued)

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.22 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of clarification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.23 Employee benefits

(i) *Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement benefits*

The Group operates several staff retirement schemes for employees in Hong Kong and Mainland China, the People's Republic of China (the "PRC"), comprising defined contribution pension schemes and a Mandatory Provident Fund ("MPF") scheme. The assets of these schemes are held separately from those of the Group in independently administered funds. The retirement schemes are generally funded by payments from employees and by the relevant subsidiaries of the Group.

The subsidiaries operating in Mainland China are required to participate in the defined contribution retirement scheme for their employees, organised by the relevant local government authorities. They are required to make contributions to the retirement schemes at a rate of 10% to 22% (depending on the locations of the subsidiaries) of basic salaries of their employees and there are no other further obligations to the Group.

Before 1 December 2000, the Group operated a defined contribution retirement scheme (the "ORSO Scheme") in Hong Kong for all qualified employees. The rate of contribution payable by the Group was 5% of the individual employees' monthly basic salaries. The Group's contributions under the ORSO Scheme were reduced by contributions forfeited by those employees who left the scheme prior to vesting fully in the contributions. There are no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The Mandatory Provident Fund Schemes Authority has approved the ORSO Scheme as a Mandatory Provident Fund Exempted Occupational Retirement Scheme under the Mandatory Provident Fund Schemes Ordinance (the "MPF Schemes Ordinance"). With effect from 1 December 2000, the MPF Scheme was also set up under the MPF Schemes Ordinance for existing staff who opt for this scheme and eligible staff recruited on or after that date. When the underlying staff elects the MPF Scheme, pension scheme benefits attributed to the staff under the ORSO Scheme remain unchanged in the MPF Scheme. Under the MPF Scheme, eligible employees are required to contribute 5% of their monthly basic salaries whereas the Group's monthly contribution will be 5% of the relevant employee's basic salaries with a maximum monthly contribution of HK$1,250. There are no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.23 Employee benefits (Continued)

(ii) Retirement benefits (Continued)

The contributions recognised in respect to defined contribution retirement schemes are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(iii) Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to capital reserve. After vesting date, when the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

2.24 Finance costs

Finance costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other finance costs are expensed as incurred.

Finance costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, finance costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of finance costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.25 Accounting for income taxes

Income tax for the year comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of income tax expense in profit or loss.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. 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.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.26 Segment reporting

The Group identifies operating segments and prepare segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

(a) Corporate IT application services

(b) Property development

(c) Culture and media services

(d) Financial information services

(e) Distance learning education services

Information about other business activities and operating segments that are not reportable are combined and disclosed in "all other segments". All other segments included trading of securities and property management.

The Group had disposed of subsidiaries which were engaged in segments of "Financial Information Services" and "Distance Learning Education Services" in 2011. These two segments are considered as discontinued operations.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

- Share of results of associates
- Certain bank and other interest income
- Certain loss on disposal and dissolution of subsidiaries
- Certain finance costs
- Income tax expense
- Corporate income and expenses which are not directly attributable to the business activities or any operating segment

are not included in arriving at the operating results of the operating segment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.26 Segment reporting (Continued)

Segment assets include all assets but interest in associates, amount due from an associate, available-for-sale financial assets and deferred tax assets. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include provision for tax and amounts due to a director/shareholders/a former subsidiary/an associate.

No asymmetrical allocations have been applied to reportable segments.

2.27 Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that has been disposed of or is classified as held for sale, which represents a separate major line of business or geographical area of operations of the Group.

Classification as a discontinued operation occurs upon disposal. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of profit and loss account, which comprises the post-tax profit or loss for the discontinued operation.

2.28 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. Summary of significant accounting policies (Continued)

2.28 Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. Adoption of new/amended HKFRSs

3.1 Impact of new/amended HKFRSs which are effective during the year

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2012:

Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets

The adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

Amendments to HKFRS 7 — Disclosures — Transfers of Financial Assets

The amendments to HKFRS 7 expand the disclosure requirements for transfer transactions of financial assets, in particular where the reporting entity has continuing involvement in financial assets that it has derecognised. The newly required disclosures allow users of financial statements to better understand the risks to which the reporting entity remains exposed. And such information is relevant in assessing the amount, timing and uncertainty of the entity's future cash flows.

3.2 Impact of new/amended HKFRSs which are issued but not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Annual Improvements 2009–2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurements[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. Adoption of new/amended HKFRSs (Continued)

3.2 Impact of new/amended HKFRSs which are issued but not yet effective (Continued)

HKFRSs (Amendments) — Annual Improvements 2009–2011 Cycle

The improvements made amendments to certain standards.

(i) HKAS 1 Presentation of Financial Statements

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41–44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

(ii) HKAS 16 Property, Plant and Equipment

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

(iii) HKAS 32 Financial Instruments: Presentation

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. Adoption of new/amended HKFRSs (Continued)

3.2 Impact of new/amended HKFRSs which are issued but not yet effective (Continued)

Amendments to HKAS 1 (Revised) — Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

Amendments to HKAS 32 — Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

Amendments to HKFRS 7 — Disclosures — Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

HKFRS 9 — Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. Adoption of new/amended HKFRSs (Continued)

3.2 Impact of new/amended HKFRSs which are issued but not yet effective (Continued)

HKFRS 10 — Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 — Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 13 — Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs but are not yet in a position to state whether they could have material financial impact on the Group's results and financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Depreciation and amortisation

The Group depreciates and amortises property, plant and equipment and intangible assets other than goodwill on a straight-line basis over the estimated useful life, and after taking into account their estimated residual values, at the rate of 5% to 33-1/3% per annum and 25% to 50% per annum, respectively, commencing from the date on which the assets are available for use. The estimated useful life reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets other than goodwill.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of the debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

Net realisable value of completed properties held for sale and properties under development

Management determines the net realisable value of completed properties held for sale and properties under development by using prevailing market data such as most recent sale transactions, anticipated costs to completion and valuation reports provided by independent qualified professional valuers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.21. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates about future cash flows and discount rates. In the process of estimating expected future cash flows management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Details of the estimates of the recoverable amounts of cash-generating units ("CGU") containing goodwill are disclosed in note 19.

Impairment of other assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of interest in associates

Management assesses impairment of interests in associates at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the management takes into consideration assumptions that are mainly based on market condition existing at the reporting dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Current tax and deferred tax

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises taxes based on estimates of the likely outcome with reference to current tax laws and practices. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

Current tax and deferred tax (Continued)

Deferred tax assets relating to certain temporary differences and tax losses will be recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

The Group is subject to land appreciation tax ("LAT") in the PRC. However, the implementation and settlement of this tax varies among various tax jurisdictions in cities of the PRC, and the Group has not finalised its LAT calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related LAT. The Group recognised LAT based on management's best estimates according to their understanding on the tax rules.

4.2 Critical judgements in applying the Group's accounting policies

Research and development costs

Careful judgement by the Group's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the best information available at each reporting date. In addition, all internal activities related to the research and development of new software products are continuously monitored by the Group's management.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. Revenue/Turnover and other operating income

(a) The Group's turnover represents revenue from its principal activities as set out below:

	Continuing operations		Discontinued operations		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Sales of properties and car parks	**96,494**	736,160	**–**	–	**96,494**	736,160
Distance learning education services	**–**	–	**–**	12,781	**–**	12,781
Corporate IT application services	**659,106**	791,991	**–**	–	**659,106**	791,991
Property management	**32,000**	25,748	**–**	–	**32,000**	25,748
Financial information services	**–**	–	**–**	19,578	**–**	19,578
Culture and media services	**52,723**	41,057	**–**	–	**52,723**	41,057
Cinema ticketing income	**961,681**	644,363	**–**	–	**961,681**	644,363
Confectionery sales	**151,564**	94,133	**–**	–	**151,564**	94,133
	1,953,568	2,333,452	**–**	32,359	**1,953,568**	2,365,811

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. Revenue/Turnover and other operating income (Continued)

(b) Other operating income:

	Continuing operations		Discontinued operations		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Bank interest income	**5,442**	4,839	**–**	6	**5,442**	4,845
Other interest income	**14,133**	13,576	**–**	–	**14,133**	13,576
Total interest income on financial assets not at fair value through profit or loss	**19,575**	18,415	**–**	6	**19,575**	18,421
Dividend income	**–**	5	**–**	–	**–**	5
Net fair value gain on financial assets at fair value through profit or loss	**–**	10,690	**–**	–	**–**	10,690
Exchange gain/(loss)	**6,196**	2,393	**–**	(5)	**6,196**	2,388
Gain on disposal of property, plant and equipment	**5,165**	–	**–**	–	**5,165**	–
Gain on disposal of non-current assets classified as held for sale	**–**	31,426	**–**	–	**–**	31,426
Government grants*	**6,025**	34,194	**–**	–	**6,025**	34,194
Cinema advertising income	**54,144**	2,994	**–**	–	**54,144**	2,994
Sundry income	**30,835**	25,246	**–**	668	**30,835**	25,914
	121,940	125,363	**–**	669	**121,940**	126,032

* Government grants have been received from the PRC governmental bodies in the form of the subsidies to cinema operations and design, research and development of new products by certain subsidiaries of the Group. The purpose of the subsidy is to encourage innovation by granting financial assistance to commercial entities who are operating cinema/having research and development projects that meet certain criteria. There are no unfulfilled conditions or contingencies attaching to these grants.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. Segment information

The executive directors have identified the Group's five product and service lines as operating segments as further described in note 2.26.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

	2012								
	Continuing operations					Discontinued operations			Total
	Corporate IT application services HK$'000	Property development HK$'000	Culture and media services HK$'000	All other segments HK$'000	Total HK$'000	Financial information services HK$'000	Distance learning education services HK$'000	Total HK$'000	HK$'000
Revenue									
From external customers	659,106	96,494	1,165,968	32,000	1,953,568	–	–	–	1,953,568
From inter-segments	–	–	–	3,058	3,058	–	–	–	3,058
Reportable and all other segments revenue	659,106	96,494	1,165,968	35,058	1,956,626	–	–	–	1,956,626
Reportable and all other segments (loss)/profit	(122,058)	(88,711)	17,350	(8,172)	(201,591)	–	–	–	(201,591)
Bank interest income	96	5,016	293	31	5,436	–	–	–	5,436
Other interest income	–	9,585	–	–	9,585	–	–	–	9,585
Interest income on financial assets not at fair value through profit or loss	96	14,601	293	31	15,021	–	–	–	15,021
Finance costs	(19)	(80,105)	(67,289)	–	(147,413)	–	–	–	(147,413)
Depreciation and amortisation of non-financial assets	(71,219)	(3,926)	(120,507)	(533)	(196,185)	–	–	–	(196,185)
Gain on restructuring of finance	–	12,173	–	–	12,173	–	–	–	12,173
(Loss)/Gain on disposal of property, plant and equipment	–	(80)	5,252	(7)	5,165	–	–	–	5,165
Gain on disposal and dissolution of subsidiaries	–	–	49,793	–	49,793	–	–	–	49,793
Reportable and all other segments assets	1,081,290	9,889,939	2,454,242	20,480	13,445,951	–	–	–	13,445,951
Additions to non-current segment assets during the year	111,259	1,558	358,954	540	472,311	–	–	–	472,311
Reportable and all other segments liabilities	(424,052)	(5,531,272)	(2,717,024)	(11,970)	(8,684,318)	–	–	–	(8,684,318)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. Segment information (Continued)

