中國東方文化集團有限公司

China Oriental Culture Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2371)

2012 ANNUAL REPORT

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CORPORATE INFORMATION

Executive Directors

Mr. LI Qing
Mr. YAN Dake

Non-executive Director

Ms. NG Siu Lai

Independent Non-executive Directors

Mr. LEUNG Siu Kee
Mr. HAN Bing
Ms. WANG Shuping

Company Secretary

Mr. TING Pong Ming

Audit Committee

Mr. LEUNG Siu Kee
(Chairman of the Audit Committee)
Mr. HAN Bing
Ms. WANG Shuping

Remuneration Committee

Ms. WANG Shuping
(Chairman of the Remuneration Committee)
Mr. LEUNG Siu Kee
Mr. HAN Bing

Nomination Committee

Mr. HAN Bing
(Chairman of the Nomination Committee)
Mr. LEUNG Siu Kee
Ms. WANG Shuping

Authorised Representatives

Mr. LI Qing
Mr. TING Pong Ming

Auditor

SHINEWING (HK) CPA Limited

Principal Bankers

Hang Seng Bank Limited

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Suites 1205-1207
12th Floor
Dah Sing Financial Centre
108 Gloucester Road
Wanchai, Hong Kong

Principal Share Registrar and Transfer Office

HSBC Trustee (Cayman) Limited
P.O. Box 484, HSBC House
68 West Bay Road
Grand Cayman KY1-1106
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Website

www.chinaoc.com.hk

Stock Code

2371

FINANCIAL SUMMARY

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years:

Results

	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**22,748**	58,169	30,970	31,334	23,966
Gross (loss) profit	**(644,489)**	(43,655)	(33,766)	424	4,993
Loss for the year	**(702,236)**	(146,841)	(105,290)	(9,233)	(33,040)
Loss for the year attributable to:					
Owners of the Company	**(701,309)**	(145,840)	(105,150)	(9,233)	(33,040)
Non-controlling interests	**(927)**	(1,001)	(140)	–	–
	(702,236)	(146,841)	(105,290)	(9,233)	(33,040)
Basic loss per share (RMB cents)	**(35.34)**	(8.30)	(8.50)	(2.24)	(8.19)

Assets and Liabilities

	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**30,572**	684,787	674,587	33,967	46,612
Current assets	**62,599**	66,850	110,075	149,586	48,993
Current liabilities	**(59,174)**	(40,316)	(25,601)	(13,903)	(10,826)
Net current assets	**3,425**	26,534	84,474	135,683	38,167
Non-current liabilities	**(43,519)**	(37,703)	(73,129)	–	–
Non-controlling interests	**132**	(795)	(816)	–	–
Equity	**(9,390)**	672,823	685,116	169,650	84,779

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 31 December 2012, China Oriental Culture Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") recorded a turnover of approximately RMB22,748,000 (2011: approximately RMB58,169,000), representing a decrease of 60.9% as compared to that of last year. Of these, turnover derived from advertising media income and consultancy service income and TV programmes distribution services income were approximately RMB10,240,000 and RMB12,508,000 respectively (2011: approximately RMB38,078,000 and RMB142,000 respectively).

Administrative expenses for the year ended 31 December 2012 was approximately RMB42,425,000 (2011: approximately RMB67,411,000), representing a decrease of 37.1% as compared to that of last year. The decrease in expenses was mainly due to the saving in the staff cost and the share-based payment expenses granted.

The loss for the year attributable to owners of the Company aggregated at approximately RMB701,309,000 (2011: approximately RMB145,840,000). The basic loss per share for the year ended 31 December 2012 was RMB35.34 cents (2011: RMB8.30 cents).

Business Review

The Group is principally engaged in the provision of advertising and consultancy services in respect of placing advertisements on the outdoor billboards and LED screens of the Group to advertisers and advertising agencies.

The Chinese economy showed signs of a slowdown due to the uncertainties about the European sovereign debt crisis and the sluggish economic recovery in the United States throughout the year 2012. The unfavourable domestic climate created a challenging operating environment for the advertising industry and our core advertising media business as well, for instance, the provision of advertising and consultancy services in respect of placing advertisements on the outdoor billboards, LED screens and direct mail magazine of the Group. As a result, the contributions from the advertising media business decreased significantly in 2012. In August 2012, the Group ceased the publication of the weekly direct mail magazine《新乘坐》which is distributed free of charge in the subway in Beijing, the People's Republic of China (the "PRC"). After arm's length negotiations with 北京軌道傳媒廣告有限公司 ("Railway Media"), the Group entered into a termination agreement on 26 September 2012 to terminate the exclusive operating right of the advertising media with effect from 10 August 2012. Details of the termination agreement with Railway Media have been set out in the Company's announcement dated on 26 September 2012.

On the other hand, the Group's TV programmes distribution business generated stable revenue in 2012. In 2012, the Group distributed a new 30 episodes of TV programme titled 《捍衛者》 and it is expected that the distribution of this TV programme will generate revenue in 2013.

Impairment of Intangible Assets

LED Displays Advertising Right (the "Right")

The Group had intangible asset of approximately RMB612,288,000 as of 31 December 2011 which represents the operating right to operate outdoor advertising LED displays business in the PRC acquired through acquisition of the entire issued share capital of Precious Luck Enterprises Limited ("Precious Luck") and its subsidiaries (collectively referred to as the "Precious Luck Group") during the year ended 31 December 2010. Valuation of Precious Luck Group at acquisition is based on market approach valued by an independent professional valuation firm. Market approach is an acceptable valuation approach as mentioned in HKFRS 13 "Fair Value Measurement". It uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets and liabilities, such as a business.

Such intangible asset is amortised on a straight-line basis over its estimated useful lives of 20 years, being the period over which the Group is expected to generate net cash inflows. In order to determine the recoverable amount of the Right in the subsequent periods, the Directors hired an independent professional valuation firm to perform valuation every year. In the opinion of the Directors, discount cash flow (the "DCF") valuation method would best reflect the value in use of the Right and for the assessment of any impairment in accordance with HKAS 36 "Impairment of Assets". The value-in-use of the Right is calculated by adding the present values of the yearly forecast cash flow available to equity and debt holders (the "FCF") over the forecast periods. The cash flows beyond five-year are assumed with a zero growth rate. The present values were derived by discounting the FCF with a discount rate that was appropriate for the expected return on the intangible asset. For more details, please refer to note 20 of the Notes to the Consolidated Financial Statements. During 2010, 2011 and 2012, there is no change in valuation method used and the Directors have consensus to adopt a consistent valuation methodology and accounting policy in accounting for valuation of the Right.

In 2011, in the opinion of the Directors, no impairment had to be provided based on the five-year profit forecast on Precious Luck Group with the list of existing LED display panels and the list of panels (9 panels with sizes ranging from 150 square meters to 300 square meters) to be operated in the good locations in Beijing from 2012 to 2015 based on the long term business plan of the Precious Luck Group. The LED panels were under the administration of our business partner 北京歌華聖唐傳媒廣告有限公司 ("Gehua Shengtang") and would be transferred to our operation based on the time spent on the new set-up or upgrade of the LED panels with reference to the business plan agreed between the Group and Gehua Shengtang. At the relevant time, two new LED panels, one with a size of 150 square meters and another one with a size of 300 square meters situated in the good location near the South Railway Station in Beijing were expected to be operated in 2012 and profits were expected to be generated starting from 2012, despite the fact that no profit was generated in 2010 and 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Up to the third quarter of 2012, the Directors noticed an adverse change in the operating environment in the PRC advertising industry and the difficulty in the procurement of good location LED boards in major cities in the PRC. Furthermore, the termination of the Group's acquisition of the 49% shareholding in 湖南廣電移動電視有限責任公司 (Hunan Mobile Television Company Limited*) in September 2012 eliminated the development opportunity of the Group's existing capabilities in the outdoor advertising business including the LED business in the PRC through the media platform provided by Hunan Mobile Television Company Limited. On 1 March 2013, Mr. Chen Fu Ju, who was primarily responsible for the management of the overall operations and advertising operations of the media and entertainment companies of the Group, had tendered his resignation as an executive director and authorised representative of the Group. As a result, the Directors had decided to terminate the outdoor billboards business and the procurement of new LED panels in the PRC, but to operate only the Group's existing 4 panels at the South Square of the Shanghai North Railway Station in Shanghai and 26 LED panels at the Olympic Axis of the main venues of the Olympic Games in Beijing.

In the opinion of the Directors, there will be a substantial decrease in the revenue generated and an impairment provision of approximately RMB574,877,000 for the Right has been recognised in consolidated statement of comprehensive income for the year ended 31 December 2012.

Consultancy Service Contracts (the "Contracts")

The Group had intangible asset of approximately RMB40,736,000 as of 31 December 2011 which represents the exclusive consultancy service agreements for media business with the PRC media enterprises obtained through the acquisition of the entire issued share capital of Bold Champion International Limited ("Bold Champion") and its subsidiaries (collectively referred to as the "Bold Champion Group") on 25 March 2011. Valuation of Bold Champion Group at acquisition is based on DCF valuation method.

The intangible asset is amortised on a straight-line basis over its estimated useful lives of 10 years according to the terms of the consultancy service contracts. In order to determine the recoverable amount of the Contracts in the subsequent periods, the Directors hired an independent professional valuation firm to perform valuation every year. In the opinion of the Directors, DCF valuation method would best reflect the value in use of the Contracts and for the assessment of any impairment in accordance with HKAS 36 "Impairment of assets". The value-in-use of the Contracts is calculated by adding the present values of the yearly forecast cash flows available to equity and debt holders ("Bold Champion FCF") over the forecast periods. The cash flows beyond three-year (2011: four-year) are assumed with a zero growth rate. The present values were derived by discounting the Bold Champion FCF with a discount rate that was appropriate for the risk of investing in this business. For more details, please refer to note 20 of the Notes to the Consolidated Financial Statements. During 2011 and 2012, there is no change in valuation method used and the Directors have consensus to adopt a consistent valuation methodology and accounting policy in accounting for the valuation of the Contracts.

In 2011, in the opinion of the Directors, no impairment had to be provided based on the four-year profit forecast on the Bold Champion Group. Bold Champion Group, through its subsidiary, 北京柯瑞環宇傳媒文化有限公司 (Beijing Kery Media Culture Limited*) ("Kery Media"), provides consultancy and management related services and receives service income from several the PRC media enterprises (the "PRC Media Enterprises") which will produce and distribute more than one new TV drama with 30 episodes each year. At the relevant time, according to the business plan of the PRC Media Enterprises, a new TV drama titled《捍衛者》was expected to be produced and distributed in 2012 and 2013.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

On 16 May 2012, Kery Media acquired the entire equity interest in 上海美視文化傳播有限公司 ("Shanghai Media"). After such acquisition, Shanghai Media will contribute income to the Company by the distribution of TV dramas and such income will be included in the profit guarantee provided under the agreement (the "Acquisition Agreement") entered into by the Company in relation to its acquisition of the entire issued share capital of Bold Champion. On the other hand, no consultancy and management related services income is received by Shanghai Media from the PRC Media Enterprises for the distribution of TV dramas previously carried out by one of the PRC Media Enterprises due to the change of the business plan of the PRC Media Enterprises. In the opinion of the Directors, there would be no future economic benefits generated from the Contracts from 2013 onwards and an impairment provision of RMB35,937,000 for the Contracts has been recognised in consolidated statement of comprehensive income for the year ended 31 December 2012.

The profit guarantee is expected to be met based on the financial results of Shanghai Media for the year ended 31 December 2012 and the forecasted results of Shanghai Media for the year ending 31 December 2013. The profit is mostly derived from the distribution income earned by Shanghai Media and such income is included in the profit guarantee pursuant to the fifth supplemental agreement to the Acquisition Agreement dated 1 May 2012 and entered into by the parties to the Acquisition Agreement. In the event that the profit guarantee is not met, the vendors and guarantors under the acquisition make a cash payment to the purchaser which is equivalent to the actual shortfall from the profit guarantee on a dollar to dollar basis, details of which were set out in the Company's announcement dated 3 March 2011.

Business Outlook

Following the completion of the acquisition of 98% shareholding in Kery Media in March 2011, the Group is optimistic about expanding other media resources and will take any active approach to seek opportunities to expand the Group's cross-media platform.

On 7 September 2012, a wholly-owned subsidiary of the Group entered into the acquisition of the entire issued share capital of Housden Holdings Limited (the "Acquisition of Housden"). The Acquisition of Housden will provide the Company with an unique opportunity to expand in another important media, internet, and engage in internet advertising industry and the related on-line education business activities in the PRC with lucrative potential. There are a lot of successful business internet platforms in the PRC partly due to the enormous population in the PRC. The Acquisition of Housden will also provide a great opportunity to the Group to participate in this platform and have a chance to extend its advertising business under this platform.

The board of Directors (the "Board") will continue to seek other investment opportunities in media platform and to explore the feasibility of expansion into other advertising business with an aim to enhance the Group's profitability and the shareholders' value in the long run.

MANAGEMENT DISCUSSION AND ANALYSIS

Advance to an Entity

On 10 July 2009, Smart Century Investment Limited, a wholly-owned subsidiary of the Company, provided financial assistance in the sum of HK$20,000,000 to Apex One Enterprises Limited ("Apex One"), a 49%-owned and affiliated company of the Company. The principal activity of Apex One is securities trading. For more details, please refer to the Company's announcements dated 10 July 2009 and 13 July 2009.

At 31 December 2012, the amount due from Apex One was approximately RMB7,095,000.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and the bank balances.

As at 31 December 2012, the Group had bank balances and cash of approximately RMB19,965,000 as compared to the bank balances and cash of approximately RMB18,194,000 as at 31 December 2011.

The Group's net current assets totalled approximately RMB3,425,000 as at 31 December 2012, against approximately RMB26,534,000 as at 31 December 2011. The Group's current ratio was approximately 1.06 as at 31 December 2012 as compared with 1.66 as at 31 December 2011.

Gearing Ratio

The gearing ratio of the Group (measured as total liabilities to total assets) was approximately 110.2% as at 31 December 2012 (2011: 10.4%).

Capital Structure

As at 31 December 2012, the Company's issued share capital was approximately HK$202,194,000 (2011: approximately HK$193,944,000) and the number of its issued ordinary shares was 2,021,937,239 shares of HK$0.10 each.

During the year, the Company has issued 20,000,000 ordinary shares at an issue price of HK$0.18 per placing share and 62,501,471 ordinary shares by means of conversion of convertible loan notes respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Material Transactions

Major Transaction in relation to the Acquisition of the Entire Issued Share Capital of Sino Mind Holdings Limited

On 24 November 2011, Top Succeed Holdings Limited ("Top Succeed"), being a wholly-owned subsidiary of the Company, the vendors and the guarantors entered into an acquisition agreement (the "Acquisition Agreement of Sino Mind"), pursuant to which Top Succeed conditionally agreed to acquire and the vendors conditionally agreed to dispose of the entire issued share capital of Sino Mind Holdings Limited ("Sino Mind") to Top Succeed, at an aggregate total consideration of HK$218 million which shall be satisfied as to an aggregate amount of HK$30 million by cash within six months after completion of the acquisition of Sino Mind and as to an aggregate amount of HK$188 million by the issue of the first tranche consideration shares (being 400,000,000 consideration shares) at the issue price of HK$0.47 per consideration share upon completion of the acquisition of Sino Mind. The total consideration is subject to upward adjustments by a maximum amount of HK$658 million upon fulfillment of the consideration adjustments which shall be satisfied by the further issue of (i) the second tranche consideration shares in an aggregate amount of HK$47 million (being 100,000,000 consideration shares) at the issue price of HK$0.47 per consideration share; and (ii) the convertible bonds in an aggregate principal amount of HK$611 million (convertible into 1,300,000,000 conversion shares) at the conversion price of HK$0.47 per conversion share. Accordingly, upon fulfilling the relevant consideration adjustments, the maximum aggregate amount of the total consideration shall be adjusted upwards to an aggregate amount of HK$876 million.

Upon completion of the acquisition of Sino Mind, Sino Mind will become an indirect wholly-owned subsidiary of the Company. The two main operating entities of the Sino Mind group comprise mainly the effective interests of 49% in Hunan Mobile Television Company Limited and 95% in 北京嘉華新廣文化傳媒有限公司 (Beijing Jia Hua Xin Guang Cultural Media Company Limited*) ("Beijing Jiahua"), hence, Hunan Mobile Television Company Limited and Beijing Jiahua will become an indirect associated company and a non-wholly-owned subsidiary of the Company respectively upon completion of the acquisition of Sino Mind.

The acquisition of Sino Mind constitutes a major transaction for the Company under Rule 14.06 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and is subject to the reporting, announcement and shareholders' approval requirements.

On 29 March 2012, Top Succeed, the vendors and the guarantors entered into a supplemental agreement pursuant to which, among others, the parties agreed to extend the long stop date to a date falling on or before 31 December 2012 or such later date as the vendors and Top Succeed may agree in writing and the consideration of the acquisition of Sino Mind of HK$30 million shall be paid in cash within nine months after completion of the acquisition of Sino Mind.

* For identification purpose only

On 28 September 2012, in view of the current market conditions, including, among others, the prevailing global economic condition and the uncertainty of its impact on business environment as a whole and for commercial reasons, after arm's length negotiations between Top Succeed and the vendors, the parties to the Acquisition Agreement of Sino Mind entered into a termination agreement (the "Termination Agreement of Sino Mind") to terminate the Acquisition Agreement of Sino Mind and the acquisition with immediate effect. Pursuant to the Termination Agreement of Sino Mind, no party to the Acquisition Agreement of Sino Mind shall have any obligations towards each other and no party to the Acquisition Agreement of Sino Mind shall have any claim against the other party in respect of the Acquisition Agreement of Sino Mind save for any antecedent breach.

Details of the acquisition of Sino Mind and the Termination Agreement of Sino Mind have been set out in the announcements dated 24 November 2011, 30 December 2011, 30 March 2012, 29 June 2012 and 28 September 2012 published by the Company.

Discloseable and Connected Transaction in relation to the Acquisition of the Entire Issued Share Capital of 上海美視文化傳播有限公司

On 16 May 2012, Kery Media, an indirect non-wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "Equity Transfer Agreement") with Ms. Wang Hongyun, Mr. Zhou Kui, Mr. Wang Xiaoping and Mr. Yan Dake ("Mr. Yan") who is an executive Director of the Company (collectively, the "Vendors"), pursuant to which the Vendors have agreed to sell and Kery Media has agreed to acquire the entire equity interest of Shanghai Media for a total cash consideration of RMB3,000,000 (equivalent to approximately HK$3,659,000).

Mr. Yan, being a Director and a director of Kery Media, is a connected person of the Company as defined under Rule 14A.11 of the Listing Rules. As such, the transaction contemplated under the Equity Transfer Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

The transaction contemplated under the Equity Transfer Agreement is subject to the reporting and announcement requirements but is exempted from the shareholders' approval requirement under Chapter 14A of the Listing Rules. The acquisition of Shanghai Media also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

On 16 May 2012, the Equity Transfer Agreement was completed. Kery Media owned 100% equity interest of Shanghai Media and Shanghai Media became an indirect non-wholly-owned subsidiary of the Company.

Details of the acquisition of Shanghai Media have been set out in the announcement dated 12 July 2012 published by the Company.

Major Acquisition in relation to the Acquisition of the Entire Issued Share Capital of Housden Holdings Limited

On 7 September 2012, Talent Group Development Limited ("Talent Group"), a wholly-owned subsidiary of the Company, Headwind Holdings Limited ("Headwind") and Mr. Lu Xing ("Mr. Lu"), the beneficial owner of the entire issued share capital of Housden Holdings Limited ("Housden") and Headwind, entered into the acquisition agreement (the "Acquisition Agreement of Housden"), pursuant to which Talent Group has conditionally agreed to acquire and Headwind has conditionally agreed to dispose of the entire issued share capital of Housden at the initial consideration of HK$199.5 million which will be satisfied by the Company issuing 950,000,000 initial preferred shares at the issue price of HK$0.21 per preferred share upon completion of the Acquisition of Housden, and is subject to (i) the relevant valuation adjustment; and (ii) an upward adjustment by HK$199.5 million, to be satisfied by the Company issuing a total of 950,000,000 additional preferred shares to Headwind if Housden, CL Education Limited, 北京創聯中人技術服務有限公司 (Beijing Chuanglian Zhongren Technical Service Company Limited*), 北京創聯教育投資有限公司 (Beijing Chuanglian Education Investment Company Limited*) and 北京中人光華教育科技有限公司 (Beijing Zhongren Guanghua Education Technology Company Limited*) fulfilled the relevant profit warranty (the terms of which have been amended in the supplemental agreement dated 29 March 2013) under the Acquisition Agreement of Housden. In aggregate, a maximum of 1,900,000,000 preferred shares shall be issued by the Company to Headwind if the relevant profit warranty is fulfilled.

