KH Investment Holdings Limited

(formerly known as China Star Film Group Limited)

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8172)

Annual Report 2010

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This report, for which the directors (the "Directors") of KH Investment Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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EXECUTIVE DIRECTOR

Lai Hok Lim *(Chairman and chief executive officer)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Yip Tai Him
Law Yiu Sang, Jacky
Chio Chong Meng

COMPANY SECRETARY

Chan Kin Wah, Billy

COMPLIANCE OFFICER

Lai Hok Lim

AUDITORS

HLB Hodgson Impey Cheng

AUTHORISED REPRESENTATIVES

Lai Hok Lim
Chan Kin Wah, Billy

REMUNERATION COMMITTEE

Lai Hok Lim
Yip Tai Him
Law Yiu Sang, Jacky
Chio Chong Meng

AUDIT COMMITTEE

Yip Tai Him
Law Yiu Sang, Jacky
Chio Chong Meng

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GEM STOCK CODE

8172

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of KH Investment Holdings Limited (the "**Company**"), I would like to present the results of the Company and its subsidiaries (collectively referred to as to the "**Group**") for the year ended 31 December 2010.

During the year under review, we continued to restructure the Group's business by the diversification into the business of provision of infrared thermal imaging and thermography solutions and consultancy services and the disposal of loss operations in respect of distribution of high-end apparel and accessories and service apartment operations.

As stated in the Company's circular dated 5 May 2010, the Board proposed a special dividend of HK$0.12 per share and considered that it was a good opportunity for the Company to award the shareholders of the Company after the realisation of the Group's investment in properties. The special dividend had been distribution to shareholders on 25 May 2010.

The restructure of the Group's business resulted in an increase of turnover of continuing operations from HK$7.2 million to HK$21.8 million in 2010, representing an increase of 202.8% over the previous year. The loss attributable to owners of the Company was HK$52.5 million (2009: profit attributable to owners of the Company HK$26.1 million). The profit in last year was mainly contributed by the one-off gain of the reversal of deferred tax liabilities relating to the disposal of part of the investment properties of the Group of HK$48.1 million.

FUTURE PLANS AND APPRECIATION

Looking forward, following a sharp and broad global downturn in late 2008, the global economy appears to be recovering in 2010. The management is optimistic about the PRC's economic development prospects in the foreseeable future. As the economic growth of the PRC is strong, there is an increasing demand for entertainment. The transaction relating to the formation of the joint venture company for the business of film production and distribution was completed on 7 January 2011. At the date of this report, 2 films are in their pre-production phases and these films are expected to be released for exhibition in the PRC and Hong Kong. In addition, for the artist management business, the Group will place more emphasis on extending the geographical coverage of its artists in the PRC.

Infrared thermal imaging and infrared thermography can be widely applied to different areas including building condition survey, industry safety investigation, security and surveillance and medical. The Directors are of the view that the implementation of the mandatory building inspection scheme proposed by the Government of the HKSAR and the economic growth of the PRC will provide opportunities for the development of such business.

On 16 November 2010, the Company and Media China Corporation Limited (the "**Vendor**"), a company incorporated in the Cayman Islands with limited liability and its issued shares are listed on the main board of the Stock Exchange entered into a sale and purchase agreement (the "**Acquisition Agreement**"), pursuant to which the Company agreed to acquire from the Vendor the entire issued share capital (the "**Sale Share**") of Sinofocus Media (Holdings) Limited (the "**Target Company**") and the aggregate outstanding shareholders' loans owing by the Target Company to the Vendor (the "**Sale Loan**") as at the date of completion at a consideration of HK$82.0 million (the "**Purchase Price**"). The Purchase Price shall be satisfied by the Company in the manner that (i) deposit of HK$40.0 million had been paid by the Company to the Vendor upon signing of the Acquisition Agreement; (ii) the balance of HK$42.0 million shall be payable by the Company to the Vendor upon completion of the sale and purchase of the Sale Share and the Sale Loan in accordance with the terms and conditions of the Acquisition Agreement. Upon completion, the Target Company shall become a wholly-owned subsidiary of the Company. The Target Company, together with its subsidiaries (the "**Target Group**") is principally engaged in providing of services in respect of television advertising in the PRC. The acquisition constituted a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to the shareholders' approval requirement at the special general meeting. A circular containing the details of the transaction will be despatched to the shareholders. The Directors are of the view that the transaction will enable the Group to diversify its business and broaden its revenue base, which will have a positive impact on the Group's profitability given the positive outlook of the PRC advertising industry and will assist the Group to develop its existing artist management services and film production businesses. At the date of this report, the transaction has not yet been completed.