	2011								
	Continuing operations					Discontinued operations			Total
	Corporate IT application services HK$'000	Property development HK$'000	Culture and media services HK$'000	All other segments HK$'000	Total HK$'000	Financial information services HK$'000	Distance learning education services HK$'000	Total HK$'000	HK$'000
Revenue									
From external customers	791,991	736,160	779,553	25,748	2,333,452	19,578	12,781	32,359	2,365,811
From inter-segments	–	–	–	4,942	4,942	–	–	–	4,942
Reportable and all other segments revenue	791,991	736,160	779,553	30,690	2,338,394	19,578	12,781	32,359	2,370,753
Reportable and all other segments (loss)/profit	(205,371)	108,378	(116,296)	625	(212,664)	(42,370)	(4,743)	(47,113)	(259,777)
Bank interest income	211	4,223	341	36	4,811	4	2	6	4,817
Other interest income	–	10,594	–	–	10,594	–	–	–	10,594
Interest income on financial assets not at fair value through profit or loss	211	14,817	341	36	15,405	4	2	6	15,411
Finance costs	(7,377)	(239,640)	(46,599)	–	(293,616)	–	–	–	(293,616)
Depreciation and amortisation of non-financial assets	(94,328)	(3,737)	(76,058)	(504)	(174,627)	(493)	(81)	(574)	(175,201)
(Loss)/Gain on disposal of property, plant and equipment	–	49	(5,996)	–	(5,947)	(174)	(29)	(203)	(6,150)
Gain on disposal of non-current assets classified as held for sale	31,426	–	–	–	31,426	–	–	–	31,426
Gain/(Loss) on disposal and dissolution of subsidiaries	(25,196)	–	(24,908)	–	(50,104)	17,240	(3,739)	13,501	(36,603)
Reportable and all other segments assets	1,018,904	8,985,809	1,526,142	19,974	11,550,829	–	–	–	11,550,829
Additions to non-current segment assets during the year	228,918	2,981	561,397	2,279	795,575	812	134	946	796,521
Reportable and all other segments liabilities	(309,320)	(4,789,589)	(1,413,252)	(14,041)	(6,526,202)	–	–	–	(6,526,202)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. Segment information (Continued)

The totals presented for the Group's operating segments are reconciled to the Group's key financial figures as presented in the financial statements as follows:

	2012 HK$'000	2011 HK$'000
Reportable segment revenue — continuing operations	**1,921,568**	2,307,704
All other segments revenue — continuing operations	**35,058**	30,690
Reportable segment revenue — discontinued operations	**–**	32,359
Elimination of inter-segment revenue	**(3,058)**	(4,942)
Group revenue	**1,953,568**	2,365,811
Reportable segment results — continuing operations	**(193,419)**	(213,289)
All other segments results — continuing operations	**(8,172)**	625
Reportable segment results — discontinued operations	**–**	(47,113)
Bank interest income	**6**	28
Other interest income	**4,548**	2,982
Interest income on financial assets not at fair value through profit or loss	**4,554**	3,010
Depreciation and amortisation	**(192)**	(243)
Loss on disposal and dissolution of subsidiaries	**–**	(504)
Provision for impairment of receivables	**–**	(517)
Finance costs	**(3)**	(3)
Share of results of associates	**(5,179)**	535
Unallocated corporate expenses	**(39,638)**	(47,776)
Loss before income tax (note)	**(242,049)**	(305,275)

Note:

Loss before income tax is represented by:

	2012	2011
Loss before income tax — continuing operations	**(242,049)**	(258,162)
Loss before income tax — discontinued operations (note 10)	**–**	(60,614)
Gain on disposal of subsidiaries — discontinued operations (note 10)	**–**	13,501
	(242,049)	(305,275)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. Segment information (Continued)

	2012 HK$'000	2011 HK$'000
Reportable segment assets — continuing operations	**13,425,471**	11,530,855
All other segment assets — continuing operations	**20,480**	19,974
Reportable segment assets — discontinued operations	**–**	–
Interest in associates	**110,047**	114,385
Amount due from an associate	**530**	530
Deferred tax assets	**108,609**	112,268
Prepaid tax	**6,306**	–
Available-for-sale financial assets	**324**	324
Other financial and corporate assets	**27,054**	41,862
Group assets	**13,698,821**	11,820,198
Reportable segment liabilities — continuing operations	**8,672,348**	6,512,161
All other segment liabilities — continuing operations	**11,970**	14,041
Amount due to a director	**94,563**	124,309
Amounts due to shareholders	**5,006**	5,006
Amount due to an associate	**5,501**	5,502
Amount due to a former subsidiary	**49,085**	59,035
Provision for tax	**948,854**	880,107
Other corporate liabilities	**59,903**	32,517
Group liabilities	**9,847,230**	7,632,678

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

6. Segment information (Continued)

The Group's revenues from external customers and its non-current assets (other than deferred tax assets, financial instruments and pledged and restricted bank deposits) are divided into the follow geographical areas:

Revenue from external customer

	Continuing operations		Discontinued operations		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Mainland China (domicile)	**1,953,260**	2,313,837	**–**	32,359	**1,953,260**	2,346,196
Hong Kong	**15**	1,862	**–**	–	**15**	1,862
USA	**–**	15,598	**–**	–	**–**	15,598
Others	**293**	2,155	**–**	–	**293**	2,155
Total	**1,953,568**	2,333,452	**–**	32,359	**1,953,568**	2,365,811

Non-current assets

	Continuing operations		Discontinued operations		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Mainland China (domicile)	**2,679,481**	2,139,114	**–**	–	**2,679,481**	2,139,114
Hong Kong	**1,413**	1,696	**–**	–	**1,413**	1,696
Total	**2,680,894**	2,140,810	**–**	–	**2,680,894**	2,140,810

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets is based on the physical and operating location of the assets. The Company is an investment holding company incorporated in Bermuda where the Group does not have any activities, the Group has the majority of its operations and workforce in Mainland China, and therefore, Mainland China is considered as the Group's country of domicile for the purpose of the disclosures as required by HKFRS 8 "Operating Segments".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. Finance costs

	Continuing operations		Discontinued operations		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on bank and other borrowings wholly repayable within five years	**191,586**	114,046	**–**	–	**191,586**	114,046
Finance costs on finance from a connected party wholly repayable within five years	**150,977**	370,027	**–**	–	**150,977**	370,027
Interest on other payables	**–**	106	**–**	–	**–**	106
Interest on finance leases	**21**	29	**–**	–	**21**	29
Total finance costs on financial liabilities not at fair value through profit or loss	**342,584**	484,208	**–**	–	**342,584**	484,208
Less: Amount capitalised to properties under development and construction in progress*	**(195,168)**	(190,589)	**–**	–	**(195,168)**	(190,589)
	147,416	293,619	**–**	–	**147,416**	293,619

* The finance costs have been capitalised at a rate of 5.40% to 12.27% (2011: 5.40% to 16.02%) per annum.

The analysis shows the finance costs of bank and other borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in loan agreements. For the year ended 31 December 2012, the interest on bank and other borrowings which contain a repayment on demand clause amounted to HK$7,500,000 (2011: HK$5,366,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. Loss before income tax

	Continuing operations 2012 HK$'000	Continuing operations 2011 HK$'000	Discontinued operations 2012 HK$'000	Discontinued operations 2011 HK$'000
Loss before income tax is arrived at after charging/(crediting):				
Gross amortisation of intangible assets other than goodwill*	**39,787**	64,657	**–**	–
Less: Amounts included in research and development expenses	**–**	(2,694)	**–**	–
Net amortisation of intangible assets other than goodwill*	**39,787**	61,963	**–**	–
Auditors' remuneration	**9,795**	5,983	**–**	40
Bad debts written off*	**404**	–	**–**	27
Cost of provision of corporate IT application services	**162,950**	204,075	**–**	–
Cost of sales of properties and car parks	**37,783**	296,376	**–**	–
Cost of confectionery	**44,348**	33,864	**–**	–
Cost of provision of financial information services	**–**	–	**–**	25,151
Cost of provision of culture and media services	**469,292**	329,743	**–**	–
Cost of inventories sold — distance learning materials	**–**	–	**–**	1,623
Cost of provision of property management services	**23,816**	18,694	**–**	–
Cost of sales and services provided	**738,189**	882,752	**–**	26,774
Gross depreciation of property, plant and equipment — owned assets	**156,048**	109,479	**–**	574
Less: Amounts capitalised in intangible assets	**–**	(202)	**–**	–
Amounts included in cost of sales and services provided	**(541)**	–	**–**	–
Amounts included in research and development expenses	**(674)**	(237)	**–**	–
Net depreciation of owned assets*	**154,833**	109,040	**–**	574
Depreciation of leased assets*	**177**	141	**–**	–
Write-off of property, plant and equipment*	**2,521**	1,850	**–**	–
Write-off of intangible assets*	**905**	–	**–**	–
(Gain)/Loss on disposal of property, plant and equipment*#	**(5,165)**	5,947	**–**	203
Net fair value loss/(gain) on financial assets at fair value through profit or loss*#	**707**	(10,690)	**–**	–
Operating lease charges on land and buildings	**171,162**	111,813	**–**	3,299
Operating lease charges on prepaid land lease*	**365**	593	**–**	–
Provision for impairment of receivables*	**–**	517	**–**	–
Provision for impairment of available-for-sale financial assets*	**155**	–	**–**	–
Research and development expenses*	**52,244**	88,737	**–**	–
Gain on disposal of non-current assets classified as held for sale	**–**	(31,426)	**–**	–

* loss included in other operating expenses
\# gain included in other operating income

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. Income tax expense

	Continuing operations		Discontinued operations		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
The tax expense comprises:						
Current tax						
— Hong Kong Profits Tax						
Tax charge for the year	**9,369**	9,256	**–**	–	**9,369**	9,256
Under-provision in respect of prior years	**67**	–	**–**	–	**67**	–
— PRC Enterprise Income Tax ("EIT")						
Tax charge for the year	**6,940**	62,531	**–**	–	**6,940**	62,531
Over-provision in respect of prior years	**–**	(4,421)	**–**	–	**–**	(4,421)
— PRC LAT	**18,942**	237,065	**–**	–	**18,942**	237,065
— PRC Capital gain tax on partial disposal of a subsidiary	**91,000**	–	**–**	–	**91,000**	–
	126,318	304,431	**–**	–	**126,318**	304,431
Deferred tax						
— Charge/(Credit) for the year	**3,926**	(23,706)	**–**	–	**3,926**	(23,706)
	130,244	280,725	**–**	–	**130,244**	280,725

For the years ended 31 December 2012 and 31 December 2011, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year.

PRC EIT has been provided on the estimated assessable profits of subsidiaries operating in Mainland China at 25% (2011: 25%), unless preferential rates are applicable in the cities where the subsidiaries are located.

PRC LAT is levied at progressive rates from 30% to 60% (2011: 30% to 60%) on the estimated appreciation of land value, being the proceeds of sales of properties less deductible expenditure including cost of land use rights and development and construction expenditure.

Certain subsidiaries of the Group are wholly-owned foreign enterprises in accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises and are entitled to full exemption from EIT for two years and a 50% reduction in the following three years thereafter starting from the first profit making year after offsetting prior years' tax losses.

In addition, certain subsidiaries that are located in the Beijing Economic-Technological Development Area are entitled to preferential PRC EIT rate of 15% (2011: 15%).