Upon completion of the Acquisition of Housden, Housden will become a direct wholly-owned subsidiary of the Talent Group.

The Acquisition of Housden constitutes a major acquisition for the Company under Rule 14.06 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval to be sought at the extraordinary general meeting of the Company.

On 29 March 2013, Talent Group, Headwind and Mr. Lu entered into a supplemental agreement to the Acquisition Agreement of Housden, pursuant to which the parties to the Acquisition Agreement of Housden agreed to extend the long stop date to a date falling on or before 30 June 2013 or such later date as Talent Group and Headwind may agree in writing.

Details of the Acquisition of Housden have been set out in the announcements dated 9 September 2012, 7 December 2012, 31 December 2012, 15 January 2013, 28 February 2013 and 29 March 2013 published by the Company.

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MANAGEMENT DISCUSSION AND ANALYSIS

Fund Raising Activities

On 31 August 2012, the Company entered into a placing agreement with a placing agent in relation to a placement of 20,000,000 new ordinary shares of HK$0.1 each in the share capital of the Company at a price of HK$0.18 per placing share to independent investors. The placing was completed on 11 September 2012.

On 3 December 2012, the Company and each of the subscribers, who are independent investors, entered into the subscription agreements in respect of the issue of the convertible notes at the conversion price of HK$0.281 per share in the aggregate principal amount of HK$25 million. The subscription of convertible notes was completed on 10 December 2012.

Reset of Conversion Price of Convertible Bonds

In relation to an aggregate principal amount of RMB25,000,000 convertible bonds issued on 23 June 2011, on 3 January 2012, the Board announces the conversion price of the convertible bonds has been reset to HK$0.29 per share.

Foreign Exchange Exposure

Substantially all of the business transactions of the Group are denominated in Renminbi and Hong Kong dollars. The Group adopts a conservative financial policy. As at 31 December 2012, the Group did not have any bank liabilities, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to any material interest and exchange risks.

Charges on Group Assets

As at 31 December 2012, the Group did not have any charges on its assets (2011: Nil).

Contingent Liabilities

On 12 June 2010, an indirectly-owned subsidiary of the Company has been brought to the first court hearing at 河北省廊坊經濟技術開發區人民法院 by 日本赤見電機株式會社 ("Japan Chijian"). Japan Chijian has brought a claim for alleged breach of contractual undertakings in relation to the construction of a LED display panel located in the PRC for an amount of approximately RMB12,378,000.

A hearing was held on 4 July 2012 at 河北省石家莊中級人民法院 (the "Court"). No decision had been concluded during the hearing, however, based on principal of equitable liability, the Court has revealed an arbitration of claim of RMB7,500,000 to be paid by the Group for the ownership of the LED display panel. On 12 December 2012, another hearing was brought but no decision had been recognised and concluded.

With reference to a legal opinion obtained from the PRC legal advisor, likelihood of an unfavorable outcome is probable and the amount of the loss of RMB7,500,000 can be reasonably estimated. As a result, a provision of RMB7,500,000 in respect of such claim was made as at 31 December 2012.

As at the date of approval of the consolidated financial statements, no final decision had been made in the court proceedings.

As at 31 December 2011, the Group did not have any material contingent liabilities.

Capital Commitment

As at 31 December 2012, the Group had outstanding capital commitment in respect of the acquisition of 100% of the issued and paid-up capital of Housden Holdings Limited of HK$399,000,000 (equivalent to approximately RMB320,225,000).

As at 31 December 2011, the Group had outstanding capital commitment in respect of the acquisition of 100% of the issued and paid-up capital of Sino Mind Holdings Limited of HK$218,000,000 (equivalent to approximately RMB176,885,000).

Employee Information and Remuneration Policy

As at 31 December 2012, the Group has 60 employees (2011: 60 employees) in Hong Kong and the PRC. The total staff cost is approximately RMB8,684,000 for the year ended 31 December 2012 (2011: approximately RMB18,672,000).

We offer competitive remuneration package, including medical and retirement benefits, to eligible employees. Apart from basic salary, employees are eligible to receive a discretionary bonus taking into accounts factors such as market conditions as well as corporate and individual's performance during the year.

In order to attract, retain and motivate eligible employees, including the directors of the Company, the Company has adopted a share option scheme. The scheme enables eligible persons to obtain an ownership interest in the Company and thus motivates them to optimise their continuing contributions to the Group. As at 31 December 2012, there are 142,460,000 share options remained outstanding.

We are confident that our employees will continue to provide a firm foundation for the success of the Group and will maintain high standard of service to our clients.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. LI Qing ("Mr. Li"), aged 43, is an executive Director. Mr. Li graduated from 北京職業大學機電學院 (now integrated into Beijing Union University). Mr. Li has over 19 years of experience in computer banking system planning, design, implementation, integration and management in China and worked in several sizable enterprises in China, including China Construction Bank. He has been the marketing director of Visioncom Ltd. (北京華際信息系統有限公司) and vice general manager of Blue D Tech Ltd. (蘭迪科諾科技發展有限公司). Currently, Mr. Li is the general manager of ChuangZhi LiDe (Beijing) Technology Development Company Limited, an indirect non-wholly-owned subsidiary of the Company. Mr. Li is also a shareholder of a non-wholly-owned subsidiary of the Company.

Mr. YAN Dake ("Mr. Yan"), aged 46, is an executive Director. Mr. Yan is a director of Kery Media, an indirect subsidiary of the Company. He graduated from Shanghai Theatre Academy China (上海戲劇學院). He has over 19 years of experience in the movie and television production industry and over 16 years of experience in corporate management. As a producer, Mr. Yan worked for several sizable movie and television production corporations. His serial drama productions such as The Prince of Han Dynasty (大漢天子), Concubines of Qing Emperor (大清後宮) and Morality Base Line (道德底線) were popular and well-received in China. Concubines of Qing Emperor was even selected and broadcasted through the Chinese channel of Asia Television Ltd. of Hong Kong. In 2010, Mr. Yan was honored as The Best Ten Producers at Macau TV Festival. In addition, Mr. Yan is a director of one of the subsidiaries of the Company.

Non-executive Director

Ms. NG Siu Lai ("Ms. Ng"), aged 49, is a non-executive Director. Ms. Ng has extensive experience in business management and investment in Mainland China. In addition, she has wide-ranging experience in cross-border trade and has acquired a wide business network over the years.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. LEUNG Siu Kee ("Mr. Leung"), aged 36, is an independent non-executive Director. Mr. Leung is also the chairman of the audit committee of the Company and a member of the remuneration committee and nomination committee of the Company. Mr. Leung obtained his bachelor degree of Business Administration majoring in Accounting at the Hong Kong University of Science and Technology with first honour. He has extensive accounting knowledge as he had worked in two international accounting firms for more than 7 years, mainly to provide auditing and business assurance services. Afterwards, Mr. Leung has devoted to develop his career in corporate finance and corporate restructuring businesses. Currently, Mr. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants and has been qualified for practice.

Mr. HAN Bing ("Mr. Han"), aged 52, is an independent non-executive Director. Mr. Han is also the chairman of the nomination committee of the Company and a member of the audit committee and remuneration committee of the Company. Mr. Han is a director of Beijing H&J Law Firm, a post-graduate of Chinese Academy of Social Sciences majoring in Commercial Economics and a part-time PhD candidate of China University of Political Science and Law in Procedural Law. Mr. Han is also an International Certified Finance Manager (focusing on financial strategy). Mr. Han has long been involved in legal practices and accumulated abundant practical experiences in law. Mr. Han worked in People's Procuratorate of Haidian District, Beijing from 1980 to 1987. He has been a full-time practicing lawyer since 1987. He joined Beijing Economy Law Firm (北京市經濟律師事務所) as Director for Department of Legal Affairs on Finance and Investment (金融投資法律事務部) since 1992. In 1999, he initiated the establishment of Beijing H&J Law Firm. Mr. Han was invited to be a long-term legal advisor for almost 100 enterprises successively. Major employers include Air China Limited, The People's Political Consultative Daily (《人民政協報》), Xinhua Daily Telegraph, China Central Television's legal program She Hui Jing Wei (《社會經緯》) and Business service Centre (商業服務中心) of the State-owned Assets Supervision and Administration Commission of the State Council. Social honours awarded to Mr. Han include "2011 Top 100 Criminal Defense Lawyer in Beijing" ("二零一一年北京市百名優秀刑辯律師"), "2010 National Top Lawyer for Supporting the Development of SME" ("二零一零年護航中小企業發展全國優秀律師"), "Top 10 Outstanding Lawyer of 2010 China Entrepreneur Anniversary" ("二零一零年創業中國年度十大傑出律師"), "2008 Top 10 Quality-Service Lawyer in China's Modern Service Industry" ("二零零八年中國現代服務業十佳優質服務律師"), "National Outstanding Lawyer" ("全國優秀律師"), "2008 National Top Private Equity Finance Lawyer" ("二零零八年中國最佳私募股權金融律師"), etc.

Ms. WANG Shuping ("Ms. Wang"), aged 54, is an independent non-executive Director. Ms. Wang is also the chairman of the remuneration committee of the Company and a member of the audit committee and nomination committee of the Company. Ms. Wang graduated from the Politics & Law Department of Capital Normal University with a major in Politics and Law in 1992. She holds the qualification of Corporate Accountant in the PRC. Ms. Wang has been engaged in banking related businesses for many years and accumulated 33 years of extensive experience in banking management. Ms. Wang held various positions during her service with China Construction Bank, including the head of accounting department, chief auditor, deputy manager and deputy general manager. Ms. Wang served as the deputy manager of Beijing Xuanwu Sub-branch of China Construction Bank during 1999 to 2002. Ms. Wang held the position of the deputy manager of Beijing Railway Sub-branch of China Construction Bank during 2002 to 2010. And Ms. Wang was the deputy general manager of the Cash Operation Centre of the Beijing Branch of China Construction Bank during 2010 to 2011.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. TING Pong Ming ("Mr. Ting"), aged 45, graduated from The University of Hong Kong with a bachelor degree of Science. He obtained a master degree of Business Administration at the University of Strathclyde in the United Kingdom and a second bachelor degree in Law at Tsing Hua University in the PRC. Mr. Ting is an associate member of the Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants. Mr. Ting has more than 10 years of experience in accounting and finance. Mr. Ting is currently the chief financial officer and the company secretary of the Company.

Mr. LI Jia ("Mr. Li"), aged 44, is the advertising operations controller of the Company. Mr. Li has 12 years of experience in media operation and adverting business in the PRC. He graduated from Capital Medical University with a bachelor degree. From 2009 to 2010, he held the position of deputy general manager at Beijing CRI Glory Advertising Co., Ltd. (北京國廣光榮廣告有限公司) where he was responsible for media promotion and advertising sales for the domestic channels of China Radio International (CRI). In 2008, Mr. Li served as the general manager of Mirror Media Limited where he was responsible for the national network construction and overall operation of exclusive functional mirror images. In 2006, he worked at Beijing ChinaIP. TV Advertising Co., Ltd. (北京寬視神州廣告有限公司) as executive deputy general manager and Asia Media Group (a company listed on the Tokyo Stock Exchange of Japan) as director of the business development department respectively. From 2004 to 2006, Mr. Li was the deputy general manager of Beijing Yunhong Advertising Co., Ltd. (北京韵洪廣告有限公司), a wholly-owned subsidiary of Hunan TV & Broadcasting Intermediary Co., Ltd. (TIK) and the media director and deputy general manager of Beijing Ai'erbeisi Broadcasting & Advertising Co., Ltd. (北京愛耳貝思廣播廣告有限公司) respectively.

Ms. LI Dan ("Ms. Li"), aged 52, is the director of the literature department of Kery Media. Ms. Li is currently head of the editorial department and editor-in-chief (professor) of China Film Press. She is a member of the Chinese Reportage Association. From 2001 to 2011, Ms. Li participated in the planning and publishing of a wide range of books covering over 130 topics. The collection of "2000 Cultural Basics You Must Know" released under her supervision was ranked among top ten in the List of the Bestsellers in China (全國圖書排行榜) for four consecutive years. In addition, Ms. Li was a reporter of the Politics and Breaking News section of the Elite Youth magazine (中華兒女雜誌) from 2000 to 2001. One of her articles published on Elite Youth has won an award of excellence from the General Administration of Press and Publication. Besides, Ms. Li was a reporter of the New Sports magazine (新體育雜誌) and deputy editor-in-chief of the China Volleyball magazine (中國排球雜誌) between 1999 and 2000, responsible for the news coverage of the national teams during the Olympic Games. Ms. Li was a correspondent on China Women's Volleyball Team and had published numerous communications on major foreign and domestic sports events, as well as communications on well-known sports figures. She had also been appointed as a special correspondent on major international competitions held in the United States, Brazil, Japan and other countries.

Mr. WONG Xiaoping ("Mr. Wong"), aged 37, is the post-production director of Kery Media. He graduated from Harbin Institute of Technology majoring in International Trade. Mr. Wong has been engaged in the movie and television industry over the years, and has participated in the various TV drama production, such as "The Prince of Han Dynasty" (大漢天子), "Hero" (風雲爭霸), "Hero II" (風雲II), "Concubines of Qing Emperor" (大清後宮), "Morality Base Line" (道德底線), "Couple Code" (夫妻密碼), "Home" (歸宿) and "Endless Love" (恩情無限).

REPORT OF THE DIRECTORS

The Directors hereby present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

Principal Activities and Segment Information

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 47 to the consolidated financial statements. The Group is principally engaged in the provision of advertising and consultancy services in respect of placing advertisements on the outdoor billboards and LED screens of the Group to advertisers and advertising agencies.

An analysis of the Group's performance for the year by business segments is set out in note 9 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on pages 38 and 39.

Dividend

The Directors did not recommend payment of final dividend for the year ended 31 December 2012.

Plant and Equipment

Details of the movements in the plant and equipment of the Group are set out in note 19 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 35 to the consolidated financial statements.

Distributable Reserves

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 42 and 43.

Pre-emptive Rights

There is no provision for pre-emptive rights under the articles of association of the Company (the "Articles of Association") requiring the Company to offer new shares to its existing shareholders in proportion to their share holdings and there is no restriction against such rights under the laws of the Cayman Islands.

REPORT OF THE DIRECTORS

Directors

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

Executive Directors

Mr. Li Qing	
Mr. Yan Dake	
Mr. Chen Fu Ju	(resigned on 1 March 2013)

Non-executive Director

Ms. Ng Siu Lai

Independent Non-executive Directors

Mr. Leung Siu Kee	
Mr. Han Bing	(appointed on 28 August 2012)
Ms. Wang Shuping	(appointed on 11 January 2013)
Mr. Li Zhong	(resigned on 30 July 2012)
Mr. Zhao Yong	(resigned on 31 October 2012)

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all its independent non-executive Directors independent.

Directors' Service Contracts

Each of Mr. Li Qing, Mr. Yan Dake, Ms. Ng Siu Lai, Mr. Leung Siu Kee, Mr. Han Bing, Ms. Wang Shuping, Mr. Chen Fu Ju (resigned on 1 March 2013), Mr. Li Zhong (resigned on 30 July 2012) and Mr. Zhao Yong (resigned on 31 October 2012) has entered into a service agreement with the Company for a term of three years.

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

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director 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

Share Options

Share Option Scheme

The Group operated an equity-settled share option scheme (the "Share Option Scheme") for the purpose of enabling the Company to grant options to Participants (as defined below) as incentives and rewards for their contribution to the Company or its subsidiaries. Under the Share Option Scheme, the Board might, at its discretion, offer options to any employees (whether full time or part time), executives or officers of the Company or any of its subsidiaries (including any executive Director), business consultants, agents or legal and financial advisers to the Company or its subsidiaries (the "Participants") whom the Board considered, in its sole discretion, as having contributed to the Company or any of its subsidiaries.

The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 31 October 2004 and will remain in force until 30 October 2014. The remaining life of the Share Option Scheme is 1 year. The Company may by resolution in general meeting or the Board may resolve to terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The consideration for the grant of option is HK$1.00. The subscription price shall be determined by the Board in its absolute discretion but in any event shall not be less than the highest of:

(i) the nominal value of the shares;

(ii) the closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the option; and

(iii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of the grant of the option.

Under the Share Option Scheme, the total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the number of shares in issue at the date of approval of the Share Option Scheme (the "Scheme Limit") provided that, *inter alia*, the Company may seek approval of the shareholders at a general meeting to refresh the Scheme Limit. The maximum number of shares in respect of which options may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme may not exceed 30% of the share capital of the Company in issue from time to time.

During the year ended 31 December 2012, a total of 1,900,000 share options have been granted under the Share Option Scheme. As at 31 December 2012, 142,460,000 share options entitling the holders of which to subscribe for the Company's securities were outstanding, representing approximately 7.05% of the issued share capital of the Company.

The maximum number of shares issued upon exercise of the options granted to each grantee or of shares to be issued upon the exercise of outstanding options under the Share Option Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and the approval of its shareholders in accordance with the Share Option Scheme. The period within which the Company's securities must be taken up shall be in any event not later than 10 years from the offer date, subject to the provisions for early termination of the Share Option Scheme and there is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option.

Movements of share options during the year ended 31 December 2012 under the Share Option Scheme is summarised as follows and details of which are set out in note 39 to the consolidated financial statements:

Movements of Share Option Scheme during the year

List of Grantees	Balance as at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Balance as at 31 December 2012	Exercise Price HK$	Date of Grant	Exercise Period
Directors									
Mr. Li Qing	3,000,000	–	–	–	–	3,000,000	0.96	08/10/2010	08/10/2010–07/10/2013
	980,000	–	–	–	–	980,000	0.58	02/06/2011	02/06/2011–01/06/2014
	5,000,000	–	–	–	–	5,000,000	0.55	05/09/2011	05/09/2011–04/09/2014
Mr. Yan Dake	5,000,000	–	–	–	–	5,000,000	0.58	02/06/2011	02/06/2011–01/06/2014
Mr. Leung Siu Kee	500,000	–	–	–	–	500,000	0.96	08/10/2010	08/10/2010–07/10/2013
	460,000	–	–	–	–	460,000	0.58	02/06/2011	02/06/2011–01/06/2014
Mr. Han Bing	–	1,900,000	–	–	–	1,900,000	0.237	03/10/2012	03/10/2012–02/10/2015
Mr. Chen Fu Ju (resigned on 1 March 2013)	17,300,000	–	–	–	–	17,300,000	0.58	02/06/2011	02/06/2011–01/06/2014
Mr. Zhao Yong (resigned on 31 October 2012)	1,500,000	–	–	–	–	1,500,000	0.96	08/10/2010	08/10/2010–07/10/2013
Mr. Li Zhong (resigned on 30 July 2012)	1,500,000	–	–	–	–	1,500,000	0.58	02/06/2011	02/06/2011–01/06/2014
Subtotal	35,240,000	1,900,000	–	–	–	37,140,000			

Movements of Share Option Scheme during the year (continued)

List of Grantees	Balance as at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Balance as at 31 December 2012	Exercise Price	Date of Grant	Exercise Period
							HK$		
Employees									
In aggregate	24,200,000	–	–	–	–	24,200,000	0.96	08/10/2010	08/10/2010–07/10/2013
	4,600,000	–	–	(240,000)	–	4,360,000	0.85	06/01/2011	06/01/2011–05/01/2014
	6,960,000	–	–	–	–	6,960,000	0.58	02/06/2011	02/06/2011–01/06/2014
	3,000,000	–	–	–	–	3,000,000	0.53	06/07/2011	06/07/2011–05/07/2014
	2,000,000	–	–	–	–	2,000,000	0.56	29/07/2011	29/07/2011–28/07/2014
	5,000,000	–	–	(200,000)	–	4,800,000	0.55	05/09/2011	05/09/2011–04/09/2014
	8,000,000	–	–	–	–	8,000,000	0.366	03/11/2011	03/11/2011–02/11/2014
Subtotal	53,760,000	–	–	(440,000)	–	53,320,000			
Consultants									
In aggregate	5,000,000	–	–	–	–	5,000,000	0.53	06/07/2011	06/07/2011–05/07/2014
	45,000,000	–	–	–	–	45,000,000	0.56	29/07/2011	29/07/2011–28/07/2014
	2,000,000	–	–	–	–	2,000,000	0.366	03/11/2011	03/11/2011–02/11/2014
Subtotal	52,000,000	–	–	–	–	52,000,000			
Total	141,000,000	1,900,000	–	(440,000)	–	142,460,000			

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or its Associated Corporations

As at 31 December 2012, the following Directors or chief executive of the Company had held the following interests or short positions in the shares, underlying shares (as defined in the Securities and Futures Ordinance (the "SFO")) and 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules:

Long positions in the Company:

Name of Directors	Nature of interests	Number of issued ordinary shares held	Number of underlying shares held pursuant to share options	Aggregate number of shares held	Approximate aggregate percentage of the issued share capital
Li Qing	Beneficial owner	2,432,000	8,980,000	11,412,000	0.56%
Yan Dake	Beneficial owner	–	5,000,000	5,000,000	0.24%
Leung Siu Kee	Beneficial owner	–	960,000	960,000	0.04%
Han Bing	Beneficial owner	–	1,900,000	1,900,000	0.09%
Chen Fu Ju (resigned on 1 March 2013)	Beneficial owner	3,036,000	17,300,000	20,336,000	1.00%

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executive of the Company held any interests or short positions in the shares, underlying shares (as defined in the SFO) 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.