Last but no least, I would like to thank our Board, management and staff for their contributions to the Group. I would also like to extend my sincere gratitude to our shareholders, business partners, customers and suppliers for their continued supports.

Lai Hok Lim
Chairman

Hong Kong, 18 March 2011

FINANCIAL REVIEW

For continuing operations, turnover of the Group was HK$21.8 million for the year ended 31 December 2010, of which HK$21.4 million (2009: HK$7.2 million) and HK$0.4 million (2009: Nil) was generated from provision of artist management services and provision of infrared thermal imaging and thermography solutions and consultancy services respectively, representing an increase of 202.7% as compared with the year ended 31 December 2009.

The gross profit margin was increased to 23.4% from 20.1% in 2009. The reason for the increase was that the gross profit margin for the artist management services provided in the PRC is relatively higher than that in other region.

Administrative expenses increased by 1.9% to HK$17.7 million from HK$17.4 million in prior year. Such increase was mainly attributed to the increase in equity-settled share option expenses during the year.

Other operating expenses increased by 4,431.2% to HK$119.5 million from HK$2.6 million in prior year. Such increase was attributed to (i) the loss on early redemption of convertible loan notes of HK$44.6 million; (ii) the loss on early redemption of promissory note of HK$64.3 million; (iii) the impairment loss recognised in respect of intangible asset of a film right of HK$6.8 million; and (iv) the impairment loss recognised in respect of goodwill of HK$3.8 million which mainly represented the increase in fair value of the consideration shares issued on the completion date of the acquisition of a subsidiary during the year.

Finance costs decreased by 41.8% to HK$5.9 million from HK$10.2 million in 2009. Early redemption of convertible loan notes and promissory note resulted in the decrease of effective interest expenses on these financial instruments incurred during the year.

Following the disposal of a subsidiary and a jointly controlled entity during the year, the service apartment operations and the operation relating to the distribution of high-end apparel and accessories were classified as discontinued operations for financial statement purpose. The combined profit of the discontinued operations was HK$84.5 million (2009: HK$53.3 million) which was mainly due to the reversal of provision for loss on early termination of licence agreement and exchange gain in an aggregate of HK$8.4 million contributed by the distribution of high-end apparel and accessories segment and gain on the disposal of a subsidiary and a jointly controlled entity of totalling HK$74.6 million recorded during the year, while the combined profit of the discontinued operations in prior year was mainly contributed by the service apartment operations segment in relation to the gain from a bargain purchase of a subsidiary of HK$105.4 million.

Loss attributable to owners of the Company was HK$52.5 million (2009: profit attributable to owners of the Company HK$26.1 million). The deterioration in results was mainly attributed to the combined effect of the increase in other operating expenses to HK$119.5 million in the current year and the non-recurrence of one-off gain of the reversal of deferred tax liabilities of HK$48.1 million relating to the disposal of part of the investment properties of the Group recorded in last year.

BUSINESS REVIEW

Artist Management

During the year under review, the revenue contributed by such segment was HK$21.4 million (2009: HK$7.2 million) and the gross profit margin was 22.6% (2009: 20.1%). The performance of the provision of artist management services business was in line with the management's expectation. Most of the revenue in such segment was derived from the PRC. The gross profit margin for the services provided in the PRC is relatively higher than that in other region.