PRC capital gain tax has been provided at the rate of 10% on estimated capital gain from partial disposal of equity interests in subsidiaries arising from the restructuring of finance as detailed in note 29.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. Income tax expense (Continued)

Reconciliation between tax expense and accounting loss at applicable tax rates:

	2012 HK$'000	2011 HK$'000
Loss before income tax		
— from continuing operations	**(242,049)**	(258,162)
— from discontinued operations	**–**	(47,113)
	(242,049)	(305,275)
Tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(60,238)**	(39,684)
Tax effect of non-deductible expenses	**58,136**	91,942
Tax effect of non-taxable income	**(20,320)**	(21,345)
Tax effect of tax losses not recognised	**50,499**	73,724
Utilisation of tax loss previously not recognised	**(1,296)**	(6,357)
Tax effect on PRC LAT	**(5,969)**	(49,169)
Tax effect on temporary differences not recognised	**(565)**	(1,030)
PRC LAT	**18,942**	237,065
Capital gain tax on partial disposal of a subsidiary	**91,000**	–
Under/(Over)-provision in respect of prior years	**67**	(4,421)
Tax effect on tax deduction of profit tax	**(12)**	–
Income tax expense	**130,244**	280,725

10. Discontinued operations

On 19 December 2011 and 28 December 2011, two subsidiaries of the Group entered into two disposal agreements to dispose of their 100% equity interest in another subsidiaries, namely China Education Online Limited ("CEOL") and Shihua (Hong Kong) Financial Information Company Limited ("Shihua"). The disposed companies were principally engaged in financial information services and distance learning education services. The disposal of CEOL and Shihua were completed on 19 December 2011 and 28 December 2011 respectively. CEOL and Shihua are together referred to as the "Disposal Group" hereafter.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. Discontinued operations (Continued)

As the Disposal Group represented separate components of the Group's business, the operations and cash flows of which could be clearly distinguished from the rest of the Group and which represented separate major lines of businesses, the Group presented, in its financial statements, the operations of the Disposal Group as discontinued operations in accordance with HKFRS 5. The results and cash flows from financial information services operation and distance learning education services operation included in the consolidated financial statements are as follows:

	Notes	**2012 HK$'000**	2011 HK$'000
Revenue/Turnover	5(a)	–	32,359
Cost of sales and services provided		–	(26,774)
Other operating income	5(b)	–	669
Selling and marketing expenses		–	(13,021)
Administrative expenses		–	(51,784)
Other operating expenses		–	(2,063)
Loss before income tax	8	–	(60,614)
Income tax expense	9	–	–
Loss for the year		–	(60,614)
Gain on disposal of subsidiaries		–	13,501
Loss for the year from discontinued operations		–	(47,113)
Cash flows			
Operating activities		–	(1,576)
Investing activities		–	(907)
Net cash outflow		–	(2,483)

11. Loss for the year attributable to the owners of the Company

Of the consolidated loss attributable to the owners of the Company of HK$346,063,000 (2011: HK$494,746,000), a loss of HK$209,377,000 (2011: HK$108,177,000) has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. Loss per share

(a) From continuing and discontinued operations

The calculation of basic loss per share from continuing and discontinued operations is based on the loss attributable to the owners of the Company of HK$346,063,000 (2011: HK$494,746,000) and on 68,645,535,794 (2011: 68,645,535,794) ordinary shares in issue during the year.

(b) From continuing operations

The basic loss per share from continuing operations attributable to the owners of the Company is calculated based on the following data:

Loss figures are calculated as follows:

	2012 **HK$'000**	2011 HK$'000
Loss for the year from continuing operations	**372,293**	538,887
Less: Loss for the year from continuing operations attributable to non-controlling interests	**(26,230)**	(67,264)
Loss for the year from continuing operations attributable to owners of the Company	**346,063**	471,623

The denominators used are the same as those detailed above for basic loss per share from continuing and discontinued operations.

(c) From discontinued operations

The basic loss per share from discontinued operations attributable to the owners of the Company is calculated based on the following data:

Loss figures are calculated as follows:

	2012 **HK$'000**	2011 HK$'000
Loss for the year from discontinued operations	**–**	47,113
Less: Loss for the year from discontinued operations attributable to non-controlling interests	**–**	(23,990)
Loss for the year from discontinued operations attributable to owners of the Company	**–**	23,123

The denominators used are the same as those detailed above for basic loss per share from continuing and discontinued operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. Loss per share (Continued)

(d) Diluted loss per share for the year ended 31 December 2012 was not presented as there was no potential dilutive ordinary shares in issue during the year.

The share options had no dilutive effect on the loss per share for the year ended 31 December 2011 as the exercise price of the options outstanding during the year exceeds the average market price of ordinary shares.

13. Employee benefit expenses (including directors' emoluments)

	2012 HK$'000	2011 HK$'000
Continuing operations		
Directors' fee (note 36(a))	**1,105**	1,068
Wages and salaries	**683,627**	704,898
Pension costs — defined contribution plans	**74,832**	89,163
Staff welfare	**42,727**	36,245
	802,291	831,374
Less: Amounts capitalised in intangible assets	**(35,836)**	–
	766,455	831,374
Discontinued operations		
Wages and salaries	**–**	40,471
Pension costs — defined contribution plans	**–**	9,347
Staff welfare	**–**	2,332
	–	52,150
Total employee benefit expenses	**766,455**	883,524

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

14. Property, plant and equipment

Group

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Construction in progress HK$'000	Motor vehicles/ Yachts HK$'000	Total HK$'000
At 1 January 2011					
Cost	–	856,189	225,095	35,736	1,117,020
Accumulated depreciation	–	(262,507)	–	(5,968)	(268,475)
Net carrying amount	–	593,682	225,095	29,768	848,545
Year ended 31 December 2011					
Opening net carrying amount	–	593,682	225,095	29,768	848,545
Additions	5,054	602,262	124,018	3,216	734,550
Disposal and dissolution of subsidiaries (note 34(a))	–	(5,395)	–	–	(5,395)
Disposals	–	(6,362)	–	(139)	(6,501)
Write-off	–	(1,774)	–	(76)	(1,850)
Depreciation	(98)	(106,498)	–	(3,598)	(110,194)
Exchange differences	111	38,123	13,218	1,354	52,806
Closing net carrying amount	5,067	1,114,038	362,331	30,525	1,511,961
At 31 December 2011 and 1 January 2012					
Cost	5,168	1,460,812	362,331	39,972	1,868,283
Accumulated depreciation	(101)	(346,774)	–	(9,447)	(356,322)
Net carrying amount	5,067	1,114,038	362,331	30,525	1,511,961
Year ended 31 December 2012					
Opening net carrying amount	**5,067**	**1,114,038**	**362,331**	**30,525**	**1,511,961**
Additions	**–**	**368,608**	**63,840**	**1,515**	**433,963**
Re-classification	**186,909**	**–**	**(186,909)**	**–**	**–**
Disposal and dissolution of subsidiaries (note 34(a))	**–**	**(4,694)**	**–**	**–**	**(4,694)**
Disposals	**–**	**(823)**	**–**	**(243)**	**(1,066)**
Write-off	**–**	**(511)**	**(2,010)**	**–**	**(2,521)**
Depreciation	**(3,067)**	**(149,031)**	**–**	**(4,127)**	**(156,225)**
Exchange differences	**2,007**	**10,794**	**1,502**	**200**	**14,503**
Closing net carrying amount	**190,916**	**1,338,381**	**238,754**	**27,870**	**1,795,921**
At 31 December 2012					
Cost	**194,116**	**1,832,194**	**238,754**	**40,645**	**2,305,709**
Accumulated depreciation	**(3,200)**	**(493,813)**	**–**	**(12,775)**	**(509,788)**
Net carrying amount	**190,916**	**1,338,381**	**238,754**	**27,870**	**1,795,921**

The carrying amount of the Group's property, plant and equipment includes an amount of HK$231,000 (2011: HK$408,000) in respect of assets held under finance lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. Property, plant and equipment (Continued)

Company

	Leasehold improvements, furniture, fixtures and equipment HK$'000
At 1 January 2011	
Cost	721
Accumulated depreciation	(569)
Net carrying amount	152
Year ended 31 December 2011	
Opening net carrying amount	152
Additions	6
Depreciation	(117)
Closing net carrying amount	41
At 31 December 2011 and 1 January 2012	
Cost	727
Accumulated depreciation	(686)
Net carrying amount	41
Year ended 31 December 2012	
Opening net carrying amount	**41**
Depreciation	**(37)**
Closing net carrying amount	**4**
At 31 December 2012	
Cost	**727**
Accumulated depreciation	**(723)**
Net carrying amount	**4**

As at 31 December 2012, the carrying amount of the Company's property, plant and equipment included an amount of HK$Nil (2011: HK$4,000) in respect of assets held under finance lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. Prepaid land lease payments under operating leases

The Group's interests in leasehold land/land use rights represent prepaid operating lease payments and their carrying amounts are analysed as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Outside Hong Kong, held on land with:		
Unexpired terms of leases of between 10 to 50 years	**14,788**	15,021
Unexpired terms of leases over 50 years	**13,425**	13,344
	28,213	28,365

	Group	
	2012	2011
	HK$'000	HK$'000
Opening net carrying amount	**28,365**	14,713
Additions	**–**	13,309
Annual charges of prepaid operating lease payments	**(365)**	(593)
Net exchange differences	**213**	936
Closing net carrying amount	**28,213**	28,365

16. Interests in subsidiaries

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**116**	116
Less: Provision for impairment	**(116)**	(116)
	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

16. Interests in subsidiaries (Continued)

Particulars of the principal subsidiaries at 31 December 2012 are as follows:

Name	Country/Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ registered capital	Percentage of capital held by the Company Directly	Percentage of capital held by the Company Indirectly	Principal activities
CE Dongli Advertising (HK) Company Limited	Hong Kong	100 ordinary shares of HK$1 each	–	62.85	Investment holding
China Enterprise ASP Limited ("CE ASP")	Hong Kong	9,000,000 ordinary shares of HK$1 each	–	62.85	Investment holding
Dadi Cinema (HK) Limited (formerly known as Dadi Entertainment Limited)	Hong Kong	75,000 ordinary shares of HK$0.1 each	–	100	Investment holding, film distribution and production
Dadi Media Limited ("Dadi Media")	Hong Kong	2 ordinary shares of HK$1 each	–	62.85	Investment holding
Dadi Media (HK) Limited	Hong Kong	1 ordinary share of HK$1 each	100	–	Investment holding
Goalrise Investments Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1 each	100	–	Trading of securities
Listar Properties Limited ("Listar") (note d)	BVI	14,000,000 class A and 6,000,000 class B ordinary shares of US$1 each	–	100	Investment holding
Liu Wan Development (BVI) Company Limited ("LWD")	BVI	215,000,000 ordinary shares of US$1 each	–	100	Investment holding
Liu Wan Investment Company Limited ("LWI")	Hong Kong	2 ordinary shares of US$1 each	–	100	Investment holding
Nan Hai Development Limited	Hong Kong	2 ordinary shares of HK$1 each	100	–	Investment holding
Robina Profits Limited	BVI	1 ordinary share of US$1 each	–	62.85	Investment holding
Sino-i Technology Limited ("Sino-i")	Hong Kong	19,914,504,877 ordinary shares of HK$0.01 each	–	62.85	Investment holding
View Power Investments Limited	BVI	1 ordinary share of US$1 each	100	–	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

16. Interests in subsidiaries (Continued)

Name	Country/Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ registered capital	Percentage of capital held by the Company Directly	Percentage of capital held by the Company Indirectly	Principal activities
Wise Advance Investments Limited	BVI	1 ordinary share of US$1 each	100	–	Investment holding
中企動力科技股份有限公司 (note a)	PRC	RMB242,369,720	–	62.65	Information technology business
北京中企動力廣告有限公司 (note b)	PRC	RMB1,000,000	–	62.85	Information technology business
深圳市半島城邦物業管理有限公司 (note b)	PRC	RMB10,000,000	–	100	Property management
深圳市金益田實業發展有限公司 (note b)	PRC	RMB18,000,000	–	100	Property development
深圳南海益田置業有限公司 (note c)	PRC	RMB110,000,000	–	100	Investment holding and property development
廣州東鏡新城房地產有限公司 (note c and d)	PRC	US$42,000,000	–	100	Property development
廣東大地影院建設有限公司 (note b)	PRC	RMB1,146,427,999	–	100	Operation of digital cinemas
大地影院發展有限公司 (note b)	PRC	RMB214,000,000	–	100	Operation of digital cinemas
大地時代電影文化傳播(北京)有限公司 (note b)	PRC	RMB40,000,000	–	100	Film distribution
時代廣告(北京)有限公司 (formerly known as 大地時代廣告(北京)有限公司) (note b)	PRC	RMB1,000,000	–	100	Providing advertising services

The above table lists out the subsidiaries of the Company as at 31 December 2012 which, in the opinion of the directors, principally affected the Group's results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

(a) This subsidiary is registered as joint stock limited company under the law of PRC.

(b) These subsidiaries are registered as limited liability company under the law of PRC.

(c) These subsidiaries are registered as Sino-foreign co-operative joint venture under the law of PRC.