Substantial Shareholders' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company

As at 31 December 2012, the following persons (other than Directors or chief executives of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in the Company

Name of substantial shareholders of the Company	Nature of interests	Number of issued ordinary shares/ underlying shares held	Aggregate number of shares held	Approximate aggregate percentage of the issued share capital
Ho Wai Kong ("Mr. Ho")	Held by controlled corporation *(Note 1)*	359,639,306	409,859,306	20.27%
	Held by spouse *(Note 2)*	50,220,000		
Guo Binni	Beneficial owner *(Note 2)*	50,220,000	409,859,306	20.27%
	Held by controlled corporation *(Note 1)*	359,639,306		
Rotaland Limited	Beneficial owner *(Note 1)*	358,139,306	358,139,306	17.71%
Lu Xing	Held by controlled corporation *(Note 3)*	2,031,728,323	2,031,728,323	100.48%
Ascher Group Limited	Beneficial owner *(Note 3)*	131,728,323	131,728,323	6.51%
Headwind Holdings Limited	Beneficial owner *(Note 3)*	1,900,000,000	1,900,000,000	93.97%
Lie Haiquan	Beneficial owner	122,879,861	179,751,861	8.89%
	Held by controlled corporation *(Note 4)*	56,872,000		

Notes:

1. Of these 359,639,306 shares, 358,139,306 shares are held by Rotaland Limited; and 1,500,000 shares are held by Similan Limited. Rotaland Limited and Similan Limited are companies incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Ho.

2. These 50,220,000 shares are held by Ms. Guo Binni who is the spouse of Mr. Ho.

3. Of these 2,031,728,323 shares, 1,900,000,000 shares are held by Headwind Holdings Limited upon conversion of the preferred shares in full and 131,728,323 shares are held by Ascher Group Limited. Headwind Holdings Limited and Ascher Group Limited are companies incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Lu Xing.

4. These 56,872,000 shares are held by Winner Mind Investments Limited which is wholly owned by Mr. Lie Haiquan.

Save as disclosed above, as at 31 December 2012, the Company had not been notified of any interest or short position being held by any substantial shareholder of the Company in the shares, underlying shares or debentures in the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Contracts with Controlling Shareholders

Save as disclosed in this report, no contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders of the Company or any of their subsidiaries, at any time during the year. No contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholders of the Company or any of their subsidiaries.

REPORT OF THE DIRECTORS

Competing Interests

As at 31 December 2012, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

Major Suppliers and Customers

The percentage of purchases for the year ended 31 December 2012 attributable to the Group's major suppliers is as follows:

	Percentage of purchases
The largest supplier	82%
Five largest suppliers combined	99%

The percentage of sales for the year ended 31 December 2012 attributable to the Group's major customers is as follows:

	Percentage of sales
The largest customer	18%
Five largest customers combined	49%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

Related Party Transactions

Related party transactions during the year are disclosed in note 43 to the consolidated financial statements.

Events after the Reporting Period

Subsequent to the end of the reporting period, an aggregate balance of approximately RMB2,432,000 of liability component of convertible loan notes has been released upon an aggregate principal amount of RMB2,500,000 of the convertible loan notes issued on 23 June 2011 were converted into 10,662,756 ordinary shares of HK$0.1 each at the conversion price of HK$0.29 per share.

In addition, subsequent to the end of the reporting period, an aggregate balance of approximately RMB12,285,000 of liability component of convertible loan notes has been released upon an aggregate principal amount of HK$15,000,000 (equivalent to approximately RMB12,038,000) of the convertible loan notes issued on 10 December 2012 were converted into 53,380,782 ordinary shares of HK$0.1 each at the conversion price of HK$0.281 per share.

REPORT OF THE DIRECTORS

Closure of Register of Members

The register of members of the Company will be closed from Monday, 27 May 2013 to Thursday, 30 May 2013, both days inclusive, during which period no transfers of shares shall be registered. In order to qualify for attending and voting at the forthcoming AGM of the Company, all transfers of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 24 May 2013.

Annual General Meeting

The AGM of the Company will be held on Thursday, 30 May 2013 and the notice of AGM will be published and despatched to shareholders of the Company in due course.

Purchase, Redemption or Sale of the Company's Listed Securities

During the year, the Company has issued 20,000,000 ordinary shares at an issue price of HK$0.18 per placing share and 62,501,471 ordinary shares by means of conversion of convertible loan notes respectively.

Save as disclosed herein, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year.

Public Float

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

Corporate Governance

Please see the "Corporate Governance Report" set out on pages 26 to 35 of this annual report for details of its compliance with the Corporate Governance Code.

Auditor

A resolution to re-appoint SHINEWING (HK) CPA Limited as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
LI Qing
Executive Director

Hong Kong, 28 March 2013

CORPORATE GOVERNANCE REPORT

Introduction

Maintaining high standards of business ethics and corporate governance practices have always been one of the Company's goals. This report describes its corporate governance practices, explains the applications of the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules and the deviations, if any.

Corporate Governance Practices

During the year, the Company has complied with the code provisions of the CG Code except the deviation stated in the following paragraphs. The Company believes that by achieving high standard of corporate governance, the corporate value and accountability of the Company can be enhanced and the shareholders' interests can be maximised. The Board has continued to monitor and review the Company's progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to Directors and senior management of the Company to ensure awareness to issues regarding corporate governance practices.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exactly than the required standard in the Model Code as set out in Appendix 10 of the Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard in the Model Code and its code of conduct regarding Directors' securities transactions.

The Board of Directors

During the year and as at the date of this report, the Board comprises the following Directors:

Executive Directors

Mr. Li Qing
Mr. Yan Dake
Mr. Chen Fu Ju (resigned on 1 March 2013)

Non-executive Director

Ms. Ng Siu Lai

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

Mr. Leung Siu Kee	
Mr. Han Bing	(appointed on 28 August 2012)
Ms. Wang Shuping	(appointed on 11 January 2013)
Mr. Zhao Yong	(resigned on 31 October 2012)
Mr. Li Zhong	(resigned on 30 July 2012)

Pursuant to Rules 3.10(1) and 3.10A of the Listing Rules, there are three independent non-executive directors representing one-third of the Board.

Following the resignations of Mr. Li Zhong and Mr. Zhao Yong as the independent non-executive Directors on 30 July 2012 and 31 October 2012 respectively, there remained only two independent non-executive Directors in the Board for the time being. Therefore, the Company was not compliant with Rules 3.10(1) and 3.10A of the Listing Rules.

The Company has appointed Mr. Han Bing and Ms. Wang Shuping as the independent non-executive Directors with effect from 28 August 2012 and 11 January 2013, respectively, to fill in the vacancies so as to meet the requirements as set out in Rules 3.10(1) and 3.10A of the Listing Rules.

Among the three independent non-executive Directors, Mr. Leung Siu Kee has appropriate professional qualifications in accounting or relevant financial management expertise as required by Rule 3.10(2) of the Listing Rules.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all its independent non-executive Directors independent.

Pursuant to Rule 13.51B(1) of the Listing Rules, the Company advises that Mr. Li Qing, an executive Director, was appointed as authorised representative of the Company under Rule 3.05 of the Listing Rules with effect from 1 March 2013.

The Company has set out the respective functions and responsibilities reserved to the Board and those delegated to management. The Board delegates day-to-day operations of the Group to executive Directors and senior management of the Company while reserving certain key matters for its approval. The Board is responsible for the approval and monitoring of the Company's overall strategies and policies, approval of business plans, evaluating the performance of the Company and oversight of management. Decisions of the Board are communicated to the management through executive Directors who have attended the Board meetings.

To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among the Directors.

For the year ended 31 December 2012, 36 Board meetings were held. The details of the attendance record of the Directors are as follows:

		Attendance
Executive Directors		
Mr. Li Qing		36/36
Mr. Yan Dake		21/35
Mr. Chen Fu Ju	(resigned on 1 March 2013)	30/36
Non-executive Director		
Ms. Ng Siu Lai		3/36
Independent Non-executive Directors		
Mr. Leung Siu Kee		4/35
Mr. Han Bing	(appointed on 28 August 2012)	14/20
Ms. Wang Shuping	(appointed on 11 January 2013)	N/A
Mr. Zhao Yong	(resigned on 31 October 2012)	19/24
Mr. Li Zhong	(resigned on 30 July 2012)	3/10

For the year ended 31 December 2012, 1 general meeting was held. The details of the attendance record of the Directors are as follows:

		Attendance
Executive Directors		
Mr. Li Qing		1/1
Mr. Yan Dake		1/1
Mr. Chen Fu Ju	(resigned on 1 March 2013)	1/1
Non-executive Director		
Ms. Ng Siu Lai		0/1
Independent Non-executive Directors		
Mr. Leung Siu Kee		1/1
Mr. Han Bing	(appointed on 28 August 2012)	N/A
Ms. Wang Shuping	(appointed on 11 January 2013)	N/A
Mr. Zhao Yong	(resigned on 31 October 2012)	0/1
Mr. Li Zhong	(resigned on 30 July 2012)	0/1

Apart from the regular Board meetings, the Board meets on other occasions when a board-level decision on a particular matter is required. Sufficient notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special Board meetings. The Directors will receive details of agenda items for decision and minutes of the committee meetings in advance of each Board meeting.

According to the code provision A.6.5 of the CG Code, 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.

For the year ended 31 December 2012, the Company had arranged to provide to all Directors with the "Guidelines for Directors" and the "Guide for Independent Non-executive Directors" issued by the Hong Kong Institute of Directors. Each of the Directors had noted and studied the above mentioned documents and that the Company had received from each of the Directors the confirmations on taking continuous professional training.

Chairman and Chief Executive

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

During the year ended 31 December 2012, the Company did not have a chairman or a chief executive. The Board will keep reviewing the current structure of the Board from time to time and should candidates with suitable knowledge, skill and experience be identified, the Company will make appointments to fill the posts as appropriate.

Non-executive Directors

According to the code provision A.4.1 of the CG Code, all non-executive Directors should be appointed for a specific term of service.

Each of the non-executive Directors (including the independent non-executive Directors) entered into a service agreement with the Company for a three-year term of service.

Mr. Han Bing and Ms. Wang Shuping, the independent non-executive Directors, were appointed on 28 August 2012 and 11 January 2013, respectively, for a three-year term of service, which can be terminated by either party giving not less than three months' notice in writing.

Pursuant to Rule 13.51B(1) of the Listing Rules, the Company advises that the service agreement of Mr. Leung Siu Kee has been renewed for a three-year term of service commencing from 22 December 2012 to 21 December 2015, which can be terminated by either party giving not less than three months' notice in writing.

All the non-executive Directors (including the independent non-executive Directors) are appointed and subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association.

Directors' and Senior Management's Remuneration

The remuneration of Directors is determined with reference to their duties and responsibilities in the Company as well as the prevailing market conditions. Details of emoluments of Directors for the year ended 31 December 2012 are set out in note 15 to the consolidated financial statements. The emoluments paid to senior management of the Group for the year ended 31 December 2012 falls within the following bands:

	Number of senior management
Nil to HK$1,000,000 (equivalent to approximately RMB802,000)	4
HK$1,500,001 to HK$2,000,000 (equivalent to approximately RMB1,203,000 to RMB1,604,000)	–

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established in 2005 with written terms of reference which complies with the Listing Rules. It is responsible for formulating and recommending the Board in relation to the remuneration policy, recommending the remunerations of Directors and the senior management of the Company, and reviewing and making recommendations on the Company's share option scheme and other compensation related issues. The Remuneration Committee consults with the Board on its proposals and recommendations.

During the year and as at the date of this report, the Remuneration Committee comprises three independent non-executive Directors including Ms. Wang Shuping (appointed as the chairman of the Remuneration Committee on 11 January 2013), Mr. Leung Siu Kee, Mr. Han Bing (appointed as member on 28 August 2012), Mr. Zhao Yong (resigned on 31 October 2012 and is the former chairman of the Remuneration Committee) and Mr. Li Zhong (resigned on 30 July 2012). Ms. Wang Shuping is the current chairman of the Remuneration Committee.

Following the resignation of Mr. Zhao Yong as the chairman of the Remuneration Committee on 31 October 2012, the Company was not compliant with Rule 3.25 of the Listing Rules. The Company appointed Ms. Wang Shuping as the chairman of the Remuneration Committee with effect from 11 January 2013 to fill in the vacancies so as to meet the requirements as set out in Rule 3.25 of the Listing Rules.

Mr. Han Bing was appointed as a member of the Remuneration Committee with effect from 28 August 2012.

During the year, the Remuneration Committee held 1 meeting to review and make recommendation on the remuneration package of Directors and senior management of the Company.

Details of the attendance record of the Remuneration Committee members are as follows:

Members		Attendance
Ms. Wang Shuping *(Chairman)*	(appointed on 11 January 2013)	N/A
Mr. Leung Siu Kee		1/1
Mr. Han Bing	(appointed on 28 August 2012)	N/A
Mr. Zhao Yong	(resigned on 31 October 2012)	1/1
Mr. Li Zhong	(resigned on 30 July 2012)	1/1

Nomination Committee

The Board is empowered under the Articles of Association to appoint any person as a Director either to fill a casual vacancy on or, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regards to the balance of skills and experience appropriate to the Group's business.

The nomination committee of the Company (the "Nomination Committee") was established in 2008 with written terms of reference which complies with the Listing Rules. It is responsible for the following duties:

– review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

– identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

– assess the independence of independent non-executive Directors; and

– make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive.

During the year and as at the date of this report, the Nomination Committee comprises three independent non-executive Directors including Mr. Han Bing (appointed as the chairman of the Nomination Committee on 28 August 2012), Mr. Leung Siu Kee, Ms. Wang Shuping (appointed as member on 11 January 2013), Mr. Li Zhong (resigned on 30 July 2012 and is the former chairman of the Nomination Committee) and Mr. Zhao Yong (resigned on 31 October 2012). Mr. Han Bing is the current chairman of the Nomination Committee.

Mr. Han Bing was appointed as the chairman of the Nomination Committee with effect from 28 August 2012 and Ms. Wang Shuping was appointed as a member of the Nomination Committee with effect from 11 January 2013.

During the year, the Nomination Committee held 1 meeting to review the structure, size and composition of the Board and senior management of the Company, including the balance of skills, knowledge and experience, and independence of the independent non-executive Directors and make recommendation to the Board accordingly.

Details of the attendance record of the Nomination Committee members are as follows:

Members		**Attendance**
Mr. Han Bing *(Chairman)*	(appointed on 28 August 2012)	N/A
Mr. Leung Siu Kee		1/1
Ms. Wang Shuping	(appointed on 11 January 2013)	N/A
Mr. Li Zhong	(resigned on 30 July 2012)	1/1
Mr. Zhao Yong	(resigned on 31 October 2012)	1/1

Audit Committee

The audit committee of the Company (the "Audit Committee") was established in 2004 with written terms of reference which complies with the Listing Rules. The primary duties of the Audit Committee include overseeing the relationship with the Company's external auditor, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management.

During the year and as at the date of this report, the Audit Committee comprises three independent non-executive Directors including Mr. Leung Siu Kee, Mr. Han Bing (appointed as member on 28 August 2012), Ms. Wang Shuping (appointed as member on 11 January 2013), Mr. Zhao Yong (resigned on 31 October 2012) and Mr. Li Zhong (resigned on 30 July 2012). Mr. Leung Siu Kee is the current chairman of the Audit Committee.

Following the resignations of Mr. Li Zhong and Mr. Zhao Yong as the members of the Audit Committee on 30 July 2012 and 31 October 2012, the Company was not compliant with Rule 3.21 of the Listing Rules. The Company appointed Mr. Han Bing and Ms. Wang Shuping as members of the Audit Committee with effect from 28 August 2012 and 11 January 2013, respectively, to fill in the vacancies so as to meet the requirements as set out in Rule 3.21 of the Listing Rules.

The Audit Committee formally meets two times during the year and other informal meetings were conducted as and when necessary. These meetings were held together with senior management and external auditor as and when necessary. During the year, the Audit Committee held 2 meetings to consider the external auditor's proposed audit fees, their independence and scope of the audit; review the internal control and risk management systems; review the interim and annual financial statements, particularly judgemental areas, accounting principles and practice adopted by the Group; review the external auditor's management letter and management's response; and review the Group's adherence to the CG Code. The Group's unaudited interim results and audited annual results for the year ended 31 December 2012 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

Details of the attendance record of the Audit Committee members are as follows:

Members		**Attendance**
Mr. Leung Siu Kee *(Chairman)*		2/2
Mr. Han Bing	(appointed on 28 August 2012)	N/A
Ms. Wang Shuping	(appointed on 11 January 2013)	N/A
Mr. Zhao Yong	(resigned on 31 October 2012)	2/2
Mr. Li Zhong	(resigned on 30 July 2012)	1/1

Corporate Governance Functions

The Company's corporate governance functions are carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with code provision D.3.1 of the CG Code, which include (a) to develop and review the policies and practices on corporate governance of the Group and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Company; (c) to review and monitor the Group'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 the Directors; and (e) to review the Group's compliance with the CG Code and disclosure in the Corporate Governance Report of the Company.

For the year ended 31 December 2012 and as at the date of this report, the Board had reviewed the corporate governance matters of the Company. Saved for the deviation disclosed under the "Chairman and Chief Executive", the Company had complied with the principles and applicable code provisions of the CG Code and was not aware of any non-compliance to relevant applicable legal and regulatory requirements.

Auditor's Remuneration

During the year, the remuneration in respect of audit services paid/payable to the Company's external auditor, SHINEWING (HK) CPA Limited, is amounted to HK$2,000,000.

Type of Services	HK$
Non-audit services	1,300,000
Statutory audit services	700,000
Total	2,000,000

CORPORATE GOVERNANCE REPORT

Directors' Responsibility for Financial Statements

Annual Report and Financial Statements

The Directors acknowledge their responsibilities to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to the shareholders of the Company, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company about their reporting responsibilities on the financial statements of the Company is set out in the section headed "Independent Auditor's Report" in this report.

Accounting Period

The Directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

Accounting Records

The Directors are responsible for ensuring that the Group had kept the accounting records, which disclose with reasonable accuracy of the financial position of the Group, and also enable the preparation of the financial statements in accordance with the applicable accounting standards.

Going Concern

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Internal Controls

The Board is responsible for maintaining a sound and effective internal control system for the Company. The system aims at providing reasonable (but not absolute) guarantees for the prevention of material untrue statements or losses, as well as management on the interruption of the Company's management system and risks existing in the course of arriving at the Company's objectives.

The Directors have conducted an annual review of the effectiveness of the internal control system of the Company and its subsidiaries for the year ended 31 December 2012. The review covers all material controls including financial, operational and compliance controls and risk management functions. The Audit Committee and the Board have discussed the relevant results of review, and agreed that internal control procedures and risk management systems have been implemented in the various major operation sectors.

CORPORATE GOVERNANCE REPORT

Company Secretary

Mr. Ting Pong Ming ("Mr. Ting") was appointed as the company secretary of the Company. According to Rule 3.29 of the Listing Rules, Mr. Ting took no less than 15 hours of relevant professional training for the year ended 31 December 2012.

Shareholders' Rights

Convening an extraordinary general meeting and putting forward proposals at shareholders' meeting

Pursuant to article 58 of the Articles of Association, any one or more members of the Company holding at the date of deposit of the requisition not less than one-fifth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting enquiries to the Board

Shareholders may put forward their proposals or enquiries to the Board by sending their written request to the Company's Registrar.

Investor Relations

To foster effective communications, the Company provided all necessary information to the shareholders in its annual report and interim report. The Directors host the AGM each year to meet the shareholders and answer to their enquiries. Directors make efforts to attend the AGM so that they may answer any questions from the Company's shareholders.

The Directors, the company secretary or other appropriate members of senior management of the Company will also respond to inquiries from shareholders and investors promptly.