(d) 30% of the direct and indirect equity interest of these subsidiaries have been disposed to a financier, but the equity interest is considered as collateral for finance from the financier by taking into account of such parameters as call and put options, mandatory interim cash distribution conditional upon cash being available for cash distribution and guaranteed Internal Rate of Return ("IRR") (note 29).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. Interest in associates

	Group 2012 HK$'000	2011 HK$'000
Balance at 1 January	**42,881**	40,461
Share of results of associates		
– (Loss)/Profit after income tax	**(5,179)**	535
Net exchange differences	**281**	1,885
Share of net assets	**37,983**	42,881
Goodwill	**72,064**	71,504
Balance at 31 December	**110,047**	114,385

Particulars of the associates at 31 December 2011 and 31 December 2012 are as follows:

Name	Country of incorporation/ establishment and operations	Particulars of issued capital/registered capital	Percentage of interest held by the Group 2012	2011	Nature of business
Genius Reward Company Limited*	Hong Kong	2 ordinary shares of HK$100 each	**31**	31	Inactive
Loongson Technology Co., Ltd.*	PRC	RMB137,500,000	**20**	20	Development of central processing unit

* unlisted limited liability company

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. Interest in associates (Continued)

The summarised financial information of the Group's associates extracted from their management accounts are as follows:

	2012 HK$'000	2011 HK$'000
Assets	**366,125**	342,090
Liabilities	**(124,861)**	(76,027)
Revenue	**110,989**	98,755
(Loss)/Profit for the year	**(27,862)**	1,887

The Group has discontinued recognition of its share of loss of an associate. The amount of unrecognised share of loss of the associate for the year and accumulated unrecognised share of loss of the associate amounted to HK$248,000 (2011: HK$247,000) and HK$3,404,000 (2011: HK$3,156,000) respectively.

18. Deposits, prepayments and other receivables

	Group	
	2012 **HK$'000**	2011 HK$'000
Deposits and prepayments	**546,071**	264,779
Outstanding consideration receivable arising from the disposal of a subsidiary	**27,336**	37,923
Loan receivables	**124,378**	120,013
Others	**784,305**	829,161
	1,482,090	1,251,876
Less: Provision for impairment of receivables	**(26,307)**	(26,131)
	1,455,783	1,225,745
Less non-current portion:		
Long term rental deposits	**171,946**	131,046
Deposits for purchase of property, plant and equipment	**264,763**	22,525
	436,709	153,571
	1,019,074	1,072,174

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. Deposits, prepayments and other receivables (Continued)

The outstanding consideration receivable arising from the disposal of a subsidiary was unsecured, bore interest at the rate of 5% per annum and was originally repayable on 24 September 2009. On 25 September 2009, the Group entered into supplemental agreement to extend the loan, which bore interest at the rate of 5% per annum and was repayable on 24 September 2010. The repayment period of the receivable was further extended to 30 June 2011 after another supplemental agreement was signed on 25 September 2010. On 1 July 2011 the Group entered into supplemental agreement to further extend the loan, which bore interest at rate of 5% per annum and will be repayable on 31 August 2012. The repayment period of the receivable was further extended to 30 June 2013 after another supplemental agreement was signed on 31 August 2012. As at 31 December 2012, the outstanding balance of HK$27,336,000 included the principal of HK$7,081,000 with accrued interest receivable of HK$20,255,000. Provision for impairment was not provided as certain amount of the outstanding balance has been subsequently settled in January 2013.

The loan receivable of HK$124,378,000 (2011: HK$120,013,000) is unsecured, bears interest at the rate of 5% (2011: 5%) per annum and repayable in May 2012 or will be recovered by reduced tax settlement to the local tax authority.

Impairment losses in respect of other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against other receivables directly. The movement in the provision for impairment of other receivables is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At the beginning of the year	**26,131**	24,777
Provision for impairment (note 8)	**–**	517
Disposal of subsidiaries	**–**	(168)
Exchange differences	**176**	1,005
At the end of the year	**26,307**	26,131

At each of the reporting dates, the Group's other receivables were individually determined to be impaired. The Group encountered difficulties in collection of certain other receivables and appropriate provision for impairment had been made against these other receivables. The individually impaired receivables are recognised based on the credit history of these debtors, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised. The Group does not hold any collateral over these balances. Except for the amount impaired, none of the above assets is either past due or impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. Intangible assets

Group

	Computer software HK$'000	Development cost HK$'000	Goodwill HK$'000	Others* HK$'000	Total HK$'000
At 1 January 2011					
Gross carrying amount/Cost	309,172	62,325	606,206	2,572	980,275
Accumulated amortisation	(187,013)	(15,563)	–	(776)	(203,352)
Accumulated impairment	–	–	(306,800)	–	(306,800)
Net carrying amount	122,159	46,762	299,406	1,796	470,123
Year ended 31 December 2011					
Opening net carrying amount	122,159	46,762	299,406	1,796	470,123
Additions	–	48,361	–	314	48,675
Disposal and dissolution of subsidiaries (note 34(a))	(12,835)	(39,242)	(81,629)	(337)	(134,043)
Amortisation charge for the year	(48,403)	(15,886)	–	(368)	(64,657)
Exchange differences	4,561	2,898	4,955	16	12,430
Closing net carrying amount	65,482	42,893	222,732	1,421	332,528
At 31 December 2011 and 1 January 2012					
Gross carrying amount/Cost	295,582	43,858	253,305	2,565	595,310
Accumulated amortisation	(230,100)	(965)	–	(1,144)	(232,209)
Accumulated impairment	–	–	(30,573)	–	(30,573)
Net carrying amount	65,482	42,893	222,732	1,421	332,528
Year ended 31 December 2012					
Opening net carrying amount	**65,482**	**42,893**	**222,732**	**1,421**	**332,528**
Additions	**1,202**	**37,352**	**–**	**–**	**38,554**
Disposal of subsidiaries (note 34(a))	**–**	**–**	**(21,159)**	**(291)**	**(21,450)**
Write-off	**–**	**(905)**	**–**	**–**	**(905)**
Amortisation charge for the year	**(33,221)**	**(6,520)**	**–**	**(46)**	**(39,787)**
Exchange differences	**172**	**656**	**240**	**(4)**	**1,064**
Closing net carrying amount	**33,635**	**73,476**	**201,813**	**1,080**	**310,004**
At 31 December 2012					
Gross carrying amount/Cost	**299,114**	**81,953**	**232,428**	**2,038**	**615,533**
Accumulated amortisation	**(265,479)**	**(8,477)**	**–**	**(958)**	**(274,914)**
Accumulated impairment	**–**	**–**	**(30,615)**	**–**	**(30,615)**
Net carrying amount	**33,635**	**73,476**	**201,813**	**1,080**	**310,004**

* Other intangible assets include customer relationship, trademark and masthead.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. Intangible assets (Continued)

For the purpose of the annual impairment test, the carrying amount of goodwill is allocated to the following CGU:

	2012 HK$'000	2011 HK$'000
Property development	**143,111**	143,111
Corporate IT application services	**53,715**	53,452
Culture and media services — Cinema business	**4,987**	26,169
Net carrying amount at 31 December	**201,813**	222,732

The recoverable amounts for the CGU of corporate IT application services and culture and media services — cinema business were determined based on value in use calculations, covering a detailed five-year financial budgets, cash flows for these CGU were extrapolated for a further five-year period using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The recoverable amount for the CGU of property development was determined based on value in use calculation, covering a detailed seven-year financial budget which covers the expected project life.

The key assumptions used for value in use calculations for the year are as follows:

	Property development		**Corporate IT application services**		**Culture and media services — cinema business**	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Discount rates	**20.0%**	6.8%	**15.0%**	6.8%	**7.1%**	6.8%
Growth rates used to extrapolate cashflows beyond the budgeted period	**N/A**	N/A	**0%**	N/A	**0%**	5%

The budgeted gross margin and net profit margin were determined by the management for each individual CGU based on past performance and its expectations for market development.

The growth rate used for each of the above CGU is determined by reference to the average growth rate for the corresponding industry to which the CGU belongs.

The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Apart from the considerations described in determining the value in use calculation of the CGU above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

20. Inventories

	Group 2012 HK$'000	2011 HK$'000
Property development:		
Properties under development	**8,307,724**	7,701,415
Completed properties held for sale	**298,405**	328,069
Other operations:		
Confectionery	**5,641**	5,454
Movie projectors servers and spare parts	**–**	4,160
	8,611,770	8,039,098

All the above inventories are stated at cost.

The amount of properties under development expected to be recovered after more than one year is HK$8,307,724,000 (2011: HK$7,701,415,000). All of the other inventories are expected to be recovered within one year.

21. Financial assets at fair value through profit or loss

	Group 2012 HK$'000	2011 HK$'000
Listed equity securities in Hong Kong, at fair value	**241**	235
Listed equity securities in PRC, at fair value	**736**	1,449
Unlisted mutual fund in PRC, at fair value	**249**	–
	1,226	1,684
Market value of listed equity securities	**977**	1,684
Unlisted mutual fund in PRC, at fair value	**249**	–
	1,226	1,684

The above financial assets at fair value through profit or loss are classified as held for trading. The fair value of the Group's investments in listed securities has been determined by reference to their quoted bid prices at the reporting date. The fair value of the Group's investment in unlisted mutual fund has been determined by reference to their quoted prices readily available from the brokers at the reporting date.

Changes in fair values of the financial assets at fair value through profit or loss are recorded in other operating income/other operating expenses in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. Trade receivables

Based on the invoice dates, the aging analysis of the trade receivables is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
0–90 days	**27,276**	18,986
91–180 days	**10,859**	18,964
181–270 days	**7,057**	3,698
271–360 days	**3,921**	4,019
Over 360 days	**13,764**	6,837
Trade receivables, gross	**62,877**	52,504
Less: Provision for impairment of receivables	**(10,599)**	(10,516)
Trade receivables, net	**52,278**	41,988

Trade receivables are due on presentation of invoices.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the provision for impairment of trade receivables is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At the beginning of the year	**10,516**	11,594
Amounts written off as uncollectible	**–**	(16)
Disposal of subsidiaries	**–**	(1,551)
Exchange differences	**83**	489
At the end of the year	**10,599**	10,516

At each of the reporting dates, the Group's trade receivables were individually assessed for impairment. The Group encountered difficulties in collection of certain trade receivables and appropriate provision for impairment has been made against certain trade receivables. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. Trade receivables (Continued)

The aging analysis of trade receivables that are not considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
0–90 days past due	**27,276**	18,986
91–180 days past due	**10,859**	16,815
181–270 days past due	**5,492**	1,580
271–360 days past due	**1,886**	2,422
Overdue for more than 360 days	**6,765**	2,185
	52,278	41,988

Trade receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the management believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. Cash and cash equivalents, pledged and restricted bank deposits and time deposits maturing over three months

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**1,217,810**	411,167	**477**	9,314
Less: Pledged and restricted bank deposits presented as non-current assets	**(32,960)**	(25,670)	**–**	–
Less: Pledged and restricted bank deposits presented as current assets	**(956,067)**	(246,822)	**–**	–
Less: Time deposits maturing over three months presented as current assets	**(41,667)**	–	**–**	–
Cash and cash equivalents as stated in the statement of financial position	**187,116**	138,675	**477**	9,314

Included in bank and cash balance of the Group is an aggregate amount of approximately HK$927,191,000 (2011: HK$108,807,000), which represented Renminbi ("RMB") deposits placed with banks in Mainland China.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. Cash and cash equivalents, pledged and restricted bank deposits and time deposits maturing over three months (Continued)

RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks which are authorised to conduct foreign exchange business.

Deposits and pledged and restricted deposits earn interest at floating rates based on daily bank deposit rates (2011: floating rates based on daily bank deposit rates).

Restricted bank deposits represented the pre-sale proceeds received by the Group relating to the property development business. The restricted bank deposits are monitored by local government, any usage of the deposits requires approval by local government. The restriction will be released upon the completion of the related pre-sale properties.

24. Trade payables

Based on invoice dates, the aging analysis of the trade payables is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
0–90 days	**275,995**	170,935
91–180 days	**7,540**	60,670
181–270 days	**1,573**	4,919
271–360 days	**2,924**	8,235
Over 360 days	**208,774**	220,496
	496,806	465,255

All amounts are short term and hence the carrying values of the Group's trade payables are considered to be a reasonable approximation of fair value.

25. Other payables and accruals

Included in other payables and accruals as at 31 December 2012 is HK$4,057,000 (2011: HK$1,408,000) in respect of deferred government grants mainly related to the Group's design, research and development of new products of the Group which contributes positively to the local industry environment. The government grant must be utilised for the development of products specified and be recognised upon conditions fulfilled.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. Loan from/Amount(s) due from/(to) a director/shareholders/subsidiaries/a former subsidiary/an associate

(a) Amount due to a director

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

(b) Amounts due to shareholders

The amounts due to shareholders are unsecured, interest-free and repayable on demand.

(c) Amount due from/(to) an associate

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

(d) Amounts due from subsidiaries

	Company	
	2012	2011
	HK$'000	HK$'000
Amounts due from subsidiaries	**5,140,160**	5,068,625
Less: Amount included in non-current assets	**(164,139)**	(105,916)
Amounts due from subsidiaries included in current assets	**4,976,021**	4,962,709
Less: Allowances for amounts due from subsidiaries	**(153,434)**	(48,005)
	4,822,587	4,914,704

The amounts due from subsidiaries included in current assets are unsecured, interest-free and repayable on demand.

The amounts due from subsidiaries included in non-current assets are unsecured, interest-free and repayable after one year.

(e) Amounts due to subsidiaries/a former subsidiary

The amounts due are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. Loan from/Amount(s) due from/(to) a director/shareholders/subsidiaries/a former subsidiary/an associate (Continued)

(f) Loan from subsidiaries

On 29 May 2009, the Company entered into loan agreement with certain subsidiaries to advance a loan with principal of HK$1,645,530,000 which bore interest at 6.00% per annum, and would be repayable on or before 29 June 2011 and secured by share mortgage of a subsidiary.

On 20 May 2011, loan extension agreement in respect of loan agreement dated 20 May 2009 was signed and was conditional upon the Company having settled in full, the interest accrued on the outstanding principal amount under the loan agreement on or before 29 June 2011. It was agreed that the repayment date for the outstanding principal is further extended for two years to 29 June 2013.

As at 31 December 2012, included in the outstanding balance of approximately HK$1,317,149,000 (2011: HK$1,317,149,000) was interest bearing at 6.00% per annum and the remaining balance is interest-free, will be repayable on or before 29 June 2013 and secured by share mortgage of a subsidiary.

27. Bank and other borrowings

		Group		Company	
		2012	2011	**2012**	2011
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Bank loans, secured	(a)	**2,726,171**	1,861,430	**–**	–
Other borrowings, secured	(a), (b), (c)	**1,261,918**	511,950	**345,699**	191,081
		3,988,089	2,373,380	**345,699**	191,081

At 31 December 2012, the bank and other borrowings of the Group and the Company are repayable as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,682,088**	1,125,110	**345,699**	191,081
In the second year	**1,035,192**	753,088	**–**	–
In the third to fifth years	**270,809**	495,182	**–**	–
Wholly repayable within 5 years	**3,988,089**	2,373,380	**345,699**	191,081
Less: Portion due within one year under current liabilities	**(2,682,088)**	(1,125,110)	**(345,699)**	(191,081)
Portion due over one year under non-current liabilities	**1,306,001**	1,248,270	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

27. Bank and other borrowings (Continued)

(a) At 31 December 2012, bank and other borrowings amounted to HK$2,651,280,000 (2011: HK$1,762,702,000) carry interest at floating rates ranging from 2.61% to 8.70% per annum (2011: 3.28% to 8.53% per annum). The remaining balances carry interest at fixed rates ranging from 5.00% to 16.00% per annum (2011: 5.00% to 8.97% per annum). The carrying amounts of bank and other borrowings approximate their fair values.

(b) Included in other borrowings of HK$321,876,000 (2011: HK$320,869,000) is amount due to a financial institution regarding four (2011: three) sales and leaseback arrangements for property, plant and equipment. The transactions are classified as loan financing and corresponding property, plant and equipment of HK$309,302,000 (2011: HK$298,593,000) are pledged under this arrangement.

(c) Included in other borrowings of HK$594,343,000 (2011: HK$Nil) is amount due to a financial institution secured by the properties held under development of the Group, and guarantee given by a director and repayable by four instalments in eighteen months.

(d) The current liabilities include bank loans of HK$338,336,000 (2011: HK$227,161,000) that are not scheduled to repay within one year. They are classified as current liabilities as the related loan agreement contain a clause that provides the lenders with an unconditional right to demand repayment at any time at its own discretion. None of the portion of these bank loans are due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

(e) The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
RMB	**3,077,374**	1,955,139	**–**	–
USD	**910,715**	418,241	**345,699**	191,081
	3,988,089	2,373,380	**345,699**	191,081

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

28. Finance lease liabilities

(a) Total minimum lease payments is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due within one year	**141**	141	**18**	18
Due in the second to fifth years	**240**	381	**4**	22
	381	522	**22**	40
Future finance charges on finance leases	**(27)**	(48)	**(3)**	(6)
Present value of finance lease liabilities	**354**	474	**19**	34

(b) The present value of finance lease liabilities is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due within one year, included under current liabilities	**126**	120	**16**	16
Due in the second to fifth years, included under non-current liabilities	**228**	354	**3**	18
	354	474	**19**	34

The Group has entered into finance leases for item of office equipment and motor vehicles (2011: office equipment and motor vehicles) with remaining lease terms of two to three years (2011: two to four years). Interest rate under the leases is fixed at 2.50% to 3.46% (2011: 2.5% to 3.46%) per annum. The lease does not have options to renew or any contingent rental provisions. Under the lease terms, the Group has the option to purchase the leased asset at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the leases.

Finance lease liabilities are secured by the underlying assets where the lessor has the rights to revert in event of default. The carrying amount of the finance lease liabilities are denominated in Hong Kong dollars and approximates their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. Finance from a connected party

At 31 December 2012, the finance from a connected party is repayable as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Due within one year	**1,681,952**	2,543,762
Due in the second to fifth years	**1,077,446**	–
	2,759,398	2,543,762

Refer to the announcement and circular issued by the Company on 31 October 2012 and 21 November 2012 respectively. The transaction in respect of disposal of 30% issued share capital of Listar Properties Limited ("Listar"), a subsidiary of the Company, which indirectly holds 100% of the Guangzhou property project; and 30% shareholder's loan due from Listar (collectively, "Listar Interest") to Baitak Asian Shenzhen Peninsula Co., Ltd. ("Baitak"), an independent third party financier, for partial settlement of the indebtedness to Baitak, was completed on 31 December 2012. After the completion of the aforesaid disposal transaction, Baitak has become a substantial shareholder of Listar, therefore, Baitak has become a connected party to the Company as per the Listing Rules. Summary of the aforesaid transaction is shown as follows:

A finance from Baitak in the amount of approximately HK$2,544,618,000 was due in July 2011. In July 2011, the Group and Baitak entered into two agreements for the amount of US$275,000,000 (equivalent to approximately HK$2,136,063,000) and US$52,598,000 (equivalent to approximately HK$408,555,000) respectively for the purpose of full repayment of the aforesaid amount due in July 2011.

As per the terms of those two agreements, the new facilities together with profit (interest, in substance) (collectively "New Finance") shall be paid in instalments, with the last instalment falling on 31 December 2013. However, the Group did not make any instalment due for payment other than an interest payment of approximately US$7,644,000. In order to facilitate the payment of the New Finance, both Baitak and the Group further entered into a letter agreement in October 2012 (as supplemented in November 2012) for setting out arrangements as regards settlement of the New Finance. Under the letter agreement, the New Finance was superseded by a total amount of approximately US$356,119,000 of which approximately US$308,571,000 should be paid on or before 31 December 2012 and the balancing amount of approximately US$47,548,000 should be paid on or before 30 June 2013.

On 31 October 2012, Baitak and the Group entered into a sale and purchase agreement, pursuant to which the Group shall sell and Baitak shall purchase Listar Interest at a total consideration of approximately US$160,380,000 which shall be settled by way of dollar-for-dollar set-off against the aforesaid indebtedness of approximately US$308,571,000.

The aforesaid transaction was completed on 31 December 2012.

Details of the transactions contemplated in the sale and purchase agreement and all other documents incidental thereto have been disclosed in the announcement and circular of the Company dated 31 October 2012 and 21 November 2012 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. Finance from a connected party (Continued)

The above transaction of disposal of Listar Interest was considered as a disposal from legal perspective, however, such disposal should be considered as restructuring of indebtedness ("Financial Restructuring") and recognition of new debt from accounting perspective after considering such terms disclosed in the sale and purchase agreement and all documents incidental thereto as the guarantee of IRR of 12% on the consideration for the disposal of Listar Interest; mandatory interim cash distribution to Baitak conditional upon cash being available for distribution; and Put Option (as defined in the aforesaid announcement and circular) of Listar Interest granted to Baitak.

The financial effects of the Financial Restructuring are as follows:

(1) A de-recognition of the original liability and recognition of a new liability initially measured at fair value — a change in the amortised cost of liability (referred to as the "liability component", included in the "Finance from a connected party" in current liabilities and non-current liabilities);

(2) Recognition of a gain on the Financial Restructuring of HK$12,173,000;

(3) Recognition of a capital gain tax on disposal of the Listar Interest of HK$91,000,000;

(4) As determined by the directors of the Company, the value of the Call Option and Put Option as disclosed more particularly in the aforesaid announcement and circular is zero to the Company; and

(5) The Listar Interest transferred to Baitak is treated as being collateralised for the new liability.

In addition, the finance from Baitak is secured by various share mortgage of certain subsidiaries, bank accounts charges, assignment of shareholders' loan of certain subsidiaries, corporate guarantee of the Company and personal guarantee of a director (2011: include a subordination deed from a wholly-owned subsidiary).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

30. Deferred tax

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

Deferred tax liabilities

Group

	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Temporary difference on receipt in advance HK$'000	Total HK$'000
At 1 January 2011	234,404	–	234,404
Deferred tax charged to the income statement (note 9)	–	21,796	21,796
Exchange differences	10,855	492	11,347
At 31 December 2011 and 1 January 2012	**245,259**	**22,288**	**267,547**
Deferred tax credited to the income statement (note 9)	**–**	**(565)**	**(565)**
Exchange differences	**1,923**	**169**	**2,092**
Gross deferred tax liabilities at 31 December 2012	**247,182**	**21,892**	**269,074**

Deferred tax assets

Group

	Provision of PRC LAT HK$'000
At 1 January 2011	62,831
Deferred tax credited to the income statement (note 9)	45,502
Exchange differences	3,935
At 31 December 2011 and 1 January 2012	**112,268**
Deferred tax charged to the income statement (note 9)	**(4,491)**
Exchange differences	**832**
Gross deferred tax assets at 31 December 2012	**108,609**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

30. Deferred tax (Continued)

At 31 December 2012, the amount of unused tax losses for which no deferred tax assets is recognised in the consolidated statement of financial position is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Temporary differences attributable to:		
— unused tax losses	**591,727**	397,756

Deferred tax asset in respect of tax losses has not been recognised in the financial statements due to the unpredictability of future profit streams against which the tax losses can be utilised. The tax losses of the subsidiaries operating in Mainland China amounted to HK$534,492,000 (2011: HK$342,459,000) can be carried forward for five years while tax losses of the subsidiaries operating in Hong Kong amounted to HK$57,235,000 (2011: HK$55,297,000) can be carried forward indefinitely under the current tax legislation.

31. Share capital

	Number of ordinary shares of HK$0.01 each	**HK$'000**
Authorised:		
At 1 January 2011, 31 December 2011 and **31 December 2012**	**500,000,000,000**	**5,000,000**
Issued and fully paid:		
At 1 January 2011, 31 December 2011 and **31 December 2012**	**68,645,535,794**	**686,455**

32. Share option scheme

The Company operates a share option scheme.

On 29 August 2002, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board of the Company.

On 20 April 2009, share options to subscribe for a total of 185,200,000 shares, representing approximately 0.62% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors, employees of the Group and those who have contributions to the Group at an exercise price of HK$0.0702 per share.