For the year ended 31 December 2012, there has been no significant change in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF CHINA ORIENTAL CULTURE GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Oriental Culture Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 136, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement 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 judgement, 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 the 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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs 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.

Emphasis of matter – material uncertainty regarding the going concern assumption

Without qualifying our opinion, we draw your attention to Note 2 to the consolidated financial statements concerning the adoption of the going concern basis on which the consolidated financial statements have been prepared. As at 31 December 2012, the Group had capital deficiency of approximately RMB9,522,000 and incurred loss of approximately RMB702,236,000 for the year ended 31 December 2012. These conditions indicated the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Chuen Fai
Practising Certificate Number: P05589

Hong Kong
28 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Continuing operations			
Turnover	8	22,748	58,169
Revenue	9	22,748	38,220
Cost of sales and services		(667,237)	(81,875)
Gross loss		(644,489)	(43,655)
Other income	10	4,031	63
Selling and marketing expenses		(805)	(751)
Administrative expenses		(42,425)	(67,411)
Loss on disposal of held-for-trading investments		–	(1,211)
Provision for a claim	31	(7,500)	–
Impairment loss recognised on amount due from an associate		–	(15,483)
Increase (decrease) in fair value of derivative financial instruments		1,384	(3,666)
Share of results of an associate		–	(1,532)
Finance costs	11	(8,810)	(16,526)
Loss before tax		(698,614)	(150,172)
Income tax expense	12	(3,622)	–
Loss for the year from continuing operations		(702,236)	(150,172)
Discontinued operations			
Profit for the year from discontinued operations	13	–	3,331
Loss for the year	14	(702,236)	(146,841)
Other comprehensive income			
Exchange differences arising on translation and other comprehensive income for the year		(702)	756
Total comprehensive expense for the year		(702,938)	(146,085)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTE	**2012** **RMB'000**	2011 RMB'000
(Loss) profit for the year attributable to owners of the Company			
– from continuing operations		**(701,309)**	(149,171)
– from discontinued operations		**–**	3,331
Loss for the year attributable to owners of the Company		**(701,309)**	(145,840)
Loss for the year attributable to non-controlling interests			
– from continuing operations		**(927)**	(1,001)
– from discontinued operations		**–**	–
Loss for the year attributable to non-controlling interests		**(927)**	(1,001)
		(702,236)	(146,841)
Total comprehensive expense attributable to:			
Owners of the Company		**(702,011)**	(145,084)
Non-controlling interests		**(927)**	(1,001)
		(702,938)	(146,085)
(Loss) earnings per share	18		
From continuing operations			
Basic and diluted (RMB cents)		**(35.34)**	(8.49)
From discontinued operations			
Basic and diluted (RMB cents)		**–**	0.19
From continuing and discontinued operations			
Basic and diluted (RMB cents)		**(35.34)**	(8.30)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Plant and equipment	19	6,909	11,271
Intangible assets	20	3,395	653,024
Goodwill	21	18,262	18,463
Interest in an associate	22	–	–
Deposit paid for acquisition of an intangible asset	23	–	–
Prepayment for a mobile media project	24	–	–
Available-for-sale investments	25	2,006	2,029
		30,572	684,787
Current assets			
Trade and other receivables	26	35,336	37,601
Amount due from an associate	27	7,095	10,843
Amount due from non-controlling interest holder	27	203	203
Income tax recoverable		–	9
Bank balances and cash	28	19,965	18,194
		62,599	66,850
Current liabilities			
Trade and other payables	29	16,208	10,392
Amount due to a director	30	240	12
Provision for a claim	31	7,500	–
Income tax payable		3,559	–
Other borrowings	32	18,000	18,325
Convertible loan notes	33	6,413	–
Derivative financial liabilities	34	7,254	11,587
		59,174	40,316
Net current assets		3,425	26,534
Total assets less current liabilities		33,997	711,321

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Capital and reserves			
Share capital	35	**178,517**	171,828
Reserves		**(187,907)**	500,995
Equity attributable to owners of the Company		**(9,390)**	672,823
Non-controlling interests		**(132)**	795
Total equity		**(9,522)**	673,618
Non-current liability			
Convertible loan notes	33	**43,519**	37,703
		33,997	711,321

The consolidated financial statements on pages 38 to 136 were approved and authorised for issue by the board of directors on 28 March 2013 and are signed on its behalf by:

Li Qing	**Yan Dake**
Director	Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Translation reserve RMB'000	Convertible loan notes equity reserve RMB'000	Warrants reserve RMB'000	Capital redemption reserve RMB'000 (Note b)	Share options reserve RMB'000	Contribution from shareholders RMB'000 (Note c)	Other reserve RMB'000 (Note d)	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2011	142,126	485,920	15,536	(3,232)	104,877	–	595	30,632	1,927	(239)	(93,026)	685,116	816	685,932
Loss for the year	–	–	–	–	–	–	–	–	–	–	(145,840)	(145,840)	(1,001)	(146,841)
Other comprehensive income for the year – Exchange differences arising on translation	–	–	–	756	–	–	–	–	–	–	–	756	–	756
Total comprehensive income (expense) for the year	–	–	–	756	–	–	–	–	–	–	(145,840)	(145,084)	(1,001)	(146,085)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	–	16,588	–	–	–	16,588	–	16,588
Issue of shares upon conversion of convertible loan notes	21,303	117,439	–	–	(75,977)	–	–	–	–	–	–	62,765	–	62,765
Acquisition of a subsidiary	8,399	45,357	–	–	–	–	–	–	–	–	–	53,756	–	53,756
Issue of non-listed warrants	–	–	–	–	–	5,061	–	–	–	–	–	5,061	–	5,061
Transaction costs attributable to issue of non-listed warrants	–	–	–	–	–	(318)	–	–	–	–	–	(318)	–	(318)
Release upon cancellation of non-listed warrants	–	–	–	–	–	(4,743)	–	–	–	–	(318)	(5,061)	–	(5,061)
Capital contribution by non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–	980	980
At 31 December 2011	171,828	648,716	15,536	(2,476)	28,900	–	595	47,220	1,927	(239)	(239,184)	672,823	795	673,618

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Translation reserve RMB'000	Convertible loan notes equity reserve RMB'000	Warrants reserve RMB'000	Capital redemption reserve RMB'000 (Note b)	Share options reserve RMB'000	Contribution from shareholders RMB'000 (Note c)	Other reserve RMB'000 (Note d)	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 31 December 2011	171,828	648,716	15,536	(2,476)	28,900	–	595	47,220	1,927	(239)	(239,184)	672,823	795	673,618
Loss for the year	–	–	–	–	–	–	–	–	–	–	(701,309)	(701,309)	(927)	(702,236)
Other comprehensive income for the year – Exchange differences arising on translation	–	–	–	(702)	–	–	–	–	–	–	–	(702)	–	(702)
Total comprehensive expense for the year	–	–	–	(702)	–	–	–	–	–	–	(701,309)	(702,011)	(927)	(702,938)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	–	127	–	–	–	127	–	127
Issue of shares upon conversion of convertible loan notes	5,054	20,443	–	–	(8,695)	–	–	–	–	–	–	16,802	–	16,802
Issue of shares upon placing	1,635	1,308	–	–	–	–	–	–	–	–	–	2,943	–	2,943
Transaction costs attributable to issue of shares upon placing	–	(74)	–	–	–	–	–	–	–	–	–	(74)	–	(74)
At 31 December 2012	178,517	670,393	15,536	(3,178)	20,205	–	595	47,347	1,927	(239)	(940,493)	(9,390)	(132)	(9,522)

Notes:

(a) Special reserve represents the difference between the nominal value of the ordinary share issued by the Company and Beijing Zhizhen Node Technology Development Co., Ltd. ("ZZNode (Beijing)") and the aggregate of share capital and share premium or net assets of the subsidiaries acquired by the Company and ZZNode (Beijing) through the exchange of share.

(b) Capital redemption reserve represents a non-distributable reserve created in accordance with Section 37.4(a) of the Cayman Islands Law when the Company repurchases its own shares out of retained profits. The reserve was created by transferring from the retained profits an amount equivalent to the nominal value of the share repurchased to the capital redemption reserve.

(c) Contribution from shareholders represents balances advanced from shareholders in prior years for the share options granted.

(d) Other reserve represents the difference between the consideration and the book value of the identifiable assets and liabilities attributable to the additional interest acquired in subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES			
Loss before tax from continuing operations		**(698,614)**	(150,172)
Profit before tax from discontinued operations	13	**–**	3,331
		(698,614)	(146,841)
Adjustments for:			
Finance costs		**8,810**	16,526
Interest income		**(16)**	(31)
Reversal of impairment loss in respect of trade and other receivables		**(1,000)**	(1,979)
Write off of other payables		**(3,000)**	(27)
Amortisation of intangible assets		**38,369**	37,338
Depreciation for plant and equipment		**3,586**	3,059
Impairment loss recognised on deposit paid for acquisition of an intangible asset		**–**	8,545
Impairment loss recognised on prepayment for a mobile media project		**–**	5,000
Impairment loss recognised on intangible assets		**610,814**	1,195
Impairment loss recognised on trade and other receivables		**9,967**	1,436
Write off of other receivable		**381**	–
Impairment loss recognised on amount due from an associate		**–**	15,483
Share-based payment expenses		**127**	16,588
Write off of plant and equipment		**9**	527
Impairment loss recognised on plant and equipment		**1,017**	–
Gain on disposal of a subsidiary	42	**–**	(1,647)
Gain on bargain purchase of a subsidiary	41	**(12)**	–
Loss on disposal of held-for-trading investments		**–**	1,211
(Increase) decrease in fair value of derivative financial instruments		**(1,384)**	3,666
Share of results of an associate		**–**	1,532
Provision for a claim		**7,500**	–
Operating cash flows before movements in working capital		**(23,446)**	(38,419)
Decrease (increase) in trade and other receivables		**18,997**	(15,480)
Decrease in held-for-trading investments		**–**	19,970
Decrease in trade and other payables		**(17,371)**	(7,724)
Cash used in operations		**(21,820)**	(41,653)
Income tax paid		**(54)**	(51)
NET CASH USED IN OPERATING ACTIVITIES		**(21,874)**	(41,704)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
INVESTING ACTIVITIES			
Repayment from (advance to) an associate		**3,653**	(3,547)
Net cash inflow (outflow) from acquisition of subsidiaries	41	**58**	(8,365)
Interest received		**16**	31
Purchase of plant and equipment		**(278)**	(4,175)
Acquisition of available-for-sale investment		**–**	(395)
Advance to non-controlling interest holder		**–**	(203)
Net cash inflow from disposal of subsidiaries	42	**–**	493
Decrease in restricted bank balance		**–**	42
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**3,449**	(16,119)
FINANCING ACTIVITIES			
Proceeds on issue of convertible loan notes		**20,000**	25,000
Proceeds on issue of shares upon placing		**2,943**	–
(Repayment to) advance from a director		**(65)**	12
Payment of transaction cost attributable to issue of shares upon placing		**(74)**	–
Repayment of other borrowing		**(321)**	(2,000)
Interest paid on other borrowing		**(381)**	(415)
Interest paid on convertible loan notes		**(1,790)**	(1,000)
Payment of transaction cost attributable to issue of non-listed warrants		**–**	(318)
Payment upon cancellation of non-listed warrants		**–**	(5,061)
Repayment to a shareholder		**–**	(5,765)
Proceeds on issue of non-listed warrants		**–**	5,061
Other new borrowings raised		**–**	20,325
NET CASH FROM FINANCING ACTIVITIES		**20,312**	35,839
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,887**	(21,984)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**18,194**	41,657
Effect of foreign exchange rate changes		**(116)**	(1,479)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		**19,965**	18,194

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

China Oriental Culture Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company is principally engaged in investment holding and securities trading. The principal activities of its principal subsidiaries are set out in Note 47.

Other than those major operating subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the remaining subsidiaries is Hong Kong dollars ("HK$").

The functional currency of the Company is HK$, which is different from the presentation currency, RMB. As the Company and its subsidiaries (hereinafter collectively referred to as the "Group") mainly operates in the PRC, the directors of the Company consider that it is appropriate to present the consolidated financial statements in RMB.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group had capital deficiency of approximately RMB9,522,000 as at 31 December 2012 and incurred loss of approximately RMB702,236,000 for the year ended 31 December 2012. In the opinion of the directors of the Company, the Group should be able to maintain itself as a going concern within the next twelve months from the end of the reporting period by taking into consideration the proposed arrangements which include, but are not limited to, the following:

(a) the directors of the Company anticipate that the Group will continually generate positive cash flows from its businesses;

(b) subsequent to the end of the reporting period, an aggregate balance of approximately RMB2,432,000 of liability component of convertible loan notes has been released upon the conversion of convertible loan notes issued on 23 June 2011 with an aggregate principal amount of RMB2,500,000 into approximately 10,663,000 ordinary shares of HK$0.1 each at the conversion price of HK$0.29 per share;

(c) subsequent to the end of the reporting period, an aggregate balance of approximately RMB12,285,000 of liability component of convertible loan notes has been released upon the conversion of convertible loan notes issued on 10 December 2012 with an aggregate principal amount of HK$15,000,000 (equivalent to approximately RMB12,038,000) into approximately 53,381,000 ordinary shares of HK$0.1 each at the conversion price of HK$0.281 per share; and

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(d) personal guarantee provided by a substantial shareholder to support the Group financially and operationally as a going concern and agree to provide additional funds of not less than RMB40,000,000 to the Group to meet in full its financial obligation as they fall due within the next twelve months from the end of the reporting period. The directors of the Company consider the substantial shareholder has financial ability to provide such financial support to the Group.

The directors of the Company consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset

The directors of the Company anticipate that the application of the above amendments to HKFRSs has had no material impact on the Group's financial performance and position for the current and prior years and / or on the disclosures set out in these consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[2]
Amendments to HKFRS 1	First-time Adoption of HKFRSs – Government Loans[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC)* – Interpretation ("Int") 20	Stripping Costs in the Production Phase of a Surface Mine[2]

* HK(IFRIC) represents the Hong Kong (International Financial Reporting Interpretation Committee)

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.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 1 Presentation to Financial Statements, the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors of the Company do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors of the Company anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities *(Continued)*

The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK (SIC) – Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its investment with other entities as at 1 January 2013.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and / or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors of the Company do not anticipate that the application of these five standards will have a significant impact on amounts reported in the consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of the Company anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

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

Business combinations *(Continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss, if any.

Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The accounting policies of the associate are in line with those adopted by the Group.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Investment in an associate *(Continued)*

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill, if any) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Advertising media income and consultancy service income are recognised when services are provided.

Income from television ("TV") programmes distribution services is recognised upon the delivery of the pre-recorded audio visual products and the materials for video features to the customers, in accordance with the terms of the underlying contracts.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Realised fair value gains or losses on securities trading are recognised on a trade date basis whilst unrealised fair value gains or losses are recognised on change in fair value at the end of the reporting period.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Plant and equipment

Plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes plant and equipment in the course of construction for production. Construction in progress is carried at cost less any recognised impairment loss. Such construction in progress is classified to the appropriate categories of plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

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

The Group as lessee

Operating leases payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Borrowing costs

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in other income.

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the consolidated statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from an associate, amount due from non-controlling interest holder and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

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

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial market because of financial difficulties.

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Warrants

Warrants issued by the Company that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are classified as an equity instrument.

The fair value of warrants on the date of issue is recognised in equity (warrants reserve). The warrants reserve will be transferred to share capital and share premium upon exercise of the warrants. Where the warrants remain unexercised at the expiry date, the amount initially recognised in warrants reserve will be released to the accumulated losses. Where the warrants cancelled before the expiry date and the proceeds received upon the issue of warrants are required to return in cash, the amount initially recognised in warrants reserve will be resulted in a reduction of equity, while the excess amount of cash paid over the net proceeds on issue will be released to the accumulated losses.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a director, other borrowings and liability component of convertible loan notes are subsequently measured at amortised cost, using the effective interest method.

Convertible loan notes

Convertible loan notes contains liability and equity components

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

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

Financial instruments *(Continued)*

Convertible loan notes *(Continued)*

Convertible loan notes contains liability and equity components *(Continued)*

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Convertible loan notes contains liability component and conversion option derivative

Convertible loan notes issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

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

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

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

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provision

Provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provision is measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees under share option scheme and share incentive scheme

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or cancelled after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

5. *CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY*

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern consideration

Although the Group had capital deficiency at the end of the reporting period, the Group manages its liquidity risk by monitoring its current and expected liquidity requirements regularly and ensuring sufficient liquid cash to meet the Group's liquidity requirements in the short and long term. The directors of the Company consider that the Group has no significant liquidity risk. Details of which are set out in Note 2.

Litigation claim or fines

As disclosed in Note 31, provision for a claim was recognised regarding to the dispute over the contractual undertakings in relation to the construction of a light-emitting diode ("LED") display panel located in the PRC for an amount of approximately RMB12,378,000. As at 31 December 2012, the carrying value of such LED display panel was approximately RMB570,000 (2011: RMB1,587,000), net of accumulated impairment loss of approximately RMB1,017,000 (2011: Nil). During the year ended 31 December 2011, in the opinion of the directors of the Company, the Group has valid defences against such claim and any resulting liabilities would not have any probable material adverse impact on the Group's financial position. As a result, no provision in respect of such claim was made in the consolidated financial statements as at 31 December 2011.

While during the year ended 31 December 2012, a hearing was held on 4 July 2012 at 河北省石家莊中級人民法院 (the "Court"). No decision had been concluded during the hearing, however, based on principal of equitable liability, the Court has revealed an arbitration of claim of RMB7,500,000 to be paid by the Group for the ownership of the LED display panel. On 12 December 2012, another hearing was brought but no decision had been finalised and concluded. With reference to a legal opinion from the PRC legal advisor, likelihood of an unfavorable outcome is probable and the amount of the loss of RMB7,500,000 can be reasonably estimated. As a result, a provision of RMB7,500,000 in respect of such claim was recognised.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgements in applying accounting policies *(Continued)*

Litigation claim or fines *(Continued)*

As at 31 December 2012, the Group has certain outstanding payables regarding the rental of outdoor advertising billboards which exposed the Group to certain fines on late payment. With reference to a legal opinion from the PRC legal advisor, no litigation regarding this has been received up to the end of the reporting period. In the opinion of the directors of the Company, the Group will not have any material adverse financial impact as the potential amount of fine is insignificant.

Key sources of estimation uncertainty

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

Depreciation of plant and equipment and amortisation of intangible assets

Plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values, while intangible assets are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual values and the useful lives of the plant and equipment and intangible assets and if the expectation differs from the original estimates, such a difference may impact the depreciation and amortisation in the year and the estimate will be changed in the future period.

Estimated impairment loss on plant and equipment

The impairment loss on plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of plant and equipment have been determined based on value-in-use calculations or fair value less cost to sell. The directors of the Company select an appropriate technique to determine the recoverable amounts of plant and equipment. These calculations require the use of estimates such as the future revenue and discount rates. As at 31 December 2012, the carrying values of plant and equipment were approximately RMB6,909,000 (2011: RMB11,271,000), net of accumulated impairment loss of approximately RMB1,017,000 (2011: Nil).

5. *CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)*

Key sources of estimation uncertainty (Continued)

Estimated impairment loss on intangible assets

At the end of the reporting period, the Group performs testing on whether there has been impairment of intangible assets in accordance with the accounting policy as stated in Note 4. The recoverable amounts of cash generating units are determined based on value-in-use calculations. The directors of the Company assess the potential impairment of intangible assets if any, by reference to the work of independent professional qualified valuer who performs calculations which use estimates and assumptions of the future operation of the business applying appropriate discount rates, and other assumptions underlying the value-in-use calculations. As at 31 December 2012, the carrying values of intangible assets were approximately RMB3,395,000 (2011: RMB653,024,000), net of accumulated impairment loss of approximately RMB611,989,000 (2011: RMB1,188,000). Details of the recoverable amount calculation are disclosed in Note 20.

Estimated impairment loss on goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying value of goodwill was approximately RMB18,262,000 (2011: RMB18,463,000). No impairment loss was provided for both years. Details of the assumption used are disclosed in Note 21.