The share options vest upon the commencement of the exercise period which is determined by the Board at the date of grant. The grantees are entitled to exercise the share options upon fulfilment of all requirements set out in the Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

32. Share option scheme (Continued)

The movements of the Company's share options during the year are as follows:

	2012		2011	
	Number	**Weighted average exercise price per share HK$**	Number	Weighted average exercise price per share HK$
Outstanding at 1 January	**–**	**–**	164,000,000	0.0702
Expired during the year	**–**	**–**	(164,000,000)	0.0702
Outstanding at 31 December	**–**	**–**	–	–
Exercisable at 31 December	**–**	**–**	–	–

Under the ordinary resolution passed at the annual general meeting on 28 May 2012, the Board of the Company adopted a new share option scheme and simultaneously terminated the share option scheme adopted on 29 August 2002. Under the new scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board of the Company.

There are no outstanding share options at 31 December 2012 (2011: Nil).

33. Reserves

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 43 and 44 of the financial statements.

Notes:

(a) Capital reserve of the Group mainly represented the reserves arising from capital reduction pursuant to a special resolution passed on 30 April 2002 and the amount previously recognised in share option reserve arising from the exercise of share options.

(b) General reserve of the Group includes capital reserve arising from acquisitions of subsidiaries in prior years and statutory reserves. Subsidiaries of the Company established in Mainland China are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory reserve until the reserve reaches 50% of their respective capital upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

33. Reserves (Continued)

Group (Continued)

Notes: (Continued)

(c) During the year ended 31 December 2012, transfer (from)/(2011: to) the non-controlling interest relating to the Group's deemed disposal of 0.1% (2011: acquisition of further 22% and 5%) interest in one (2011: two) existing subsidiary/subsidiaries is analysed below:

	Group 2012 HK$'000	2011 HK$'000
Transfer (from)/to the non-controlling interest:		
Accumulated losses	**(7)**	3,479
Net transfer (from)/to the non-controlling interest	**(7)**	3,479

Company

	Share premium HK$'000	Contributed surplus (note a) HK$'000	Capital reserve (note b) HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	965,911	1,971,857	7,480	4,927	(586,607)	2,363,568
Released on expiry/forfeiture of share options	–	–	–	(4,927)	4,927	–
Loss for the year	–	–	–	–	(108,177)	(108,177)
At 31 December 2011 and 1 January 2012	**965,911**	**1,971,857**	**7,480**	**–**	**(689,857)**	**2,255,391**
Loss for the year	**–**	**–**	**–**	**–**	**(209,377)**	**(209,377)**
At 31 December 2012	**965,911**	**1,971,857**	**7,480**	**–**	**(899,234)**	**2,046,014**

Notes:

(a) Contributed surplus of the Company includes the difference between the aggregate net asset value of the subsidiaries acquired and the nominal amount of the Company's shares issued for the acquisition and the reserves arising from capital reduction pursuant to a special resolution passed on 30 April 2002. Under the Bermuda Companies Act, the contributed surplus is distributable to the shareholders under certain circumstances.

(b) Capital reserve of the Company represents the amount of equity-settled share-based compensation previously recognised transferred from the share options reserve when the share options are exercised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. Notes to the consolidated statement of cash flows

(a) Disposal and dissolution of subsidiaries

On 27 May 2011, a subsidiary, Rise Manor Development Limited has been dissolved.

On 19 December 2011, the Group entered into a sale and purchase agreement to dispose of 100% equity interests in subsidiary, Monthly Duowei Limited to an independent third party at a consideration of HK$1. The transaction was completed on 19 December 2011.

On 19 December 2011, the Group entered into a sale and purchase agreement to dispose of 62.85% equity interests in subsidiary, Noble Grade International Limited and its subsidiaries to an independent third party at a total consideration of HK$1. The transaction was completed on 19 December 2011.

On 19 December 2011, the Group entered into a sale and purchase agreement to dispose of 62.85% equity interests in subsidiary, CEOL and its subsidiary to an independent third party at a total consideration of HK$1. The transaction was completed on 19 December 2011.

On 21 December 2011, the Group entered into a sale and purchase agreement to dispose of 100% equity interests in subsidiary, Duowei Monthly Limited to an independent third party at a consideration of HK$1. The transaction was completed on 21 December 2011.

On 21 December 2011, the Group entered into a sale and purchase agreement to dispose of 75.15% equity interests in subsidiary, Chinese Media Net, Inc. and its subsidiaries to a related party, controlled by director of the Company, Mr. Yu Pun Hoi at a total consideration of HK$2. The transaction was completed on 21 December 2011.

On 28 December 2011, the Group entered into a sale and purchase agreement to dispose of 62.85% equity interests in subsidiary, Shihua and its subsidiaries to an independent third party at a total consideration of HK$1. The transaction was completed on 28 December 2011.

On 29 December 2011, the Group entered into a sale and purchase agreement to dispose of 62.85% equity interests in subsidiary, Victorious Limited and its subsidiaries to an independent third party at a total consideration of HK$100,000. The transaction was completed on 30 December 2011.

On 8 June 2012, the Group entered into a sale and purchase agreement to dispose of the entire equity interests in wholly-owned subsidiary, 數碼辰星科技發展（北京）有限公司 (formerly named as 大地辰星科技發展（北京）有限公司) and its subsidiary to an independent third party at a total consideration of approximately HK$1. The transaction was completed on 4 July 2012.

On 30 October 2012, the Group entered into a sale and purchase agreement to dispose of the entire equity interests in wholly-owned subsidiary, 哈票網絡科技（北京）有限公司 to an independent third party at a consideration of approximately HK$1,153,000. The transaction was completed on 30 October 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. Notes to the consolidated statement of cash flows (Continued)

(a) Disposal and dissolution of subsidiaries (Continued)

The net assets of the above subsidiaries at the date of disposal were:

	2012	2011
	HK$'000	HK$'000
Net (liabilities)/assets disposed of:		
Property, plant and equipment	**4,694**	5,395
Intangible assets	**21,450**	134,043
Inventories	**11,616**	–
Trade receivables	**1,963**	8,087
Deposits, prepayments and other receivables	**12,909**	52,998
Cash and cash equivalents	**6,720**	13,273
Trade payables	**(9,592)**	(42,861)
Other payables and accruals	**(110,252)**	(86,991)
Deferred revenue	**–**	(44,050)
Non-controlling interests	**–**	33,854
Provision for tax	**–**	(10,848)
Amount due to a minority shareholder	**–**	(600)
Bank and other borrowings	**–**	(86,388)
Amounts due from group companies	**11,759**	59,355
	(48,733)	35,267
Exchange reserve released on disposal and dissolution	**93**	1,940
Gain/(Loss) on disposal and dissolution of subsidiaries	**49,793**	(37,107)
Total consideration	**1,153**	100

Included in total of net gain/(loss) on disposal and dissolution of subsidiaries, gain of HK$Nil (2011: HK$13,501,000) and gain of HK$49,793,000 (2011: loss of HK$50,608,000) was related to disposal and dissolution of subsidiaries from discontinued operations (note 10) and continuing operations respectively.

	2012	2011
	HK$'000	HK$'000
Satisfied by		
Cash	**1,153**	100

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. Notes to the consolidated statement of cash flows (Continued)

(a) Disposal and dissolution of subsidiaries (Continued)

The analysis of the net cash outflow of cash and cash equivalents in respect of the disposal and dissolution of subsidiaries is as follows:

	2012 HK$'000	2011 HK$'000
Cash consideration received	**1,153**	100
Cash and cash equivalents disposed of	**(6,720)**	(13,273)
Net cash outflow on disposal	**(5,567)**	(13,173)

(b) Major non-cash transactions

During the year ended 31 December 2012, the Group's trade and other receivables of HK$Nil (2011: HK$39,503,000) was offset against the amount due to a director in accordance with the debts assignments signed among these parties.

During the year ended 31 December 2012, deposits of HK$47,484,000 (2011: HK$67,225,000) was reclassified to property, plant and equipment due to completion of works.

During the year ended 31 December 2012, property, plant and equipment of HK$Nil (2011: HK$547,000) was acquired under finance leases.

35. Retirement benefit plans

Defined contribution retirement plans

The Group operates a MPF scheme and an ORSO scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees.

Subsidiaries operating in Mainland China are required to participate in a defined contribution retirement benefit plan organised by the relevant government authorities. These subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total cost charged to the consolidated income statement of HK$74,832,000 (2011: HK$98,510,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

Contributions payable of HK$Nil as at 31 December 2012 (2011: HK$21,000) to the MPF Scheme are included in other payables.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. Directors' remuneration and five highest paid individuals

(a) Directors' emoluments

Directors' emoluments and fees disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

Group

	Fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2012				
Executive directors				
YU Pun Hoi	–	360	18	378
CHEN Dan	–	889	86	975
LIU Rong	–	813	89	902
Non-executive directors				
WANG Gang#	140	–	–	140
LAM Bing Kwan	120	–	–	120
QIN Tian Xiang*	60	–	–	60
Independent non-executive directors				
HUANG Yaowen	293	–	–	293
Prof. JIANG Ping	372	–	–	372
LAU Yip Leung	120	–	–	120
	1,105	2,062	193	3,360

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. Directors' remuneration and five highest paid individuals (Continued)

(a) Directors' emoluments (Continued)

	Fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2011				
Executive directors				
YU Pun Hoi	–	360	18	378
CHEN Dan	–	902	74	976
LIU Rong	–	601	75	676
WANG Gang#	–	909	66	975
Non-executive directors				
LAM Bing Kwan	60	–	–	60
QIN Tian Xiang*	240	–	–	240
Independent non-executive directors				
HUANG Yaowen	288	–	–	288
Prof. JIANG Ping	360	–	–	360
LAU Yip Leung	120	–	–	120
	1,068	2,772	233	4,073

* Deceased on 30 March 2012

\# Re-designated from an executive director to a non-executive director of the Company with effect from 28 May 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. Directors' remuneration and five highest paid individuals (Continued)

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included two (2011: two) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2011: three) employees are as follows:

	2012 **HK$'000**	2011 HK$'000
Basic salaries, other allowances and benefits in kind	**3,210**	3,189
Pension contributions	**14**	12
	3,224	3,201

The emoluments of the five highest paid individuals, other than directors, fell within the following bands:

Emolument band	**Number of highest paid individuals** **2012**	2011
HK$Nil–HK$1,000,000	**1**	1
HK$1,000,001–HK$1,500,000	**2**	2
	3	3

During the years ended 31 December 2012 and 31 December 2011, no emoluments were paid to any of the Company's directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

None of the directors have waived or agreed to waive any emoluments in respect of the years ended 31 December 2012 and 31 December 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

37. Commitments

(a) Capital commitments

At 31 December 2012, the Group had outstanding commitments as follows:

	2012	2011
	HK$'000	HK$'000
Contracted but not provided for in respect of:		
— construction in progress	**151,486**	116,007
— property, plant and equipment	**281,688**	187,651
	433,174	303,658

At 31 December 2012 and 31 December 2011, the Company did not have any significant capital commitments.

(b) Operating lease arrangement

At 31 December 2012, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings	
	2012	2011
	HK$'000	HK$'000
Within one year	**326,978**	277,162
In the second to fifth years	**1,399,569**	1,200,986
Over five years	**3,777,528**	3,437,069
	5,504,075	4,915,217

The Group leases a number of properties under operating leases. The leases run for an initial period of one to twenty years (2011: one to thirty years), with options to renew the lease terms at the expiry dates or at dates as mutually agreed between the Group and the respective landlords. In addition, the Group paid additional rental expenses in respect of certain operating leases which are dependent on the level of revenue achieved by particular properties.

At 31 December 2012 and 31 December 2011, the Company had no operating lease commitments as lessor or lessee.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. Contingent liabilities

Guarantees given in connection with credit facilities granted to:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Subsidiaries	**–**	–	**3,370,925**	2,801,668
Associates (Note)	**15,555**	14,768	**–**	–
Third parties (Note)	**62,629**	65,091	**–**	–
	78,184	79,859	**3,370,925**	2,801,668

Note:

In February 1993, a Group's associate borrowed a loan of US$5 million from a Filipino bank namely Banco de Oro-EPCI Inc. (formerly known as Equitable PCI Bank Inc.) ("EPCIB"). The loan was secured by guarantee executed by Sino-i ("EPCIB Guarantee"), a listed subsidiary of the Company, and by share mortgage of 74,889,892 shares ("Philippines Shares") of Acesite (Philippines) Hotel Corporation Inc. ("Acesite Phils."). Due to the pending litigation as mentioned in note 40 (a), the Group cannot ascertain the fair value of the guarantee in respect of the loan borrowed by the associate.

In addition to the EPCIB Guarantee, Sino-i executed another guarantee in favour of Singapore Branch of Industrial and Commercial Bank of China ("ICBC") in respect of a loan facility of US$15,000,000 ("ICBC Loan") made available to Acesite Phils. in March 1995. Resulting from the purported foreclosure of the Philippines Shares, Acesite Phils. is now controlled by a third party. The Group does not have updated information of the outstanding balance of the indebtedness under the ICBC Loan ("ICBC Indebtedness"), therefore, the fair value of the guarantee for ICBC Indebtedness cannot be ascertained.

39. Credit facilities

As at 31 December 2012 and 31 December 2011, the Group's credit facilities were secured by the following:

(a) charge over interest in leasehold land (note 15) with a net carrying value of approximately HK$14,788,000 (2011: HK$15,021,000);

(b) charge over certain building and construction in progress (note 14) with a net carrying value of approximately HK$424,828,000 (2011: construction in progress of HK$360,455,000);

(c) charge over certain properties held under development and completed properties held for sale (note 20) with a total carrying value of approximately HK$3,277,379,000 (2011: approximately HK$1,587,491,000);

(d) charge over financial assets at fair value through profit or loss (note 21) with a net carrying value of approximately HK$241,000 (2011: approximately HK$235,000);

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

39. Credit facilities (Continued)

(e) pledge of 11,162,999,000 (2011: 11,162,999,000) shares in Sino-i held by the Company indirectly in favour of certain securities brokers and a financial institution, the total of which represents approximately 89.19% (2011: 89.19%) of total interest of the Company in Sino-i. The market value of such listed shares as at 31 December 2012 was approximately HK$323,727,000 (2011: approximately HK$435,357,000);

(f) pledge of certain bank deposits (note 23) of approximately HK$920,926,000 (2011: HK$272,492,000), of which approximately HK$619,403,000 (2011: HK$246,822,000) were for standby letters of credit issued by bank (2011: a financial institution) for a total amounts of US$75,150,000 (2011: US$30,150,000);

(g) charge over certain intangible asset (note 19) with net carrying value of approximately HK$Nil (2011: HK$19,971,000);

(h) personal guarantee given by a director;

(i) charge over trade receivables (note 22) with carrying value of approximately HK$16,016,000 (2011: HK$Nil);

(j) charge over certain property, plant and equipment, other than building and construction in progress disclosed in note 39(b), of HK$309,302,000 (2011: HK$298,593,000) (note 27); and

(k) pledge of various share mortgage of certain subsidiaries, bank accounts charges, assignment of shareholders' loan of certain subsidiaries and corporate guarantee of the Company (2011: include a subordination deed from a wholly-owned subsidiary).

40. Pending litigations

(a) In respect of the purported sale of Philippines Shares, which were mortgaged by Acesite Limited ("Acesite"), by EPCIB, to Waterfront Philippines Inc. ("Waterfront"), a Filipino company, in February 2003, Acesite, a former subsidiary of Sino-i; Evallon Investment Limited, a wholly-owned subsidiary of Sino-i; Mr. Yu, the chairman and executive director of both the Company and Sino-i and, South Port Development Limited, a former wholly-owned subsidiary of Sino-i as first, second, third and fourth plaintiff respectively issued a claim against EPCIB and Waterfront, on the grounds that the purported sale of the Philippines Shares was unlawful as such sale was in breach of the terms of the mortgage; in breach of a compromise agreement reached in January 2003; and in other breaches, for damages; further or other relief; interest and costs and etc. in February 2006 under High Court Number of HCCL 5 of 2006 ("1st Case"). In May 2007, Acesite Phils. filed a claim against Mr. Yu; Mr. Lam Bing Kwan, a non-executive director of both the Company and Sino-i; Sino-i; and Acesite for damages; further or other relief; interest and costs and etc. under High Court Number of HCA498 of 2007 ("2nd Case"). The defendants in both cases have filed their defences respectively to the Court. Acesite Phils. filed a consent order dated 16 August 2011 to the High Court for dismissal of the 2nd Case. The 1st Case is still in progress and no date has been fixed for trial.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. Pending litigations (Continued)

(b) Dadi Media, a wholly-owned subsidiary of Sino-i, as plaintiff, issued a claim against two minority shareholders of CE Dongli Technology Group Company Limited, a subsidiary of Sino-i, for the sum of HK$27,750,498 together with interest thereon and costs in May 2004 under the High Court Number of HCA1130 of 2004. The two defendants filed a defence and counterclaim in June 2004 and then an amended defence and counterclaim in September 2004. The counterclaim was further amended and re-amended. In December 2004, the two defendants issued a claim against CE ASP, a wholly-owned subsidiary of Dadi Media, under High Court Number HCA2892 of 2004 for (1) the sum of HK$806,250; (2) an award of compensation pursuant to section 32P of the Employment Ordinance; (3) the sum of HK$13,000; and (4) interest and costs. CE ASP filed a defence in March 2005. These two cases are still in progress and no trial date has been fixed.

(c) In May 2007, 深圳益田房地產集團股份有限公司 (Shenzhen Yitian Real Estate Group Company Limited)("Yitian") issued a pleading (2007) 深中法民五初字第142號 (the "Case 1") to 深圳市金益田實業發展有限公司 (Shenzhen City Jingyitian Industrial Development Company Limited) ("Jingyitian"), a wholly-owned subsidiary of the Company, requesting for the court's judgement including (i) nullity of a letter of undertaking entered into between Yitian and Jingyitian; and (ii) refund of HK$41 million together with interest to Jingyitian. Yitian subsequently filed a written application to the Intermediate People's Court of Shenzhen City ("Intermediate People's Court") in March 2012 for dismissal of the Case 1, and the Intermediate People's Court subsequently granted its leave to Yitian that the Case 1 be dismissed and Yitian shall bear the cost of RMB123,400 on 13 March 2012.

In January 2009, LWD, LWI and 深圳南海益田置業有限公司 (Shenzhen Nanhai Yitian Realty Company Limited) ("Nanhai Yitian") received another pleading (2008)粵高法民初四字第1號(the "Case 2") from Yitian. Yitian alleged that it was rejected to participate to the development of the second phase of "The Peninsula" subsequent to the completion of cooperation in development of the first phase, and claimed for damages of RMB396,356,182 resulting from the alleged breach of a cooperation agreement. LWD and LWI directly and indirectly hold 100% of Nanhai Yitian, and LWD and LWI are the wholly-owned subsidiaries of the Company. LWD, LWI and Nanhai Yitian have subsequently filed their defences to the court. In early February 2010, LWD, LWI and Nanhai Yitian received summons from High People's Court of Guangdong Province ("High People's Court") for cross examination of evidences between the plaintiff and defendants on 26 February 2010, and received another summons for trial on 10 March 2010.

On 17 April 2012, the High People's Court issued its judgement on the Case 2 in favour of the defendants, i.e. LWD, LWI and Nanhai Yitian, subsidiaries of the Company. As per the judgement, the pleadings of the plaintiff i.e. Yitian were all turned down and dismissed by the High People's Court, and Yitian has to bear the costs of approximately RMB2,024,000. Yitian then filed its appeal to the Supreme People's Court on 29 May 2012, and the defendants filed their defences on 25 June 2012.

On 20 November 2012, the Supreme People's Court dismissed the plaintiff's appeal as the plaintiff failed to prepay the security for cost of approximately RMB2,024,000, and the Supreme People's Court ruled that the judgement laid down by the High People's Court becoming enforceable immediately.

As advised by the Group's legal advisors, the judgement laid down by the Supreme People's Court shall be final, and the plaintiff shall not use the same pleadings against the defendants.

The Group, after discussion with legal advisors, considered that it would not incur a material outflow of resources as a result of the above matters.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

41. Related party transactions

Remuneration for key management personnel represents amounts paid to the Company's directors as disclosed in note 36.

Except as disclosed elsewhere in these financial statements, there was no material related party transaction carried out during the year.

42. Financial risk management and fair value measurements

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including currency risk, interest risk and other price risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the Board. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. The Board from time to time identifies ways to access financial markets and monitors the Group's financial risk exposures.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. Financial risk management and fair value measurements (Continued)

42.1 Categories of financial assets and liabilities

The carrying amounts presented in the statements of financial position relate to the following categories of financial assets and financial liabilities:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Available-for-sale financial assets	**324**	479	**–**	–
Financial assets at fair value through profit or loss	**1,226**	1,684	**–**	–
Loans and receivables:				
— Trade receivables	**52,278**	41,988	**–**	–
— Other receivables	**1,089,446**	1,121,185	**127**	127
— Amounts due from subsidiaries	**–**	–	**4,986,726**	5,020,620
— Pledged and restricted bank deposits	**989,027**	272,492	**–**	–
— Time deposits maturing over three months	**41,667**	–	**–**	–
— Amount due from an associate	**530**	530	**–**	–
Cash and cash equivalents	**187,116**	138,675	**477**	9,314
	2,361,614	1,577,033	**4,987,330**	5,030,061
Financial liabilities				
Financial liabilities measured at amortised cost:				
— Trade payables	**496,806**	465,255	**–**	–
— Other payables and accruals	**651,903**	803,685	**31,070**	13,451
— Amount due to a director	**94,563**	124,309	**84,089**	112,515
— Amounts due to subsidiaries	**–**	–	**249,388**	302,281
— Loan from subsidiaries	**–**	–	**1,436,406**	1,357,377
— Amounts due to shareholders	**5,006**	5,006	**–**	–
— Amount due to an associate	**5,501**	5,502	**–**	–
— Amount due to a former subsidiary	**49,085**	59,035	**108,333**	111,628
— Bank and other borrowings	**3,988,089**	2,373,380	**345,699**	191,081
— Finance lease liabilities	**354**	474	**19**	34
— Finance from a connected party	**2,759,398**	2,543,762	**–**	–
	8,050,705	6,380,408	**2,255,004**	2,088,367

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. Financial risk management and fair value measurements (Continued)

42.2 Currency risk

Transactions in foreign currencies and the Group's risk management policies

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has exposure to some of its borrowings which is denominated in United States Dollars (US$) whereas the Group's operations and cash flows are in Renminbi. The exposure to foreign exchange risk is shown as below.

The policy to manage foreign currency risk has been followed by the Group since prior years and is considered to be effective.

Summary of exposure

US$ denominated financial assets and liabilities, translated into Hong Kong dollars at the closing rates, are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents, pledged and restricted bank deposits and time deposits maturing over three months	**271,911**	5,602	**9**	4,354
Other payables	**(22,640)**	(93,114)	**(22,349)**	(6,986)
Finance from a connected party	**(2,759,398)**	(2,543,762)	**–**	–
Bank and other borrowings	**(910,715)**	(418,241)	**(345,699)**	(191,081)
Net exposure arising from recognised financial assets and financial liabilities	**(3,420,842)**	(3,049,515)	**(368,039)**	(193,713)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. Financial risk management and fair value measurements (Continued)

42.2 Currency risk (Continued)

Sensitivity analysis

The following table illustrate the sensitivity of the Group's and the Company's loss for the year and accumulated losses in regards to a 0.5% (2011: 0.5%) strengthening/(weakening) of US$ against RMB at the reporting date and that all other variables in particular interest rates remain constant.