Impairment loss on prepayment for a mobile media project / deposit paid for acquisition of an intangible asset

In determining whether an impairment is required for the amount prepaid for a mobile media project and deposit paid for acquisition of an intangible asset, the directors of the Company take into consideration the possibility of completion of the respective project successfully. Provision is made if the management considers that the respective project is uncertain and unlikely to be completed based on the present progress and future business plan. As at 31 December 2012 and 2011, the carrying amounts of the prepayment and the deposit were fully impaired, net of accumulated impairment loss of RMB5,000,000 and approximately RMB8,545,000 (equivalent to approximately HK$10,472,000) respectively.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty (Continued)

Estimated impairment loss on available-for-sale investments

The Group follows the guidance of HKAS 39 to determine when an available-for-sale investment is impaired. This determination requires significant judgement by evaluating among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in the value below cost were considered significant or prolonged, impairment loss would be recognised. As at 31 December 2012, the carrying amount of available-for-sale investments was approximately RMB2,006,000 (2011: RMB2,029,000). No impairment loss was provided for both years.

Estimated impairment loss on trade and other receivables and amount due from an associate

The policy for impairment of trade and other receivables and amount due from an associate of the Group is based on the evaluation of collectability and ageing analysis of these receivables and on management's estimation. A considerable amount of estimation 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 debtors of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional impairment may be required. As at 31 December 2012, the carrying amount of trade and other receivables was approximately RMB35,336,000 (2011: RMB37,601,000), net of accumulated impairment loss of approximately RMB10,396,000 (2011: RMB1,436,000). While the carrying amount of the amount due from an associate as at 31 December 2012 was approximately RMB7,095,000 (2011: RMB10,843,000), net of accumulated impairment loss of approximately RMB15,228,000 (2011: RMB15,396,000).

Share-based payment expenses

The fair value of share options granted at the grant date to the directors, employees and consultants is recognised as an expense in full at grant date when the share options granted vest immediately, with a corresponding adjustment to the Group's share options reserve. In assessing the fair value of the share options, the generally accepted option pricing models were used to calculate the fair value of the share options. The option pricing models require the input of subjective assumptions, including the volatility of its own ordinary shares and the expected life of options etc. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Fair value of derivative financial liabilities

The directors of the Company use their judgements in selecting an appropriate valuation technique to determine fair value of the conversion option derivative and the contingent consideration instrument which are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of these derivative financial liabilities are reassessed at the end of each reporting period with movement to the consolidated statement of comprehensive income. In estimating the fair values of these derivative financial liabilities, the Group uses independent valuations which are based on various inputs and estimates with reference to quoted market rates and adjusted for specific features of the instrument. If the inputs and estimates applied in the model or the valuation model are different, the carrying amounts of these derivative financial liabilities will be changed. As at 31 December 2012, the carrying values of the conversion option derivative and the contingent consideration instrument were approximately RMB3,466,000 (2011: RMB7,247,000) and approximately RMB3,788,000 (2011: RMB4,340,000) respectively. The directors of the Company believe that the chosen valuation techniques and assumptions are appropriate in determining the fair values of these financial instruments.

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes other borrowings and convertible loan notes, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

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

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**62,422**	60,154
Available-for-sale investments	**2,006**	2,029
Financial liabilities		
At amortised cost	**84,219**	64,825
Derivative financial liabilities	**7,254**	11,587

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amount due from an associate, amount due from non-controlling interest holder, bank balances and cash, trade and other payables, amount due to a director, other borrowings, convertible loan notes and derivative financial liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

As at 31 December 2012 and 2011, no transaction denominated in currencies other than the respective functional currencies of the relevant group entities, i.e. RMB and HK$, except for certain other receivables, bank balances, other payables and liability component and conversion option derivative of convertible loan notes of the Group are denominated in foreign currencies. The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging the potential foreign currency exposure should the need arise.

The carrying amounts of the Group's monetary assets and liabilities denominated in currencies other than the respective functional currencies of the relevant group entities at the end of the reporting period are as follows:

7. *FINANCIAL INSTRUMENTS* *(Continued)*

(b) *Financial risk management objectives and policies* *(Continued)*

Market risk *(Continued)*

(i) Currency risk *(Continued)*

	Assets		Liabilities	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**–**	1,386	**20,118**	28,293
HK$	**14**	207	**–**	–

Sensitivity analysis

The Group is mainly exposed to RMB and HK$.

The following table details the Group's sensitivity to a 10% (2011: 10%) increase and decrease in the functional currencies of the relevant group entities, RMB or HK$, against the relevant foreign currencies. 10% (2011: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% (2011: 10%) change in foreign currency rates.

A negative number below indicates an increase in loss for the year where the respective functional currency (HK$ or RMB) strengthens 10% (2011: 10%) against the relevant foreign currency (RMB or HK$). For a 10% (2011: 10%) weakening of respective functional currency (HK$ or RMB) against the relevant foreign currency (RMB or HK$), there would be an equal and opposite impact on the loss for the year and the balances below would be positive.

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(i) Currency risk *(Continued)*

Sensitivity analysis (Continued)

	Effect on profit or loss	
	2012	2011
	RMB'000	RMB'000
HK$ strengthen against RMB by 10%	**(1,680)**	(2,247)
RMB strengthen against HK$ by 10%	**1**	16

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate other borrowings (see Note 32 for details) and convertible loan notes (see Note 33 for details). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 28 for details) carried at prevailing market rates.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate is mainly concentrated on the fluctuation of prevailing market rates arising from the Group's bank balances denominated in HK$ and RMB base deposit rate stipulated by the People's Bank of China arising from the Group's bank balances denominated in RMB.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2011: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(ii) Interest rate risk *(Continued)*

Sensitivity analysis (Continued)

The management adjusted the sensitivity rate from 100 basis points to 50 basis points for assessing interest rate risk after considering the impact of the volatile financial market conditions during the year ended 31 December 2012.

If interest rates had been 50 basis points (2011: 100 basis points) higher / lower and all other variables were held constant, the Group's loss for the year ended 31 December 2012 would decrease / increase by approximately RMB81,000 (2011: RMB88,000).

(iii) Other price risk

The Group is required to estimate the fair value of the conversion option derivative of two (2011: one) of the convertible loan notes issued by the Company at the end of each reporting period, which therefore exposed the Group to equity price risk. The Group does not have a price risk hedging policy. However, the management monitors equity price volatility exposure and will consider hedging the potential price risk exposure should the need arise. The fair value adjustments will be affected either positively or negatively, amongst others, by the changes in risk-free rate, share price of the Company and share price volatility. Details of the convertible loan notes issued by the Company are set out in Note 33.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

The management adjusted the sensitivity rate from 50% to 20% for assessing other price risk after considering the impact of the volatile financial market conditions during the year ended 31 December 2012. For sensitivity analysis purpose, the sensitivity rate is decreased to 20% in current year as a result of the decrease in volatility of the financial market.

If the equity prices had been 20% (2011: 50%) higher / lower while all other input variables of the valuation models were held constant, the loss for the year ended 31 December 2012 would increase / decrease by approximately RMB2,384,000 (2011: RMB3,342,000) as a result of the changes in the fair value of conversion option derivative of convertible loan notes.

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

With respect to credit risk arising from amount due from non-controlling interest holder, the Group's exposure to credit risk arising from default of this counterparty is limited as the amount is undertaken by the Company which has sufficient net assets to repay the debts. The Group does not expect to incur a significant loss for uncollected amount due from this party.

Regarding to the amount due from an associate, as at 31 December 2012, an impairment loss of HK$18,974,000 (equivalent to approximately RMB15,228,000) (2011: HK$18,974,000 (equivalent to approximately RMB15,396,000)) was recognised having considered the financial position of the associate as at the end of the reporting period. The Group's exposure to credit risk arising from the default of the associate on the outstanding amount is limited as the associate has sufficient net assets to repay the remaining debts.

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

The Group's concentration of credit risk by geographical locations mainly in the PRC, which accounted for 100% (2011: 100%) of the total trade receivables as at 31 December 2012.

The Group has concentration of credit risk as 17% (2011: Nil) and 29% (2011: 59%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within advertising media and other media segments.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

7. *FINANCIAL INSTRUMENTS* *(Continued)*

(b) *Financial risk management objectives and policies* *(Continued)*

Liquidity risk

The Company is exposed to liquidity risk. The Company had capital deficiency of approximately RMB9,522,000 as at 31 December 2012 and incurred loss of approximately RMB702,236,000 for the year ended 31 December 2012.

The directors of the Company have given careful consideration on the measure currently undertaken in respect of the Group's liquidity position. As detailed in Note 2, the directors of the Company believe that the Group will be able to meet its financial obligations as they fall due in the foreseeable future.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity tables

	On demand or within one year	More than one year but less than two years	More than two years but less than five years	Total undiscounted cash flows	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2012					
Non-derivative financial liabilities					
Trade and other payables	16,047	–	–	16,047	16,047
Amount due to a director	240	–	–	240	240
Other borrowings	18,360	–	–	18,360	18,000
Convertible loan notes	10,248	32,928	22,628	65,804	49,932
	44,895	32,928	22,628	100,451	84,219

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

Liquidity tables *(Continued)*

	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2011					
Non-derivative financial liabilities					
Trade and other payables	8,785	–	–	8,785	8,785
Amount due to a director	12	–	–	12	12
Other borrowings	18,709	–	–	18,709	18,325
Convertible loan notes	2,000	26,000	36,508	64,508	37,703
	29,506	26,000	36,508	92,014	64,825

7. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to their fair values due to their immediate or short-term maturities.

The directors of the Company consider the fair values of the non-current portion of other financial liabilities approximates to their carrying amounts as they are carried at amortised cost using the effective interest method.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

7. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

	31 December 2012			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial liabilities at FVTPL				
Conversion option derivative component of convertible loan notes	**–**	**–**	**3,466**	**3,466**
Contingent consideration arising in relation to the acquisition of a subsidiary	**–**	**–**	**3,788**	**3,788**
	–	**–**	**7,254**	**7,254**

	31 December 2011			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities at FVTPL				
Conversion option derivative component of convertible loan notes	–	–	7,247	7,247
Contingent consideration arising in relation to the acquisition of a subsidiary	–	–	4,340	4,340
	–	–	11,587	11,587

There were no transfers between Level 1 and 2 in the current and prior years.

7. *FINANCIAL INSTRUMENTS* (Continued)

(c) *Fair value* (Continued)

Reconciliation of Level 3 fair value measurements of financial liabilities

	Derivative financial liabilities RMB'000
Additions from acquisition of a subsidiary	1,692
Issued during the year	6,375
Total losses in profit or loss	3,666
Exchange realignment	(146)
At 31 December 2011	11,587
Issued during the year	235
Conversion of convertible loan notes	(3,044)
Total gains in profit or loss	(1,384)
Exchange realignment	(140)
At 31 December 2012	7,254

There were no transfers into or out of level 3 during the reporting period.

Of the total gains (2011: losses) for the year included in profit or loss, approximately RMB1,384,000 (2011: RMB3,666,000) relates to conversion option derivative component of convertible loan notes and contingent consideration arising in relation to the acquisition of a subsidiary outstanding during and at the end of the reporting period.

Significant assumptions used in determining fair value of financial liabilities

Conversion option derivative component of convertible loan notes

The fair value of the conversion option derivative component of convertible loan notes is determined by the inputs to option pricing model including stock price, risk-free rate, expected option period and expected volatility.

Contingent consideration arising in relation to the acquisition of a subsidiary

The fair value of the contingent consideration arising in relation to the acquisition of a subsidiary is determined by the inputs to Monte-Carlo simulation including remaining time to maturity, expected volatility and random simulation variables under standard normal distribution.

8. TURNOVER

Turnover represents the net amounts received and receivable for goods sold to customers and services rendered as well as gross proceeds from trading of securities. An analysis of the Group's turnover for the year from continuing operations is as follows:

	2012 RMB'000	2011 RMB'000
Advertising media income	10,240	38,078
Consultancy service income and TV programmes distribution services income	12,508	142
Sales of third party software and hardware	–	–
Gross proceeds from trading of securities	–	19,949
	22,748	58,169

9. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. Advertising media – provision of advertising services in respect of placing advertisements on the outdoor billboards and LED screens of the Group to advertisers and advertising agencies;

2. Other media – provision of consultancy and media business operation services and TV programmes distribution services;

3. Sales of third party software and hardware – provision of third party operational supporting system (OSS) software and hardware; and

4. Securities trading – trading of financial assets at fair value through profit or loss.

During the year ended 31 December 2011, there was a new reportable and operating segment regarding other media business upon the acquisition of a subsidiary as disclosed in Note 41.

Operating segments regarding the sales of self-developed software and maintenance, training and other services were discontinued during the year ended 31 December 2011. The segment information reported on the next pages does not include any amounts for these discontinued operations, which are disclosed in more detail in Note 13.

9. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable and operating segment:

For the year ended 31 December 2012

Continuing operations

	Advertising media RMB'000	Other media RMB'000	Sales of third party software and hardware RMB'000	Securities trading RMB'000	Total RMB'000
REVENUE					
External sales	10,240	12,508	–	–	22,748
Segment loss	(638,773)	(27,592)	–	–	(666,365)
Increase in fair value of derivative financial instruments					1,384
Unallocated other income					31
Unallocated corporate expenses					(24,854)
Finance costs					(8,810)
Loss before tax (continuing operations)					(698,614)

9. SEGMENT INFORMATION *(Continued)*

Segment revenue and results (Continued)

For the year ended 31 December 2011

Continuing operations

	Advertising media RMB'000	Other media RMB'000	Sales of third party software and hardware RMB'000	Securities trading RMB'000	Total RMB'000
REVENUE					
External sales	38,078	142	–	–	38,220
Segment loss	(58,060)	(3,180)	–	(1,211)	(62,451)
Share of results of an associate					(1,532)
Impairment loss recognised on amount due from an associate					(15,483)
Decrease in fair value of derivative financial instruments					(3,666)
Unallocated other income					63
Unallocated corporate expenses					(50,577)
Finance costs					(16,526)
Loss before tax (continuing operations)					(150,172)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment loss represents the loss from each segment without allocation of central administration costs, directors' emoluments, interest income, share of results of an associate, impairment loss recognised on amount due from an associate, increase / decrease in fair value of derivative financial instruments, gain on bargain purchase of a subsidiary, finance costs, write off of certain plant and equipment and depreciation of certain plant and equipment. This is the measure reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and performance assessment.

9. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	2012 RMB'000	2011 RMB'000
Segment assets		
Continuing operations		
Advertising media	6,305	632,714
Other media	26,726	59,207
Sales of third party software and hardware	–	–
Securities trading	–	–
Total segment assets	33,031	691,921
Assets relating to discontinued operations	–	–
Unallocated corporate assets	60,140	59,716
Consolidated assets	93,171	751,637
Segment liabilities		
Continuing operations		
Advertising media	11,276	4,923
Other media	100	–
Sales of third party software and hardware	–	–
Securities trading	–	–
Total segment liabilities	11,376	4,923
Liabilities relating to discontinued operations	–	–
Unallocated corporate liabilities	91,317	73,096
Consolidated liabilities	102,693	78,019

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain plant and equipment, interest in an associate, available-for-sale investments, amount due from an associate, amount due from non-controlling interest holder, certain other receivables, income tax recoverable and bank balances and cash; and

- all liabilities are allocated to operating segments other than certain other payables, amount due to a director, income tax payable, other borrowings, derivative financial liabilities and convertible loan notes.

9. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2012

Continuing operations

	Advertising media RMB'000	Other media RMB'000	Sales of third party software and hardware RMB'000	Securities trading RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment loss or segment assets:						
Additions to non-current assets (Note)	2	32	–	–	276	310
Depreciation and amortisation	35,971	4,362	–	–	1,622	41,955
Impairment loss recognised on intangible assets	574,877	35,937	–	–	–	610,814
Impairment loss recognised on trade and other receivables	7,810	2,157	–	–	–	9,967
Write off of other receivable	–	–	–	–	381	381
Write off of plant and equipment	–	–	–	–	9	9
Impairment loss recognised on plant and equipment	1,017	–	–	–	–	1,017
Provision for a claim	7,500	–	–	–	–	7,500
Write off of other payable	–	(3,000)	–	–	–	(3,000)
Reversal of impairment loss in respect of other receivable	(1,000)	–	–	–	–	(1,000)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment loss or segment assets:						
Interest in an associate	–	–	–	–	–	–
Interest income	–	–	–	–	(16)	(16)
Interest expenses	–	–	–	–	8,810	8,810
Share-based payment expenses	–	–	–	–	127	127
Increase in fair value of derivative financial liabilities	–	–	–	–	(1,384)	(1,384)

9. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2011

Continuing operations

	Advertising media RMB'000	Other media RMB'000	Sales of third party software and hardware RMB'000	Securities trading RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment loss or segment assets:						
Additions to non-current assets (Note)	3,915	64,713	–	–	2,463	71,091
Depreciation and amortisation	35,724	3,326	–	–	1,347	40,397
Impairment loss recognised on an intangible asset	1,195	–	–	–	–	1,195
Impairment loss recognised on deposit paid for acquisition of an intangible asset	8,545	–	–	–	–	8,545
Impairment loss recognised on prepayment for a mobile media project	5,000	–	–	–	–	5,000
Impairment loss recognised on other receivables	1,000	–	–	–	436	1,436
Loss on disposal of held-for-trading investments	–	–	–	1,211	–	1,211
Write off of plant and equipment	490	–	–	–	37	527
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment loss or segment assets:						
Interest in an associate	–	–	–	–	–	–
Share of results of an associate	–	–	–	–	1,532	1,532
Interest income	–	–	–	–	(31)	(31)
Interest expenses	–	–	–	–	16,526	16,526
Share-based payment expenses	–	–	–	–	16,588	16,588
Impairment loss recognised on amount due from an associate	–	–	–	–	15,483	15,483
Decrease in fair value of derivative financial liabilities	–	–	–	–	3,666	3,666

Note:

Non-current assets excluded available-for-sale investments.

9. SEGMENT INFORMATION *(Continued)*

Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations from its major products and services:

	2012	2011
	RMB'000	RMB'000
Advertising media income	**10,240**	38,078
Consultancy service income and TV programmes distribution services income	**12,508**	142
	22,748	38,220

Geographical information

The Group's operations are located in the PRC and Hong Kong.

Information about the Group's revenue from continuing operations from external customers is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		**Non-current assets**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**22,748**	38,220	**24,598**	677,376
Hong Kong	**–**	–	**3,968**	5,382
	22,748	38,220	**28,566**	682,758

Note:

Non-current assets excluded available-for-sale investments.

9. *SEGMENT INFORMATION (Continued)*

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2012 RMB'000	2011 RMB'000
Customer A[1]	4,142	4,008
Customer B[1]	N/A[2]	11,587
Customer C[1]	N/A[2]	8,116

1 Revenue from advertising media.
2 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

10. *OTHER INCOME*

	2012 RMB'000	2011 RMB'000
Continuing operations		
Write off of other payables	3,000	27
Reversal of impairment loss in respect of other receivable	1,000	–
Interest income	16	31
Gain on bargain purchase of a subsidiary (Note 41(i))	12	–
Others	3	5
	4,031	63

11. *FINANCE COSTS*

	2012 RMB'000	2011 RMB'000
Continuing operations		
Interest on other borrowings wholly repayable within five years	381	415
Effective interest expenses on convertible loan notes (Note 33)	8,429	16,111
	8,810	16,526

12. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
PRC Enterprise Income Tax		
– current year	3,622	–

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of all PRC subsidiaries is 25% for both years.

Provision for PRC Enterprise Income Tax is made for the year ended 31 December 2012 based on the estimated assessable profit derived from the PRC while no provision for PRC Enterprise Income Tax was made for the year ended 31 December 2011 as there was no estimated assessable profit derived from the PRC.

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made for the two years ended 31 December 2012 as the Group did not have any assessable profit subject to Hong Kong Profits Tax for both years.

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

The income tax expense for the year can be reconciled to the loss before tax per the consolidated statement of comprehensive income as follows:

	2012 RMB'000	2011 RMB'000
Loss before tax (from continuing operations)	(698,614)	(150,172)
Tax at the domestic income tax rate of 25% (2011: 25%)	(174,653)	(37,543)
Tax effect of share of results of an associate	–	253
Tax effect of expenses not deductible for tax purpose	113,974	20,359
Tax effect of income not taxable for tax purpose	(152)	(2)
Tax effect of utilisation of tax losses previously not recognised	(92)	–
Tax effect of tax losses not recognised	6,694	6,277
Effect of different tax rates of subsidiaries operating in other jurisdictions	57,851	10,656
Income tax expense for the year (relating to continuing operations)	3,622	–

12. INCOME TAX EXPENSE *(Continued)*

Note:

The domestic tax rate of 25% (2011: 25%) in the jurisdiction where the operation of the Group is substantially based is used.

As at 31 December 2012, the Group has unused tax losses of approximately RMB87,500,000 (2011: RMB59,435,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

As at 31 December 2011, included in the unused tax losses were an amount of approximately RMB296,000 (2012: Nil) arising from the acquisition of subsidiaries in the previous years.

The tax losses of approximately HK$53,690,000 (equivalent to approximately RMB43,089,000) (2011: HK$46,131,000 (equivalent to approximately RMB37,431,000)) may be carried forward indefinitely while the tax losses of approximately RMB44,411,000 (2011: RMB22,004,000) will be expired in the next five years.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB9,056,000 (2011: Nil) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

13. DISCONTINUED OPERATIONS

On 16 May 2011, the Group entered into a sale agreement to dispose of its entire equity interest in an indirectly wholly-owned subsidiary, 上海直真節點技術開發有限公司 ("ZZNode (Shanghai)"), to 北京惠澤驛祥信息技術有限公司, an independent third party, at a consideration of RMB495,000. ZZNode (Shanghai) was principally engaged in the sales of self-developed software and provision of maintenance, training and other services. The disposal was effected in order to realise its investment in ZZNode (Shanghai) and concentrate on the development of the current advertising operations. The disposal was completed on 3 June 2011, on which date control of ZZNode (Shanghai) passed to the acquirer.

The profit for the year from the discontinued operation is analysed as follows:

	Year ended 31/12/2012 RMB'000	Year ended 31/12/2011 RMB'000
Profit of sales of self-developed software operation	**–**	1,684
Loss of maintenance, training and other services operation	**–**	–
	–	1,684
Gain on disposal of sales of self-developed software and maintenance, training and other services operations (Note 42)	**–**	1,647
	–	3,331

13. DISCONTINUED OPERATIONS *(Continued)*

The results of the discontinued operations for the period from 1 January 2011 to 3 June 2011, which have been included in the consolidated statement of comprehensive income, were as follows:

	Year ended 31/12/2012 RMB'000	Period ended 3/6/2011 RMB'000
Revenue	–	–
Cost of sales	–	–
Gross profit	–	–
Other income	–	2,086
Administrative expenses	–	(402)
Profit before tax	–	1,684
Income tax expense	–	–
Profit for the year / period	–	1,684

Profit for the year / period from discontinued operations including the following:

	Year ended 31/12/2012 RMB'000	Period ended 3/6/2011 RMB'000
Reversal of impairment loss in respect of trade receivables	–	(1,979)

No charge or credit arose on gain on discontinuance of the operations.

The cash flows attributable to the discontinued operations are as follows:

	Year ended 31/12/2012 RMB'000	Period ended 3/6/2011 RMB'000
Net cash from operating activities	–	2,958
Net cash from investing activities	–	46
Net cash used in financing activities	–	(3,002)
Net cash inflow	–	2

The carrying amounts of the assets and liabilities of the disposed subsidiary at the date of disposal are disclosed in Note 42.

14. *LOSS FOR THE YEAR*

Loss for the year has been arrived at after charging:

	2012 RMB'000	2011 RMB'000
Continuing operations		
Directors' emoluments (Note 15)	2,275	7,723
Other staff costs (excluding directors' emoluments)	6,105	6,346
Share-based payment expenses (excluding directors' emoluments)	–	4,263
Retirement benefits scheme contributions (excluding directors' emoluments)	304	340
Total staff costs	8,684	18,672
Auditor's remuneration	561	498
Share-based payment expenses granted to consultants (Note)	–	7,676
Depreciation for plant and equipment	3,586	3,059
Amortisation of intangible assets (included in cost of sales and services)	38,369	37,338
Impairment loss recognised on trade and other receivables	9,967	1,436
Write off of other receivable	381	–
Net foreign exchange losses	17	234
Impairment loss recognised on intangible assets (included in cost of sales and services)	610,814	1,195
Impairment loss recognised on deposit paid for acquisition of an intangible asset (included in administrative expenses)	–	8,545
Impairment loss recognised on prepayment for a mobile media project (included in administrative expenses)	–	5,000
Impairment loss recognised on plant and equipment	1,017	–
Write off of plant and equipment	9	527
Operating lease rentals in respect of rented premises	8,817	6,636

Note:

It represents share options granted to external consultants in exchange for services rendered to the Group.

15. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2011: thirteen) directors were as follows:

For the year ended 31 December 2012

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Share-based payment expenses RMB'000	Total RMB'000
Executive directors:					
Chen Fu Ju (Note)	–	607	19	–	626
Li Qing	–	511	19	–	530
Yan Dake	–	504	12	–	516
Non-executive director:					
Ng Siu Lai	96	23	–	–	119
Independent non-executive directors:					
Li Zhong (resigned on 30 July 2012)	56	23	–	–	79
Zhao Yong (resigned on 31 October 2012)	80	23	–	–	103
Leung Siu Kee	96	23	–	–	119
Han Bing (appointed on 28 August 2012)	33	23	–	127	183
Total	361	1,737	50	127	2,275

Note:

Chen Fu Ju was resigned as the executive director of the Company on 1 March 2013.

Wang Shuping was appointed as the independent non-executive director of the Company on 11 January 2013.

15. DIRECTORS' EMOLUMENTS *(Continued)*

For the year ended 31 December 2011

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Share-based payment expenses RMB'000	Total RMB'000
Executive directors:					
Liu Yong Fei (retired on 27 May 2011)	–	479	13	–	492
Chan Shui Sheung, Ivy (resigned on 26 May 2011)	–	233	9	–	242
So Wai Lam (resigned on 11 May 2011)	–	119	4	–	123
Tin Ka Pak (resigned on 14 June 2011)	–	138	5	–	143
Chen Fu Ju	–	685	19	2,661	3,365
Li Qing	–	542	19	917	1,478
Yan Dake (appointed on 29 April 2011)	–	357	6	769	1,132
Non-executive director:					
Ng Siu Lai (appointed on 9 June 2011)	55	–	–	–	55
Independent non-executive directors:					
Chow Shiu Ki (resigned on 11 May 2011)	89	–	–	–	89
Li Zhong (appointed on 29 April 2011)	66	–	–	231	297
Wu Xian (resigned on 27 May 2011)	40	–	–	–	40
Zhao Yong	98	–	–	–	98
Leung Siu Kee	98	–	–	71	169
Total	446	2,553	75	4,649	7,723

None of the directors waived or agreed to waive any emoluments paid by the Group during the two years ended 31 December 2012. No emoluments were paid or payable by the Group to any directors as an inducement to join or upon joining the Group, or as compensation for loss of the office during the two years ended 31 December 2012.

16. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2011: three) were directors of the Company whose emoluments are included in the disclosures in Note 15 above. The emoluments of the remaining two (2011: two) individuals were as follows:

	2012	2011
	RMB'000	RMB'000
Salaries and other benefits	**1,209**	1,193
Retirement benefits scheme contributions	**28**	32
Share-based payment expenses	**–**	1,061
	1,237	2,286

Their emoluments were within the following bands:

	Number of employees	
	2012	2011
Nil to HK$1,000,000 (equivalent to approximately RMB802,000 (2011: RMB816,000))	**2**	1
HK$1,500,001 to HK$2,000,000 (equivalent to approximately RMB1,203,000 to RMB1,604,000 (2011: RMB1,224,000 to RMB1,632,000))	**–**	1
	2	2

No emoluments were paid or payable by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the two years ended 31 December 2012.

17. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

18. (LOSS) EARNINGS PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2012	2011
Loss	**RMB'000**	RMB'000
Loss for the year attributable to owners of the Company	**(701,309)**	(145,840)

	2012	2011
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,984,410**	1,757,641

From continuing operations

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

Loss figures are calculated as follows:

	2012	2011
	RMB'000	RMB'000
Loss for the year attributable to the owners of the Company	**(701,309)**	(145,840)
Less: Profit for the year from discontinued operations	**–**	3,331
Loss for the purpose of basic and diluted loss per share from continuing operations	**(701,309)**	(149,171)

18. *(LOSS) EARNINGS PER SHARE* *(Continued)*

From continuing operations *(Continued)*

The computation of diluted loss per share does not assume the exercise of the Company's share options / non-listed warrants because the exercise price of those share options / non-listed warrants were higher than the average market price for shares; and does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in a decrease in loss per share from the continuing operations for 2012 and 2011.

Diluted loss per share was the same as the basis loss per share as there were no potential dilutive ordinary shares outstanding on share options / non-listed warrants and convertible loan notes for the years ended 31 December 2012 and 2011.

From discontinued operations

For the year ended 31 December 2011, earnings per share for the discontinued operations is RMB0.19 cents per share (2012: Nil), based on the profit for the year from the discontinued operations of approximately RMB3,331,000 (2012: Nil) and the denominators detailed above for both basic and diluted earnings per share.

19. PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Computers and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2011	3,357	171	1,568	4,565	1,587	11,248
Exchange realignment	(54)	(7)	(13)	(165)	–	(239)
Additions	3,087	5	2,063	–	–	5,155
Acquired on acquisition of a subsidiary (Note 41)	–	–	5	–	–	5
Write off	–	–	(634)	–	–	(634)
At 31 December 2011	**6,390**	**169**	**2,989**	**4,400**	**1,587**	**15,535**
Exchange realignment	**(37)**	**(1)**	**(2)**	**(41)**	**–**	**(81)**
Additions	**254**	**5**	**19**	**–**	**–**	**278**
Acquired on acquisition of a subsidiary (Note 41)	**–**	**–**	**32**	**–**	**–**	**32**
Write off	**–**	**(7)**	**(17)**	**–**	**–**	**(24)**
At 31 December 2012	**6,607**	**166**	**3,021**	**4,359**	**1,587**	**15,740**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2011	638	30	180	509	–	1,357
Exchange realignment	(14)	(2)	(6)	(23)	–	(45)
Provided for the year	1,930	34	500	595	–	3,059
Eliminated on write off	–	–	(107)	–	–	(107)
At 31 December 2011	**2,554**	**62**	**567**	**1,081**	**–**	**4,264**
Exchange realignment	**(10)**	**(1)**	**(1)**	**(9)**	**–**	**(21)**
Provided for the year	**2,154**	**33**	**809**	**590**	**–**	**3,586**
Eliminated on write off	**–**	**(5)**	**(10)**	**–**	**–**	**(15)**
Impairment loss recognised	**–**	**–**	**–**	**–**	**1,017**	**1,017**
At 31 December 2012	**4,698**	**89**	**1,365**	**1,662**	**1,017**	**8,831**
CARRYING VALUES						
At 31 December 2012	**1,909**	**77**	**1,656**	**2,697**	**570**	**6,909**
At 31 December 2011	3,836	107	2,422	3,319	1,587	11,271

19. PLANT AND EQUIPMENT *(Continued)*

The above items of plant and equipment are depreciated on a straight-line basis, after taking into account of their estimated residual values, at the following rates per annum:

Leasehold improvements	Over the term of the leases
Furniture and fixtures	20% – 33%
Computers and equipment	20% – 33%
Motor vehicles	12.5% – 20%

During the year ended 31 December 2012, the directors of the Company conducted a review on the Group's plant and equipment and determined that the construction in progress was impaired, due to technical obsolescence. Accordingly, impairment losses of approximately RMB1,017,000 (2011: Nil) has been recognised in respect of the construction in progress, which is used in the advertising media segment.

20. INTANGIBLE ASSETS

	LED displays advertising right RMB'000 (Note i)	Consultancy service contracts RMB'000 (Note ii)	Other advertising right RMB'000 (Note iii)	Total RMB'000
COST				
At 1 January 2011	680,320	–	–	680,320
Acquired on acquisition of a subsidiary (Note 41)	–	45,589	–	45,589
Transfer from deposit paid for acquisition of an intangible asset (Note 23)	–	–	1,229	1,229
Exchange realignment	–	(1,550)	(41)	(1,591)
At 31 December 2011	680,320	44,039	1,188	725,547
Exchange realignment	–	(479)	(13)	(492)
At 31 December 2012	680,320	43,560	1,175	725,055
AMORTISATION AND IMPAIRMENT				
At 1 January 2011	34,016	–	–	34,016
Provided for the year	34,016	3,322	–	37,338
Impairment loss recognised	–	–	1,195	1,195
Exchange realignment	–	(19)	(7)	(26)
At 31 December 2011	68,032	3,303	1,188	72,523
Provided for the year	34,016	4,353	–	38,369
Impairment loss recognised	574,877	35,937	–	610,814
Exchange realignment	–	(33)	(13)	(46)
At 31 December 2012	676,925	43,560	1,175	721,660
CARRYING VALUES				
At 31 December 2012	3,395	–	–	3,395
At 31 December 2011	612,288	40,736	–	653,024

20. *INTANGIBLE ASSETS* *(Continued)*

Notes:

(i) LED displays advertising right represents the operating right to operate outdoor advertising LED displays business in the PRC. The operating right was acquired through acquisition of the entire issued share capital of Precious Luck Enterprises Limited ("Precious Luck") during the year ended 31 December 2010.

The intangible asset is amortised on a straight-line basis over its estimated useful lives of 20 years.

As at 31 December 2012 and 2011, the management reviewed the recoverable amount of the intangible asset with reference to the valuation issued by an independent qualified professional valuer not connected to the Group.

The recoverable amount of the intangible asset is determined from the discounted cash flows value-in-use approach as extracted from the valuer's valuation report for the recoverable amount as at 31 December 2012 and 31 December 2011. The Group prepared cash flow forecasts derived from the most recent budgets approved by management and extrapolated over 17 years (2011: 18 years). The key assumptions for the discounted cash flow forecast were those regarding discount rates and anticipated future sales, as follows:

- Projected cash flows are based on sales and business plans derived from the advertising media business plans which is prepared by the directors of the Company based on their best knowledge and current situation of the industry. Expected cash inflows / outflows, which include budgeted sales and gross margin, have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying value to exceed the aggregate recoverable amount.

- Management used a discount rate which is derived as the Company's weighted average cost of capital, representing the expected return on the Company's capital, and assigned a pre-tax discount rate of 21.75% (2011: 21.83%).

- The cash flows beyond 5-year (2011: 5-year) period are extrapolated using zero growth rate (2011: 0%). The growth rate is set by the management with reference to the relevant industry growth rate and the average long-term growth rate for the relevant industry.

During the year ended 31 December 2012, the directors of the Company considered the LED outdoor advertising business had slowed down and decided to change the business operation during the year due to the change in the operating environment in the PRC and the difficulty in the procurement of good location LED boards in major cities in the PRC. The change in business plan led to a worse financial performance from the LED advertising business than expected. As a result, the Group recognised an impairment loss of approximately RMB574,877,000 (2011: Nil) in relation to LED display advertising right.

20. *INTANGIBLE ASSETS* *(Continued)*

Notes: *(Continued)*

(ii) Consultancy service contracts represent exclusive consultancy service agreements for media business obtained through the acquisition of the entire issued share capital of Bold Champion International Limited ("Bold Champion") on 25 March 2011. Details of which are set out in Note 41.

The intangible asset is amortised on a straight-line basis over its estimated useful lives of 10 years according to the terms of the consultancy service contracts.

As at 31 December 2012, the management reviewed the recoverable amount of the intangible asset with reference to the valuation issued by an independent qualified professional valuer not connected to the Group.

The recoverable amount has been determined on the basis of value-in-use calculations, which use cash flow projections based on financial budgets approved by management covering a 10-year period and a pre-tax discount rate of 17.14% (2011: 15.81%). Cash flows beyond 3-year (2011: 4-year) period are assumed constant with zero growth rate (2011: 0%) up to the end of service contracts. The forecast turnover is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period is also based on the budgeted consultancy service income and expected gross margins during the budget period. Expected cash inflows / outflows, which include budgeted consultancy service income and gross margin have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying value of intangible asset to exceed the recoverable amount of intangible asset.

During the year ended 31 December 2012, the Group recognised an impairment loss of approximately RMB35,937,000 (2011: Nil) in relation to consultancy service contracts as the directors of the Group expected that there is a significant decline in income derived from providing consultancy services upon the change in business plan of its customers during the year ended 31 December 2012 of which no profit would be expected to be generated in foreseeable future.

(iii) Other advertising right represents fees paid for obtaining the exclusive operating right for advertising billboards located on highways in Hebei Province, the PRC. Other advertising right is measured initially at purchase cost and amortised on a straight-line basis over their estimated useful lives of 10 years, less any impairment losses. During the year ended 31 December 2011, certain advertising billboards have been obtained and the corresponding deposit paid for acquisition of the intangible asset of HK$1,464,000 (equivalent to approximately RMB1,229,000) have been transferred to intangible asset upon obtaining the right.

During the year ended 31 December 2011, the Group recognised an impairment loss of HK$1,464,000 (equivalent to approximately RMB1,195,000) in relation to other advertising right as the directors of the Company considered that the respective advertising business in Hebei Province was not carried in according to the designated schedule and losses were incurred without satisfactory income streams to the Group.

21. GOODWILL

	RMB'000
COST	
Arising on acquisition of a subsidiary (Note 41)	19,113
Exchange realignment	(650)
At 31 December 2011	18,463
Exchange realignment	(201)
At 31 December 2012	18,262
CARRYING VALUE	
At 31 December 2012	18,262
At 31 December 2011	18,463

Goodwill was arising on the acquisition of Bold Champion during the year ended 31 December 2011. The recoverable amount has been determined on the basis of value-in-use calculations, which use cash flow projections based on financial budgets approved by management covering a 10-year period and a pre-tax discount rate of 17.14% (2011: 15.81%). Cash flows beyond 3-year (2011: 4-year) period are assumed constant with zero growth rate (2011: 0%). The forecast turnover is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period is also based on the budgeted consultancy service income and TV programmes distribution services income and expected gross margins during the budget period. Expected cash inflows / outflows, which include budgeted consultancy service income and gross margin have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying value of goodwill to exceed the recoverable amount of goodwill. No impairment loss was provided for the two years ended 31 December 2012.

22. INTEREST IN AN ASSOCIATE

	2012 RMB'000	2011 RMB'000
Cost of investment in an associate		
Unlisted equity interest	–	–
Share of post-acquisition results and other comprehensive income	–	58
Exchange realignment	–	(58)
	–	–

As at 31 December 2012 and 2011, the Group had interests in the following associate:

Name of entity	Form of entity	Country of incorporation/ registration	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group 2012	2011	Principal activity
Apex One Enterprises Limited	Incorporated	The BVI	Hong Kong	Ordinary	49%	49%	Trading of securities

The summarised financial information extracted from the audited financial statements in respect of the Group's associate is set out below:

	2012 RMB'000	2011 RMB'000
Total assets	6,055	14,441
Total liabilities	(22,483)	(29,999)
Net liabilities	(16,428)	(15,558)
Group's share of net liabilities of the associate	(8,050)	(7,623)
Total revenue	24,848	4,102
Total loss for the year	(1,039)	(18,772)
Total other comprehensive income	–	–
Group's share of loss and other comprehensive expense of the associate for the year	(509)	(9,198)

22. INTEREST IN AN ASSOCIATE *(Continued)*

The Group has discontinued recognition of its share of losses of the associate. The amounts of unrecognised share of the associate, extracted from the relevant audited financial statements of the associate, both for the year and cumulatively, are as follows:

	2012 RMB'000	2011 RMB'000
Unrecognised share of losses of associate for the year	509	7,666
Accumulated unrecognised share of losses of associate	8,175	7,666

23. DEPOSIT PAID FOR ACQUISITION OF AN INTANGIBLE ASSET

On 18 August 2010, the Group had entered into an agreement with 中廣國際廣告公司, an independent third party in relation to operating rights for advertising billboards located on highways in Hebei Province, the PRC.

The Group had paid HK$11,936,000 (equivalent to approximately RMB10,108,000) during the year ended 31 December 2010 and such costs were recorded as deposit paid for acquisition of intangible asset as at 31 December 2010.

During the year ended 31 December 2011, the Group had transferred HK$1,464,000 (equivalent to approximately RMB1,229,000) to intangible asset upon obtaining the operating rights for certain advertising billboards. Regarding the remaining amount of HK$10,472,000 (equivalent to approximately RMB8,545,000) paid, an impairment loss was recognised on the full amount as the directors of the Company considered that the respective advertising business in Hebei Province was not carried in according to the designated schedule and losses were incurred without satisfactory income streams to the Group.

24. PREPAYMENT FOR A MOBILE MEDIA PROJECT

The prepayment for a mobile media project was acquired through the acquisition of the entire issued share capital of Precious Luck during the year ended 31 December 2010.

On 31 May 2008, 創智利德（北京）發展有限公司 ("Chuangzhi Lide"), a wholly-owned subsidiary of Precious Luck had entered into a co-operation agreement with Xinhua Media Centre, an independent third party for developing a mobile media project. Chuangzhi Lide had paid a non-refundable amount of RMB5,000,000 related to such agreement. The project was not yet commenced as at 31 December 2011.

The directors of the Company took into consideration that there was no progress during the year ended 31 December 2011 and up to 31 December 2011, the relevant project was uncertain to be launched and unlikely to be completed. As a result, the amount was fully impaired during the year ended 31 December 2011.

25. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2012 RMB'000	2011 RMB'000
Unlisted equity securities, at cost	**2,006**	2,029

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in Hong Kong. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

26. TRADE AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	**15,400**	5,045
Less: impairment loss recognised	**(6,967)**	–
	8,433	5,045
Other receivables	**4,923**	1,838
Less: impairment loss recognised	**(429)**	(1,436)
	4,494	402
Deposits	**25,232**	25,467
Less: impairment loss recognised	**(3,000)**	–
	22,232	25,467
Prepayments	**177**	6,687
	35,336	37,601

26. *TRADE AND OTHER RECEIVABLES* *(Continued)*

The Group does not hold any collateral over these receivables.

Trade receivable are due according to the terms on the relevant contacts as at 31 December 2012. The Group allows an average credit period of 30 to 60 days to certain trade customers as at 31 December 2011. The following is an aged analysis of trade receivables net of impairment losses presented based on the invoice date at the end of reporting period.

	2012	2011
	RMB'000	RMB'000
Within 30 days	**4,832**	5,045
31 to 60 days	**3,375**	–
Over 365 days	**226**	–
	8,433	5,045

As at 31 December 2012, included in the Group's trade receivables balances were approximately RMB4,832,000 (2011: RMB2,272,000) which was not yet due according to the contract terms as at the end of the reporting period. Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Ageing of trade receivables which are past due but not impaired

	2012	2011
	RMB'000	RMB'000
31 to 60 days	**3,375**	–
Over 365 days	**226**	–
	3,601	–

As at 31 December 2012, included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB3,601,000 (2011: Nil) which were past due as at the reporting date for which the Group has not provided for impairment loss. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment loss 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.

26. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the impairment losses on trade receivables

	2012 RMB'000	2011 RMB'000
1 January	–	–
Impairment losses recognised on trade receivables	6,967	–
31 December	6,967	–

As at 31 December 2012, included in the impairment loss on trade receivables are individually impaired trade receivables with an aggregate balance of approximately RMB6,967,000 (2011: Nil). The individually impaired receivables are recognised based on the credit history of its customer and current market conditions.

Movement in the impairment losses on other receivables and deposits

	2012 RMB'000	2011 RMB'000
1 January	1,436	1,979
Exchange realignment	(7)	–
Impairment losses recognised on other receivables and deposits	3,000	1,436
Reversal of impairment losses recognised in previous year	(1,000)	(1,979)
31 December	3,429	1,436

As at 31 December 2012, included in the impairment loss on other receivables and deposits are individually impaired other receivables and deposits with an aggregate balance of approximately RMB3,429,000 (2011: RMB1,436,000) are made for long outstanding receivables, which theirs recoverability is considered doubtful by the management of the Company.

Included in deposits is a guarantee deposit of HK$25,000,000 (equivalent to approximately RMB20,065,000) (2011: HK$25,000,000 (equivalent to approximately RMB20,285,000)) placed to the related party of the lender to secure an other borrowing of RMB18,000,000 as disclosed in Note 32.

27. AMOUNTS DUE FROM AN ASSOCIATE / NON-CONTROLLING INTEREST HOLDER

The amounts are unsecured, non-interest bearing and repayable on demand.

As at 31 December 2012, included in the amount due from an associate, an impairment loss of HK$18,974,000 (equivalent to approximately RMB15,228,000) (2011: HK$18,974,000 (equivalent to approximately RMB15,396,000)) has been recognised.

28. BANK BALANCES AND CASH

Bank balances carried interest at market rates which range from 0.01% to 0.50% (2011: 0.01% to 0.50%) per annum.

29. TRADE AND OTHER PAYABLES

	2012 RMB'000	2011 RMB'000
Trade payables	3,715	3,316
Other payables	3,663	2,989
Receipts in advance	161	1,607
Accruals	8,669	2,480
	16,208	10,392

The following is an aged analysis of trade payables presented based on the invoice date at end of the reporting period.

	2012 RMB'000	2011 RMB'000
Within 30 days	100	–
31 to 60 days	205	3,316
181 to 365 days	3,410	–
	3,715	3,316

The trade payables were due according to the terms on the relevant contracts. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

30. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, non-interest bearing and repayable on demand.

31. *PROVISION FOR A CLAIM*

On 12 June 2010, an indirectly-owned subsidiary of the Company has been brought to the first court hearing at the Court by 日本赤見電機株式會社 ("Japan Chijian"). Japan Chijian has brought a claim for alleged breach of contractual undertakings in relation to the construction of a LED display panel located in the PRC for an amount of approximately RMB12,378,000.

A hearing was held on 4 July 2012 at the Court. No decision had been concluded during the hearing, however, based on principal of equitable liability, the Court has revealed an arbitration of claim of RMB7,500,000 to be paid by the Group for the ownership of the LED display panel. On 12 December 2012, another hearing was brought but no decision had been recognised and concluded.

With reference to a legal opinion obtained from the PRC legal advisor, likelihood of an unfavorable outcome is probable and the amount of the loss of RMB7,500,000 can be reasonably estimated. As a result, a provision of RMB7,500,000 in respect of such claim was made as at 31 December 2012.

As at the date of approval of the consolidated financial statements, no final decision had been made in the court proceedings.

32. *OTHER BORROWINGS*

	2012	2011
	RMB'000	RMB'000
Secured	**18,000**	18,000
Unsecured	**–**	325
	18,000	18,325

The carrying amount of other borrowings is repayable within one year. The amounts due are based on scheduled repayment dates set out in the loan agreements.

As at 31 December 2012, other borrowings included an amount of RMB18,000,000 (2011: RMB18,000,000) loan from an independent third party, which bears interest at 2% (2011: 2%) per annum and repayable within one year. The Group has placed a guarantee deposit of HK$25,000,000 (equivalent to approximately RMB20,065,000) (2011: HK$25,000,000 (equivalent to approximately RMB20,285,000)) to the related party of the lender to secure the borrowing.

In addition, as at 31 December 2011, included in other borrowings was HK$400,000 (equivalent to approximately RMB325,000) (2012: Nil) loan from an independent third party, which is unsecured, bears interest at 12% per annum. This borrowing has been fully repaid during the year ended 31 December 2012.

During the year ended 31 December 2011, the Group obtained new borrowings in the amount of RMB20,325,000 (2012: Nil). The proceeds were used to finance the general working capital of the Group.

33. CONVERTIBLE LOAN NOTES

(i) On 2 January 2010, the Company issued zero-coupon convertible loan notes with an aggregate principal amount of HK$756,000,000 (equivalent to approximately RMB659,262,000) (the "2010 Convertible Loan Notes") as partial settlement for the acquisition consideration of Precious Luck. The 2010 Convertible Loan Notes are denominated in HK$ and entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the 2010 Convertible Loan Notes and their settlement date on 1 January 2015 at an initial conversion price of HK$0.519, subject to adjustments, per convertible loan note. If the 2010 Convertible Loan Notes have not been converted, it will be redeemed on 1 January 2015 at par.

The 2010 Convertible Loan Notes contain two components, liability and equity components. The equity component is presented in equity heading ("convertible loan notes equity reserve"). The effective interest rate of the liability component is 25% per annum.

The movement of the liability and equity components of the 2010 Convertible Loan Notes is set out below:

	Liability component	Equity component	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2011	73,129	104,877	178,006
Effective interest expenses (Note 11)	13,601	–	13,601
Conversion during the year	(62,765)	(75,977)	(138,742)
Exchange realignment	(5,995)	–	(5,995)
At 31 December 2011	17,970	28,900	46,870
Effective interest expenses (Note 11)	3,143	–	3,143
Conversion during the year	(6,966)	(8,695)	(15,661)
Exchange realignment	(199)	–	(199)
At 31 December 2012	13,948	20,205	34,153

(ii) On 23 June 2011, the Company issued 8% convertible loan notes with an aggregate principal amount of RMB25,000,000 (the "2011 Convertible Loan Notes"). The 2011 Convertible Loan Notes are denominated in RMB and entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the 2011 Convertible Loan Notes and their settlement date on 22 June 2013 at an initial conversion price of HK$0.49, subject to adjustments, per convertible loan note. If the 2011 Convertible Loan Notes have not been converted, it will be redeemed on 22 June 2013 at par. The 2011 Convertible Loan Notes shall carry an interest of 8% per annum, payable quarterly.

33. CONVERTIBLE LOAN NOTES *(Continued)*

(ii) *(Continued)*

On 3 January 2012, the conversion price in force of the 2011 Convertible Loan Notes has been reset to HK$0.29 per conversion share due to the closing prices per share of the Company as quoted on the Stock Exchange for any five consecutive trading days at any time after the first six months from the date of issue of 2011 Convertible Loan Notes are less than the conversion price in force (i.e. HK$0.49 per conversion share), then the conversion price of the 2011 Convertible Loan Notes shall be reset at 80.1% of the average of the closing prices (or the par value of ordinary share of the Company if it is higher). The conversion price of the 2011 Convertible Loan Notes shall only be reset once. Details of which are set out in the announcement of the Company dated 3 January 2012.

The 2011 Convertible Loan Notes contain two components, liability component and conversion option derivative. The conversion option is classified as conversion option derivative as the 2011 Convertible Loan Notes will be settled other than by the exchange of a fixed amount of cash or another financial asset (i.e. principal amount denominated in RMB) for a fixed number of the Company's own equity instruments (i.e. ordinary share denominated in HK$). The effective interest rate of the liability component is 25.26% per annum. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

The movement of the liability component and conversion option derivative of the 2011 Convertible Loan Notes is set out below:

	Liability component	**Conversion option derivative**	**Total**
	RMB'000	RMB'000 (Note 34)	RMB'000
Issue of convertible loan notes during the year	18,625	6,375	25,000
Effective interest expenses (Note 11)	2,510	–	2,510
Interest paid during the year	(1,000)	–	(1,000)
Loss arising on changes of fair value	–	1,018	1,018
Exchange realignment	(402)	(146)	(548)
At 31 December 2011	19,733	7,247	26,980
Effective interest expenses (Note 11)	5,163	–	5,163
Interest paid during the year	(1,790)	–	(1,790)
Gain arising on changes of fair value	–	(947)	(947)
Conversion during the year	(6,792)	(3,044)	(9,836)
Exchange realignment	(282)	(69)	(351)
At 31 December 2012	16,032	3,187	19,219

33. CONVERTIBLE LOAN NOTES *(Continued)*

(iii) On 10 December 2012, the Company issued 10% convertible loan notes with an aggregate principal amount of HK$25,000,000 (equivalent to approximately RMB20,000,000) (the "2012 Convertible Loan Notes"). The 2012 Convertible Loan Notes are denominated in HK$ and entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the 2012 Convertible Loan Notes and their settlement date on 9 December 2014 at an initial conversion price of HK$0.281, subject to adjustments, per convertible loan note. If the 2012 Convertible Loan Notes have not been converted, it will be redeemed on 9 December 2014 at par. The 2012 Convertible Loan Notes shall carry on an interest of 10% per annum, payable quarterly.

The 2012 Convertible Loan Notes contain two components, liability component and conversion option derivative. The conversion option is classified as conversion option derivative as the 2012 Convertible Loan Notes will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments. The conversion price will be adjusted based on prescribed formulas upon certain events happened. The effective interest rate of the liability component is 10.68% per annum. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

The movement of the liability component and conversion option derivative of the 2012 Convertible Loan Notes is set out below:

	Liability component	**Conversion option derivative**	**Total**
	RMB'000	RMB'000 (Note 34)	RMB'000
Issue of convertible loan notes during the year	19,765	235	20,000
Effective interest expenses (Note 11)	123	–	123
Loss arising on changes of fair value	–	43	43
Exchange realignment	64	1	65
At 31 December 2012	19,952	279	20,231

33. CONVERTIBLE LOAN NOTES *(Continued)*

The following in an analysis of convertible loan notes for financial reporting purposes:

	2010 Convertible Loan Notes	**2011 Convertible Loan Notes**	**2012 Convertible Loan Notes**	**2012**	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities	13,948	9,619	19,952	43,519	37,703
Current liabilities	–	6,413	–	6,413	–
	13,948	16,032	19,952	49,932	37,703

During the year ended 31 December 2012, two of the 2011 Convertible Loan Notes holders have agreed to either convert the 2011 Convertible Loan Notes into fully paid ordinary shares of the Company on or before 22 June 2013 or roll over the 2011 Convertible Loan Notes to another one year period ending 22 June 2014. Accordingly, the liability component of 2011 Convertible Loan Notes of approximately RMB9,619,000 is classified as non-current liabilities while the remaining portion of the liability component of approximately RMB6,413,000 is classified as current liabilities as no extension confirmation is obtained.

34. DERIVATIVE FINANCIAL LIABILITIES

	Contingent consideration instrument	**Derivative component of convertible loan notes**	**Total**
	RMB'000 (Note)	RMB'000 (Note 33 (ii)&(iii))	RMB'000
Additions from acquisition of a subsidiary (Note 41)	1,692	–	1,692
Issue of convertible loan notes (Note 33 (ii))	–	6,375	6,375
Decrease in fair value	2,648	1,018	3,666
Exchange realignment	–	(146)	(146)
At 31 December 2011	4,340	7,247	11,587
Issue of convertible loan notes (Note 33 (iii))	–	235	235
Conversion of convertible loan notes (Note 33 (ii))	–	(3,044)	(3,044)
Increase in fair value	(480)	(904)	(1,384)
Exchange realignment	(72)	(68)	(140)
At 31 December 2012	3,788	3,466	7,254

34. DERIVATIVE FINANCIAL LIABILITIES (Continued)

Note:

On 25 March 2011, the Group completed the acquisition of 100% equity interest in Bold Champion from certain independent third parties. The acquisition consideration is satisfied by an aggregate consideration of HK$74,000,000 (equivalent to approximately RMB62,156,000), which was satisfied by HK$10,000,000 (equivalent to approximately RMB8,400,000) in cash and 100,000,000 new shares of the Company. With the contingent consideration of HK$24,000,000 profit guarantee up to the three financial years ending 31 December 2013, with a fair value of HK$2,014,000 (equivalent to approximately RMB1,692,000) at the date of acquisition. In the event that the mentioned profit target is not met, the vendors and guarantors of the acquisition shall be settled in cash of the actual shortfall.

As at 31 December 2012, the fair value of the contingent consideration was increased by approximately HK$599,000 (equivalent to approximately RMB480,000) (2011: decreased by HK$3,305,000 (equivalent to approximately RMB2,648,000)) as a result of the re-estimation of the fair value of the contingent consideration.

35. SHARE CAPITAL

	Number of shares		Share capital		Equivalent nominal value of ordinary shares	
	2012	2011	**2012**	2011	**2012**	2011
	'000	'000	**HK$'000**	HK$'000	**RMB'000**	RMB'000
Ordinary shares of HK$0.1 each						
Authorised:						
At beginning of the year and end of the year	**10,000,000**	10,000,000	**1,000,000**	1,000,000	**879,100**	879,100
Issued and fully paid:						
At beginning of the year	**1,939,436**	1,575,436	**193,944**	157,544	**171,828**	142,126
Issue of shares upon conversion of convertible loan notes (Notes a & b)	**62,501**	264,000	**6,250**	26,400	**5,054**	21,303
Issue of shares upon settlement of consideration in respect of acquisition of a subsidiary (Note c)	**–**	100,000	**–**	10,000	**–**	8,399
Issue of shares upon placing (Note d)	**20,000**	–	**2,000**	–	**1,635**	–
At end of the year	**2,021,937**	1,939,436	**202,194**	193,944	**178,517**	171,828

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's shares during the two years ended 31 December 2012.

35. SHARE CAPITAL *(Continued)*

Notes:

(a) During the year ended 31 December 2012, the 2010 Convertible Loan Notes with an aggregate principal amount of approximately HK$15,917,000 were converted into approximately 30,668,000 ordinary shares of HK$0.1 each at a conversion price of HK$0.519 per share.

During the year ended 31 December 2012, the 2011 Convertible Loan Notes with an aggregate principal amount of RMB7,500,000 (equivalent to approximately HK$9,232,000) were converted into approximately 31,833,000 ordinary shares of HK$0.1 each at a conversion price of HK$0.29 per share.

(b) During the year ended 31 December 2011, the 2010 Convertible Loan Notes with an aggregate principal amount of HK$137,016,000 were converted into approximately 264,000,000 ordinary shares of HK$0.1 each at a conversion price of HK$0.519 per share.

(c) On 25 March 2011, the Group completed the acquisition of a subsidiary of which the aggregate consideration was partially settled by way of issue of 100,000,000 new ordinary shares of HK$0.1 each at a quoted market price of HK$0.64 each at the date of completion of the acquisition as consideration shares.

(d) On 11 September 2012, arrangements were made for a private placement to independent private investors of 20,000,000 shares of HK$0.10 each in the Company, at a price of HK$0.18 per share representing a discount of approximately 24% to the closing market price of the Company's shares on 11 September 2012.

The proceeds were used as general working capital of the Group. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 18 May 2012 and rank pari passu with other shares in issue in all respects.

All the ordinary shares issued during the two years ended 31 December 2012 rank pari passu with the then existing shares in all respects.

36. NON-LISTED WARRANTS

On 16 February 2011, the Company issued 120,000,000 warrants at a subscription price of HK$0.05 per warrant (the “Warrant 1”). On 18 April 2011, the Company entered into a deed of cancellation to cancel the Warrant 1 due to the fact that the price of shares decreased after the completion of the subscription of the Warrant 1, resulting in a gap between the current share price and the warrant exercise price. Details of the above are set out in the Company’s announcement dated 18 April 2011. Upon cancellation of the Warrant 1, the Group has paid an amount of HK$6,000,000 (equivalent to approximately RMB5,061,000) to the subscribers. The remaining amount in the warrant reserve of HK$5,623,000 (equivalent to approximately RMB4,743,000) was recorded as a reduction of equity upon cancellation during the year ended 31 December 2011. The excess amount of cash paid over the net proceeds on issue of HK$377,000 (equivalent to approximately RMB318,000) was transferred to accumulated losses.

On 19 April 2011, the Company and the placing agent entered into a placing agreement in respect of the placement of 170,000,000 warrants of the Company to not less than six independent investors at a price of HK$0.042 per warrants. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.1 each at a subscription price of HK$0.71, subject to adjustment upon occurrence of certain events. The placement was terminated on 30 June 2011 before the completion of subscription. Details of the above are set out in the Company’s announcement dated 30 June 2011.

37. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2012 RMB'000	2011 RMB'000
Within one year	**2,926**	4,206
In the second to fifth year inclusive	**733**	1,020
	3,659	5,226

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms ranged from one to five (2011: one to four) years with fixed rentals.

38. CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Capital expenditure in respect of the acquisition of subsidiaries contracted for but not provided in the consolidated financial statements	**320,225**	176,885

(i) Pursuant to the acquisition agreement dated 7 September 2012, the Group has entered into with certain third parties to acquire the entire interests of Housden Holdings Limited at an aggregate consideration of HK$399,000,000 (equivalent to approximately RMB320,225,000), settled by the issuance of 1,900,000,000 preferred shares at HK$0.21 each. The details are set out in the announcements of the Company dated 9 September 2012, 7 December 2012, 31 December 2012, 15 January 2013 and 28 February 2013.

(ii) Pursuant to the acquisition agreement dated 24 November 2011, the Group has entered into with certain third parties to acquire the entire interest of Sino Mind Holdings Limited at an aggregate consideration of HK$218,000,000 (equivalent to approximately RMB176,885,000), which shall be satisfied as to an aggregate amount of HK$188,000,000 (equivalent to approximately RMB152,543,000) share consideration, being 400,000,000 new shares of the Company and HK$30,000,000 (equivalent to approximately RMB24,342,000) cash consideration. The details are set out in the announcements of the Company dated 2 September 2011 and 24 November 2011.

Pursuant to the termination agreement dated 28 September 2012, the Group has entered into with certain third parties to terminate this proposed acquisition. No party to the termination agreement has obligations towards each other and no party to the termination agreement has any claim against the other parties. The details are set out in the announcement of the Company dated 28 September 2012.

39. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes of the Company

(a) Share option scheme

Pursuant to a share option scheme approved by a resolution of the shareholders of the Company on 31 October 2004 (the "Share Option Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries who meet the relevant criteria set out in the Share Option Scheme (the "Participants") as incentives and rewards for their contributions to the Group, to subscribe for shares in the Company with a payment of HK$1.00 upon each grant of options offered and the options granted must be taken up within 30 days from the date of grant. The exercise price of the share option will be determined at the higher of (i) the average of closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant of the options, (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant and (iii) the nominal value of the shares.