Group

	2012			2011		
	Changes in foreign exchange rates	**(Increase)/ Decrease in loss for the year HK$'000**	**(Decrease)/ Increase in equity HK$'000**	Changes in foreign exchange rates	(Increase)/ Decrease in loss for the year HK$'000	(Decrease)/ Increase in equity HK$'000
US$/RMB	**+0.5%**	**(17,105)**	**(17,105)**	+0.5%	(15,248)	(15,248)
	-0.5%	**17,105**	**17,105**	-0.5%	15,248	15,248

Company

	2012			2011		
	Changes in foreign exchange rates	**(Increase)/ Decrease in loss for the year HK$'000**	**(Decrease)/ Increase in equity HK$'000**	Changes in foreign exchange rates	(Increase)/ Decrease in loss for the year HK$'000	(Decrease)/ Increase in equity HK$'000
US$/RMB	**+0.5%**	**(1,840)**	**(1,840)**	+0.5%	(969)	(969)
	-0.5%	**1,840**	**1,840**	-0.5%	969	969

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. Financial risk management and fair value measurements (Continued)

42.3 Cash flow interest rate risk

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing bank and other borrowings, cash and cash equivalents and pledged and restricted bank deposits carrying interests at variable rates. Bank and other borrowings, cash and cash equivalents, pledged and restricted bank deposits carried at variable rates expose the Group to cash flow interest rate risk. The Group will review whether bank and other borrowings bearing fixed or floating rates should be drawn from time to time with reference to the trend of changes in interest rates. The interest rates and repayment terms of bank and other borrowings, cash and cash equivalents and pledged and restricted bank deposits of the Group are disclosed in the financial statements. The Group currently does not have an interest rate hedging policy. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate exchange exposure should the need arise.

Cash flow interest rate risk sensitivity

At 31 December 2012, the Group was exposed to changes in market interest rates through its bank and other borrowings, cash and cash equivalents and pledged and restricted bank deposits which are subject to variable interest rates. The following table illustrates the sensitivity of the loss for the year and accumulated losses to a change in interest rates of +50 basis points and -50 basis points (2011: +50 basis points and -50 basis points), with effect from the beginning of the year. The calculations are based on the Group's and the Company's bank and other borrowings and bank balance held at each reporting date. All other variables are held constant.

	Group		**Company**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
If interest rates were 50 basis points (2011: 50 basis points) higher (Increase)/Decrease in loss for the year	**(2,708)**	(16,586)	**2**	47
If interest rates were 50 basis points (2011: 50 basis points) lower Decrease/(Increase) in loss for the year	**2,708**	16,586	**(2)**	(47)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. Financial risk management and fair value measurements (Continued)

42.4 Other price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group is exposed to change in market prices mainly in respect of its investments in listed equity securities classified as financial assets at fair value through profit and loss.

To manage its market price risk arising from these investments, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by Board. The Group's listed investments are listed on the Stock Exchange of Hong Kong, Shenzhen, Mainland China. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the index and other industry indicators, as well as the Group's liquidity needs. Investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The policies to manage other price risk have been followed by the Group since prior years and are considered to be effective.

Equity price sensitivity

For listed equity securities, an average volatility of 6% has been observed in 2012 (2011: 11%). If the quoted price for the Group's listed equity securities existing as at 31 December 2012 increased or decreased by that amount, loss for the year and accumulated losses would have decreased or increased by HK$59,000 (2011: HK$182,000) in respect of listed equity securities classified as held for trading. The assumed volatilities of listed securities represent the management's assessment of a reasonably possible change in these security prices over the next twelve month period.

42.5 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. As at 31 December 2012, the Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligation and financial guarantees provided by the Group is arising from:

— carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and

— the amount of contingent liabilities in relation to the financial guarantees provided by the Group as disclosed in note 38.

In order to minimise the credit risk, the management of the Group has formulated a defined fixed credit policy and 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 receivable regularly at each reporting date to ensure that adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. Financial risk management and fair value measurements (Continued)

42.5 Credit risk (Continued)

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22 and note 18, respectively.

42.6 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through the ability to close-out market positions. In the opinion of the directors of the Company, the Group does not have any significant liquidity risk exposure.

The following table details the remaining contractual maturities at the reporting date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay:

Group

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
As at 31 December 2012					
Trade payables	496,806	496,806	496,806	–	–
Other payables and accruals	651,903	651,903	651,903	–	–
Amount due to a director	94,563	94,563	94,563	–	–
Amounts due to shareholders	5,006	5,006	5,006	–	–
Amount due to an associate	5,501	5,501	5,501	–	–
Bank and other borrowings	3,988,089	4,295,469	2,805,217	1,206,809	283,443
Amount due to a former subsidiary	49,085	49,085	49,085	–	–
Finance lease liabilities	354	381	141	127	113
Finance from a connected party	2,759,398	3,319,827	1,861,842	180,409	1,277,576
	8,050,705	8,918,541	5,970,064	1,387,345	1,561,132
Financial guarantee issued					
Maximum amount guaranteed	–	78,184	78,184	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. Financial risk management and fair value measurements (Continued)

42.6 Liquidity risk (Continued)

Group (Continued)

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
As at 31 December 2011					
Trade payables	465,255	465,255	465,255	–	–
Other payables and accruals	803,685	803,685	803,685	–	–
Amount due to a director	124,309	124,309	124,309	–	–
Amounts due to shareholders	5,006	5,006	5,006	–	–
Amount due to an associate	5,502	5,502	5,502	–	–
Bank and other borrowings	2,373,380	2,587,814	1,233,653	824,217	529,944
Amount due to a former subsidiary	59,035	59,035	59,035	–	–
Finance lease liabilities	474	522	141	141	240
Finance from a connected party	2,543,762	2,771,944	2,771,944	–	–
	6,380,408	6,823,072	5,468,530	824,358	530,184
Financial guarantee issued					
Maximum amount guaranteed	–	79,859	79,859	–	–

For term loans which contain a repayment on demand clause that can be exercised at the bank's sole discretion, the analysis above shows the cash outflows based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. Financial risk management and fair value measurements (Continued)

42.6 Liquidity risk (Continued)

Taking into account the Group's financial position the directors of the Company do not consider it probable that the bank will exercise its discretion to demand immediate repayment. The directors of the Company believe that such term loans will be repaid in accordance with the scheduled payment dates set out in the loan agreements which are summarised in the table below:

Group

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
31 December 2012	**3,988,089**	**4,307,738**	**2,477,264**	**1,547,031**	**283,443**
31 December 2011	2,373,380	2,596,971	1,013,934	1,053,093	529,944

The following table details the remaining contractual maturities at the reporting date of the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Company can be required to pay:

Company

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
As at 31 December 2012					
Other payables and accruals	**31,070**	**31,070**	**31,070**	**–**	**–**
Amounts due to subsidiaries	**249,388**	**249,388**	**249,388**	**–**	**–**
Amount due to a director	**84,089**	**84,089**	**84,089**	**–**	**–**
Amount due to a former subsidiary	**108,333**	**108,333**	**108,333**	**–**	**–**
Finance lease liabilities	**19**	**22**	**18**	**4**	**–**
Loan from subsidiaries	**1,436,406**	**1,475,379**	**1,475,379**	**–**	**–**
Bank and other borrowings	**345,699**	**351,565**	**351,565**	**–**	**–**
	2,255,004	**2,299,846**	**2,299,842**	**4**	**–**
Financial guarantees issued					
Maximum amount guaranteed	**–**	**3,370,925**	**3,370,925**	**–**	**–**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. Financial risk management and fair value measurements (Continued)

42.6 Liquidity risk (Continued)

Company (Continued)

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
As at 31 December 2011					
Other payables and accruals	13,451	13,451	13,451	–	–
Amounts due to subsidiaries	302,281	302,281	302,281	–	–
Amount due to a director	112,515	112,515	112,515	–	–
Amount due to a former subsidiary	111,628	111,628	111,628	–	–
Finance lease liabilities	34	40	18	18	4
Loan from subsidiaries	1,357,377	1,475,596	–	1,475,596	–
Bank and other borrowings	191,081	191,912	191,912	–	–
	2,088,367	2,207,423	731,805	1,475,614	4
Financial guarantees issued					
Maximum amount guaranteed	–	2,801,668	2,801,668	–	–

42. Financial risk management and fair value measurements (Continued)

42.7 Fair value

The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are in short-term nature: current portion of pledged and restricted bank deposits, time deposits maturing over three months, cash and cash equivalents, trade receivables and payables, other receivables and payables, current portion of bank and other borrowings, loan from/amounts due from/(to) a director/shareholders/subsidiaries/an associate/a former subsidiary. Analysis of the interest rate and carrying amounts of borrowings are presented in note 27 to the financial statements.

The fair value of available-for-sale financial assets with standard terms and conditions and trade on active liquid markets are determined with reference to quoted market prices.

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

— Level 1: quoted price (unadjusted) in active markets for identical assets and liabilities;

— Level 2: inputs other than quoted prices included within Level 1 that are observable of the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

— Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirely is based on the lowest level of input that is significant to the fair value measurement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. Financial risk management and fair value measurements (Continued)

42.7 Fair value (Continued)

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	Group			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
As at 31 December 2012				
Assets				
Available-for-sale financial assets	**–**	**324**	**–**	**324**
Listed securities held for trading	**977**	**–**	**–**	**977**
Unlisted mutual fund held for trading	**–**	**249**	**–**	**249**
Total fair values	**977**	**573**	**–**	**1,550**

	Group			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2011				
Assets				
Available-for-sale financial assets	–	324	155	479
Listed securities held for trading	1,684	–	–	1,684
Total fair values	1,684	324	155	2,163

There have been no significant transfers between level 1 and 2 in the reporting period. The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

43. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current and previous years.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt is calculated as the sum of bank and other borrowings, finance from a connected party and finance lease liabilities and loan from subsidiaries less the sum of pledged and restricted bank deposits, time deposits maturing over three months, and cash and cash equivalents as shown in the statements of financial position. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios as at the reporting date were as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current liabilities				
Bank and other borrowings	**2,682,088**	1,125,110	**345,699**	191,081
Finance lease liabilities	**126**	120	**16**	16
Finance from a connected party	**1,681,952**	2,543,762	**–**	–
Loan from subsidiaries	**–**	–	**1,436,406**	–
Non-current liabilities				
Loan from subsidiaries	**–**	–	**–**	1,357,377
Bank and other borrowings	**1,306,001**	1,248,270	**–**	–
Finance lease liabilities	**228**	354	**3**	18
Finance from a connected party	**1,077,446**	–	**–**	–
Total debt	**6,747,841**	4,917,616	**1,782,124**	1,548,492
Less: Pledged and restricted bank deposits	**(989,027)**	(272,492)	**–**	–
Time deposits maturing over three months	**(41,667)**	–	**–**	–
Cash and cash equivalents	**(187,116)**	(138,675)	**(477)**	(9,314)
Net debt	**5,530,031**	4,506,449	**1,781,647**	1,539,178
Total equity	**3,851,591**	4,187,520	**2,732,469**	2,941,846
Total equity and net debt	**9,381,622**	8,693,969	**4,514,116**	4,481,024
Gearing ratio	**58.95%**	51.83%	**39.47%**	34.35%

LIST OF PROPERTIES

Properties under development

Location	Interest attributable to the Group in percentage	Floor area on completion in sq.m. (approx.)	Type of development	Expected year of completion	Stage of development
A residential development located at Guanghu Gonglu, Huadu District, Guangdong Province, the PRC	100*	1,024,000	Commercial/ residential	2017	Construction in progress
Reclaimed site located at Liu Wan, Shekou, Shenzhen, Guangdong Province, the PRC	100	549,000	Shopping arcade/ residential/hotel/ recreational facilities	2016	Construction in progress

* 30% of the equity interest of 廣州東鏡新城房地產有限公司 has been indirectly disposed to a financier, but the equity interest is considered as collateral for finance from the financier by taking into account of such parameters as call and put options, mandatory interim cash distribution conditional upon cash being available for cash distribution and guaranteed IRR.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out as follows:

	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Revenue/Turnover (continuing and discontinued operations)	**1,953,568**	2,365,811	1,963,454	4,008,375	494,861
(Loss)/Profit for the year	**(372,293)**	(586,000)	(428,563)	138,893	(534,763)
Non-controlling interests	**26,230**	91,254	46,990	61,940	42,525
(Loss)/Profit attributable to the owners of the Company	**(346,063)**	(494,746)	(381,573)	200,833	(492,238)
Total assets	**13,698,821**	11,820,198	10,557,210	10,374,337	10,699,563
Total liabilities	**(9,847,230)**	(7,632,678)	(6,036,990)	(5,595,481)	(6,041,792)
	3,851,591	4,187,520	4,520,220	4,778,856	4,657,771

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