The share options are exercisable at any time during a year of not more than 10 years from the date of grant, subject to the terms and conditions of the Share Option Scheme and any conditions of grant as may be stipulated by the board of the directors.

The maximum number of shares in respect of which options may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes shall not exceed 30% of the number of shares of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares of the Company in issue as at the date of approval of the Share Option Scheme unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme. No person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full would result in such person's maximum entitlement exceeding 1% of the number of shares of the Company in issue.

39. *SHARE-BASED PAYMENT TRANSACTIONS* (Continued)

Equity-settled share option schemes of the Company (Continued)

(a) *Share option scheme* (Continued)

Details of specific categories of options granted under the Share Option Scheme are as follows:

Date of grant	Vesting period	Exercise period	Exercise price	Fair value at grant date
8 October 2009	8 October 2009 to 22 November 2009	23 November 2009 to 22 November 2012	HK$1.27	HK$0.59
4 February 2010	Note	4 February 2010 to 3 February 2013	HK$1.80	HK$0.51
12 March 2010	Note	12 March 2010 to 11 March 2013	HK$1.46	HK$0.40
8 October 2010	Note	8 October 2010 to 7 October 2013	HK$0.96	HK$0.32
6 January 2011	Note	6 January 2011 to 5 January 2014	HK$0.85	HK$0.28
2 June 2011	Note	2 June 2011 to 1 June 2014	HK$0.58	HK$0.19
6 July 2011	Note	6 July 2011 to 5 July 2014	HK$0.53	HK$0.14
29 July 2011	Note	29 July 2011 to 28 July 2014	HK$0.56	HK$0.19
5 September 2011	Note	5 September 2011 to 4 September 2014	HK$0.55	HK$0.19
3 November 2011	Note	3 November 2011 to 2 November 2014	HK$0.37	HK$0.11
3 October 2012	Note	3 October 2012 to 2 October 2015	HK$0.24	HK$0.08

Note:

In accordance with the terms of the share-based payment expenses, these share options were vested at the date of grant.

39. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option schemes of the Company (Continued)

(a) Share option scheme (Continued)

The following table discloses movements of the Company's share options held by directors, employees and consultants during the year:

For the year ended 31 December 2012

Date of grant	Outstanding at 1 January 2012	Granted during the year	Forfeited during the year	Cancelled during the year	Outstanding at 31 December 2012
Directors					
8 October 2010	5,000,000	–	–	–	5,000,000
2 June 2011	25,240,000	–	–	–	25,240,000
5 September 2011	5,000,000	–	–	–	5,000,000
3 October 2012	–	1,900,000	–	–	1,900,000
Employees					
8 October 2010	24,200,000	–	–	–	24,200,000
6 January 2011	4,600,000	–	(240,000)	–	4,360,000
2 June 2011	6,960,000	–	–	–	6,960,000
6 July 2011	3,000,000	–	–	–	3,000,000
29 July 2011	2,000,000	–	–	–	2,000,000
5 September 2011	5,000,000	–	(200,000)	–	4,800,000
3 November 2011	8,000,000	–	–	–	8,000,000
Consultants					
6 July 2011	5,000,000	–	–	–	5,000,000
29 July 2011	45,000,000	–	–	–	45,000,000
3 November 2011	2,000,000	–	–	–	2,000,000
	141,000,000	1,900,000	(440,000)	–	142,460,000
Exercisable at the end of the year					142,460,000
Weighted average exercise price	HK$0.64	HK$0.24	HK$0.71	–	HK$0.64

39. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option schemes of the Company (Continued)

(a) Share option scheme (Continued)

The following table discloses movements of the Company's share options held by directors, employees and consultants during the year: (Continued)

For the year ended 31 December 2011

Date of grant	Outstanding at 1 January 2011	Granted during the year	Forfeited during the year	Cancelled during the year	Outstanding at 31 December 2011
Directors					
8 October 2009	36,440,000	–	(16,920,000)	(19,520,000)	–
12 March 2010	1,500,000	–	(60,000)	(1,440,000)	–
8 October 2010	5,500,000	–	(500,000)	–	5,000,000
2 June 2011	–	25,240,000	–	–	25,240,000
5 September 2011	–	5,000,000	–	–	5,000,000
Employees					
4 February 2010	1,700,000	–	(1,100,000)	(600,000)	–
12 March 2010	5,700,000	–	(500,000)	(5,200,000)	–
8 October 2010	24,500,000	–	(300,000)	–	24,200,000
6 January 2011	–	4,600,000	–	–	4,600,000
2 June 2011	–	6,960,000	–	–	6,960,000
6 July 2011	–	3,000,000	–	–	3,000,000
29 July 2011	–	2,000,000	–	–	2,000,000
5 September 2011	–	5,000,000	–	–	5,000,000
3 November 2011	–	8,000,000	–	–	8,000,000
Consultants					
6 July 2011	–	5,000,000	–	–	5,000,000
29 July 2011	–	45,000,000	–	–	45,000,000
3 November 2011	–	2,000,000	–	–	2,000,000
	75,340,000	111,800,000	(19,380,000)	(26,760,000)	141,000,000
Exercisable at the end of the year					141,000,000
Weighted average exercise price	HK$1.23	HK$0.56	HK$1.29	HK$1.33	HK$0.64

No share option was exercised during the two years ended 31 December 2012.

39. *SHARE-BASED PAYMENT TRANSACTIONS* *(Continued)*

Equity-settled share option schemes of the Company *(Continued)*

(a) Share option scheme *(Continued)*

The fair values were calculated using the Black-Scholes Option Pricing Model. The inputs into the model were as follows:

	Date of grant										
	8 October 2009	4 February 2010	12 March 2010	8 October 2010	6 January 2011	2 June 2011	6 July 2011	29 July 2011	5 September 2011	3 November 2011	3 October 2012
Share price on the date of grant	HK$1.27	HK$1.70	HK$1.45	HK$0.96	HK$0.85	HK$0.58	HK$0.48	HK$0.56	HK$0.55	HK$0.35	HK$0.24
Exercise price	HK$1.27	HK$1.80	HK$1.46	HK$0.96	HK$0.85	HK$0.58	HK$0.53	HK$0.56	HK$0.55	HK$0.37	HK$0.24
Expected volatility	96.7%	63.17%	58.52%	70.48%	69.54%	68.08%	69.73%	77.88%	72.07%	71.19%	75.59%
Expected life	1.6 years	1.5 years	1.5 years	1.5 years	1.5 years	1.5 years	1.5 years	1.5 years	1.5 years	1.5 years	1.5 years
Risk-free rate	0.39%	0.44%	0.45%	0.45%	0.44%	0.32%	0.22%	0.20%	0.16%	0.21%	0.27%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of approximately HK$158,000 (equivalent to approximately RMB127,000) for the year ended 31 December 2012 (2011: HK$20,328,000 (equivalent to approximately RMB16,588,000)) in relation to the above share options granted by the Company.

(b) Share incentive scheme

The share incentive scheme was established by three shareholders of the Company, representing 18,000,000 shares and 4.5% of the enlarged issued share capital of the Company after the listing of the Company ("Share Incentive Scheme"). The purpose of the Share Incentive Scheme is to issue options to selected employees, officers, consultants, agents and advisers of the Group who meet the relevant eligibility criteria set out in the Share Incentive Scheme (the "Eligible Participants"). The employee participants must have been employed by a member of the Group prior to the listing of the Company in November 2004.

39. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option schemes of the Company *(Continued)*

(b) Share incentive scheme *(Continued)*

The Share Incentive Scheme shall remain in full force and effect for so long as is necessary to give effect to the issue and exercise of options granted in accordance with its terms.

The exercise price per share under the Share Incentive Scheme is HK$0.20 and each tranche of option has a term of five years from the first exercise date, after which any unexercised portion of an option shall lapse.

Each option will be exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 20% each year, reaching 100%.

During the two years ended 31 December 2012, no options were granted and outstanding of options under the Share Incentive Scheme.

40. RETIREMENT BENEFITS SCHEME

Hong Kong

The Group operates the MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, each of the Group companies (the "employer") in Hong Kong and its employees are required to make contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Legislation. The contributions from each of the employer and employees are subject to a cap of HK$1,000 per month before 1 June 2012 and HK$1,250 per month, from 1 June 2012 onwards. During the year ended 31 December 2012, the total amount contributed by the Group to this scheme and charged to the consolidated statement of comprehensive income was approximately RMB155,000 (2011: RMB153,000).

The PRC, other than Hong Kong

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-sponsored retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-sponsored retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. During the year ended 31 December 2012 onwards, the total amount contributed by the Group to this scheme and charged to the consolidated statement of comprehensive income was approximately RMB199,000 (2011: RMB262,000).

41. ACQUISITION OF SUBSIDIARIES

(i) On 16 May 2012, an indirect non-wholly-owned subsidiary of the Company, acquired 100% equity interest in 上海美視文化傳播有限公司 ("Shanghai Media") for a cash consideration of RMB3,000,000. Shanghai Media is principally engaged in event organisation, event management and the provision of media related consultancy services in the PRC. The acquisition has been accounted for using purchase method. The amount of gain on bargain purchase arising as a result of the acquisition was approximately RMB12,000.

Consideration transferred

	RMB'000
Cash consideration	3,000

Assets acquired and liabilities recognised at the date of acquisition

	RMB'000
Plant and equipment	32
Trade and other receivables	26,412
Bank balances and cash	58
Trade and other payables	(23,197)
Amount due to a director	(293)
	3,012

Gain on bargain purchase arising on acquisition:

	RMB'000
Consideration transferred	3,000
Less: net assets acquired	(3,012)
	(12)

None of the gain on bargain purchase arising on the acquisition is expected to be taxable for tax purposes.

Net cash inflow arising on acquisition

	RMB'000
Bank balances and cash acquired	58

41. *ACQUISITION OF SUBSIDIARIES* *(Continued)*

(i) *(Continued)*

Impact of acquisition on the results of the Group

Included in the loss for the year is a profit of approximately RMB6,724,000 attributable to the additional business generated by Shanghai Media. Revenue for the year includes approximately RMB12,240,000 generated from Shanghai Media.

Had the acquisition been completed on 1 January 2012, total group revenue for the year would have been approximately RMB23,187,000, and loss for the year would have been approximately RMB713,932,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

In determining the pro-forma's revenue and loss of the Group had Shanghai Media been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of plant and equipment acquired based on the recognised amounts of plant and equipment at the date of acquisition.

(ii) On 25 March 2011, the Group acquired 100% equity interest in Bold Champion for an aggregate consideration of HK$74,000,000 (equivalent to approximately RMB62,156,000), which was satisfied by HK$10,000,000 (equivalent to approximately RMB8,400,000) in cash and an aggregate of 100,000,000 new shares of the Company. Bold Champion is principally engaged in event organisation, event management and the provision of media related consultancy services in the PRC. This acquisition has been accounted for using purchase method. The fair value of the intangible asset at the date of acquisition was approximately HK$54,276,000 (equivalent to approximately RMB45,589,000). The amount of goodwill arising as a result of the acquisition was approximately HK$22,754,000 (equivalent to approximately RMB19,113,000).

Consideration transferred

	RMB'000
Equity instruments issued	53,756
Cash consideration paid	8,400
Contingent consideration arrangement (Note 34)	1,692
Total	63,848

41. *ACQUISITION OF SUBSIDIARIES* *(Continued)*

(ii) *(Continued)*

As part of the consideration for the acquisition of Bold Champion, 100,000,000 ordinary shares of the Company with par value of HK$0.1 each were issued. The fair value of the ordinary shares of the Company, determined using the published price of HK$0.64 (equivalent to approximately RMB0.54) per share available at the date of the acquisition, amounted to HK$64,000,000 (equivalent to approximately RMB53,756,000).

Assets acquired and liabilities recognised at the date of acquisition

	RMB'000
Plant and equipment	5
Intangible asset (Note 20)	45,589
Other receivables	103
Bank balances and cash	35
Other payables	(997)
	44,735

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	63,848
Less: net assets acquired	(44,735)
	19,113

Goodwill arose in the acquisition of Bold Champion. A subsidiary of Bold Champion, which is principally engaged in the provision of management and consultancy services to media enterprises, has entered into several consultancy service agreements for media business with three independent third parties. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth and assembled workforce of Bold Champion as at the date of acquisition. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

41. *ACQUISITION OF SUBSIDIARIES* *(Continued)*

(ii) *(Continued)*

Net cash inflow arising on acquisition

	RMB'000
Cash consideration paid	(8,400)
Less: Bank balances and cash acquired	35
	(8,365)

Included in the loss for the year is a loss of approximately RMB29,000 attributable to the additional business generated by Bold Champion. Revenue for the year includes approximately RMB142,000 generated from Bold Champion.

Had the acquisition been completed on 1 January 2011, total group revenue for the year would have been approximately RMB38,220,000, and loss for the year would have been approximately RMB150,219,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

In determining the pro-forma's revenue and loss of the Group had Bold Champion been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of plant and equipment and amortisation of intangible asset acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

42. *DISPOSAL OF A SUBSIDIARY*

As referred to in Note 13, on 3 June 2011, the Group discontinued its self-developed software operation and supporting system (OSS) software and maintenance, training and other services operations at the time of disposal of its subsidiary, ZZNode (Shanghai). The net liabilities of ZZNode (Shanghai) at the date of disposal were as follows:

Consideration received:

	RMB'000
Cash received	495

Analysis of assets and liabilities over which control was lost:

	RMB'000
Trade and other receivables	601
Income tax recoverable	2
Bank balance and cash	2
Other payables	(1,757)
Net liabilities disposed of	(1,152)

Gain on disposal of a subsidiary:

Consideration received	495
Net liabilities disposed of	1,152
Gain on disposal	1,647

Net cash inflow arising on disposal:

Cash consideration	495
Less: bank balance and cash disposed of	(2)
	493

The impact of ZZNode (Shanghai) on the Group's results and cash flows during the year ended 31 December 2011 is disclosed in Note 13.

43. RELATED PARTY TRANSACTIONS

(a) Other than disclosed elsewhere in the consolidated financial statements, the Company had not entered into any transactions with related party during both years.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2012 RMB'000	2011 RMB'000
Short-term benefits	**3,307**	4,192
Post-employment benefits	**78**	107
Share-based payment expenses	**127**	5,710
	3,512	10,009

The remuneration of directors and other members of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

44. CONTINGENT LIABILITIES

As detailed in Note 31, with reference to a legal opinion from the PRC legal advisor, likelihood of an unfavorable outcome is probable and the amount of the loss of RMB7,500,000 can be reasonably estimated. As a result, a provision of RMB7,500,000 in respect of such claim was recognised.

As at the date of approval of the consolidated financial statements, no final decision had been made in the court proceedings.

45. EVENTS AFTER THE REPORTING PERIOD

(i) Subsequent to the end of the reporting period, an aggregate balance of approximately RMB2,432,000 of liability component of convertible loan notes has been released upon an aggregate principal amount of RMB2,500,000 of 2011 Convertible Loan Notes were converted into 10,662,756 ordinary shares of HK$0.1 each at the conversion price of HK$0.29 per share.

(ii) Subsequent to the end of the reporting period, an aggregate balance of approximately RMB12,285,000 of liability component of convertible loan notes has been released upon an aggregate principal amount of HK$15,000,000 (equivalent to approximately RMB12,038,000) of 2012 Convertible Loan Notes were converted into 53,380,782 ordinary shares of HK$0.1 each at the conversion price of HK$0.281 per share.

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Plant and equipment		**1,444**	1,963
Investments in subsidiaries	(a)	**19**	13
		1,463	1,976
Current assets			
Other receivables		**20,690**	20,932
Amounts due from subsidiaries	(b)	**29,875**	661,674
Bank balances and cash		**15,825**	9,552
		66,390	692,158
Current liabilities			
Other payables		**1,726**	562
Convertible loan notes		**6,413**	–
Derivative financial liabilities		**3,466**	7,247
		11,605	7,809
Net current assets		**54,785**	684,349
		56,248	686,325
Capital and reserves			
Share capital		**178,517**	171,828
Reserves	(c)	**(151,840)**	494,764
Total equity		**26,677**	666,592
Non-current liability			
Convertible loan notes		**29,571**	19,733
		56,248	686,325

46. *STATEMENT OF FINANCIAL POSITION OF THE COMPANY* *(Continued)*

Notes:

(a) Investments in subsidiaries are carried at cost less accumulated impairment losses, if any.

(b) The amounts are unsecured, non-interest bearing and repayable on demand.

(c)

	Share premium RMB'000	Special reserve RMB'000	Translation reserve RMB'000	Convertible loan notes equity reserve RMB'000	Warrants reserve RMB'000	Capital redemption reserve RMB'000	Share options reserve RMB'000	Contribution from shareholders RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	485,920	57,814	(18,324)	104,877	–	595	30,632	1,927	(61,018)	602,423
Loss for the year	–	–	–	–	–	–	–	–	(231,493)	(231,493)
Other comprehensive income for the year										
– Exchange differences arising on translation	–	–	20,745	–	–	–	–	–	–	20,745
Total comprehensive income (expense) for the year	–	–	20,745	–	–	–	–	–	(231,493)	(210,748)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	16,588	–	–	16,588
Issue of shares upon conversion of convertible loan notes	117,439	–	–	(75,977)	–	–	–	–	–	41,462
Acquisition of a subsidiary	45,357	–	–	–	–	–	–	–	–	45,357
Issue of non-listed warrants	–	–	–	–	5,061	–	–	–	–	5,061
Transaction cost attributable to issue of non-listed warrants	–	–	–	–	(318)	–	–	–	–	(318)
Release upon cancellation of non-listed warrants	–	–	–	–	(4,743)	–	–	–	(318)	(5,061)
At 31 December 2011	648,716	57,814	2,421	28,900	–	595	47,220	1,927	(292,829)	494,764

46. *STATEMENT OF FINANCIAL POSITION OF THE COMPANY* *(Continued)*

Notes: *(Continued)*

(c)

	Share premium	Special reserve	Translation reserve	Convertible loan notes equity reserve	Warrants reserve	Capital redemption reserve	Share options reserve	Contribution from shareholders	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2011	648,716	57,814	2,421	28,900	–	595	47,220	1,927	(292,829)	494,764
Loss for the year	–	–	–	–	–	–	–	–	(651,860)	(651,860)
Other comprehensive expense for the year										
– Exchange differences arising on translation	–	–	(7,853)	–	–	–	–	–	–	(7,853)
Total comprehensive expense for the year	–	–	(7,853)	–	–	–	–	–	(651,860)	(659,713)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	127	–	–	127
Issue of shares upon conversion of convertible loan notes	20,443	–	–	(8,695)	–	–	–	–	–	11,748
Issue of shares upon placing	1,308	–	–	–	–	–	–	–	–	1,308
Transaction costs attributable to issue of shares upon placing	(74)	–	–	–	–	–	–	–	–	(74)
At 31 December 2012	670,393	57,814	(5,432)	20,205	–	595	47,347	1,927	(944,689)	(151,840)

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Place of incorporation / operation	Class of shares held	Issued and fully paid share capital / registered capital	Proportion ownership interest held by the Company				Principal activities
				2012		2011		
				Directly	Indirectly	Directly	Indirectly	
Best Earning Development Limited	Hong Kong	Ordinary	HK$1	–	100%	–	100%	Investment holding
Shanghai Media	The PRC	Registered capital	RMB3,000,000	–	98%	–	–	Provision of management and consultancy services to media enterprises; Distribution of TV programmes
Chuangzhi Lide	The PRC	Registered capital	RMB45,965,860	–	97.82%	–	97.82%	Operating and broadcasting across LED displays
新華色彩色(北京)文化傳播有限公司	The PRC	Registered capital	RMB2,000,000	–	100%	–	100%	Operating and broadcasting outdoor displays
Precious Luck	The BVI	Ordinary	US$100	–	100%	–	100%	Investment holding
北京柯瑞環宇傳媒文化有限公司	The PRC	Registered capital	RMB1,000,000	–	98%	–	98%	Provision of management and consultancy services to media enterprises
上海晟彩文化傳播有限公司	The PRC	Registered capital	RMB2,000,000	–	51%	–	51%	Operating and broadcasting across LED displays
Sino Advantage Asia Limited	The BVI	Ordinary	US$1,000	–	100%	–	100%	Inactive
China Oriental Culture (Hong Kong) Limited	Hong Kong	Ordinary	HK$1	100%	–	100%	–	Acts as administrative center of the Group
Star Apex Investment Limited	The BVI	Ordinary	US$1,000	–	100%	–	100%	Inactive
Perfection Asia Limited	The BVI	Ordinary	US$1	–	100%	–	100%	Inactive

Note:

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

None of the subsidiaries had any debt securities at the end of both years nor at any time during both years.