Film Distribution and Production

The Group did not have any addition of film rights during the year. No revenue was recorded in such segment for the year ended 31 December 2010 (2009: Nil).

On 8 December 2010, the Company, China Star Entertainment (BVI) Limited ("**China Star (BVI)**"), a wholly-owned subsidiary of China Star Entertainment Limited ("**China Star**"), a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange and China Star Film Group Limited (the "**JV Company**") entered into a joint venture agreement (the "**Joint Venture Agreement**") relating to the formation of the JV Company, which is engaged in production and distribution of films. The JV Company shall be owned as to 50% by China Star (BVI) and as to 50% by the Company. Upon completion, each of China Star (BVI) and the Company shall contribute HK$30 million to the JV Company. The transaction constituted a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules. The transaction had been completed on 7 January 2011. The Directors believed that the formation of the JV Company will allow the Group to capitalise on the China Star's Group's resources for developing its film business and improving its profitability.

Provision of Infrared Thermal Imaging and Thermography Solutions and Consultancy Services

On 16 July 2010, Premium Dignity Investment Limited (the "**Purchaser**"), a wholly-owned subsidiary of the Company and independent third parties (the "**Vendors**") entered into a sale and purchase agreement (the "**Acquisition Agreement**"), pursuant to which the Purchaser agreed to acquire from the Vendors the entire issued share capital of Infrared Engineering & Consultants Limited (the "**Target Company**") and the aggregate outstanding shareholders' loans owing by the Target Company to the Vendors as at the date of completion at a consideration of HK$14.5 million (the "**Purchase Price**"). The Purchase Price shall be satisfied by the Company issuing 59,183,672 new shares at an issue price of HK$0.245 per new share under the general mandate. Upon completion, the Target Company shall become a wholly-owned subsidiary of the Company. The Target Company is principally engaged in providing infrared thermal imaging and thermography solutions and consultancy services. The acquisition constituted a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules. The transaction had been completed on 9 August 2010. Revenue of HK$0.4 million was contributed by this segment and the gross profit margin was 62.1%.

Service Apartment Operations

On 8 February 2010, the Company entered into a disposal agreement (the "**Disposal Agreement**") with Keen Modern Limited ("**Keen Modern**") pursuant to which the Company had conditionally agreed to sell and Keen Modern had conditionally agreed to purchase the entire issued share capital of Mega Shell Services Limited ("**Mega Shell**") and the aggregate outstanding shareholders' loans owing by Mega Shell to the Company for the disposal price of RMB119.57 million (or approximately HK$136.03 million) (the "**Disposal**"). The major asset of Mega Shell was the investment properties located at Beijing, the PRC. The Disposal constituted a very substantial disposal on the part of the Company under the Chapter 19 of the GEM Listing Rules and is therefore subject to the shareholders' approval requirement at the special general meeting. A circular containing the details of the Disposal had been despatched to the shareholders on 5 May 2010. The Disposal was approved by the shareholders' at the special general meeting held on 24 May 2010 and had been completed on 28 May 2010.

Following the disposal of Mega Shell, the service apartment operations was classified as discontinued operations for financial statement purpose. During the year under review, no revenue was contributed by such segment (2009: HK$8.2 million).

Distribution

On 13 December 2010, the Company entered into a disposal agreement (the "**Disposal Agreement**") with Chung Chiu (PTC) Limited ("**Chung Chiu**") pursuant to which the Company had conditionally agreed to sell and Chung Chiu had conditionally agreed to purchase the 50 ordinary shares of US$1 each in the issued share capital of Amazing Goal International Limited ("**Amazing Goal**"), representing the 19% of the issued share capital in Amazing Goal and the aggregate outstanding shareholders' loans owing by Amazing Goal to the Company for the disposal price of HK$1. The disposal constituted a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules. The Directors believed that the disposal will provide the Group with an opportunity to restructure its business operations and allow the Group to focus its resources on the existing businesses of the Group. Upon completion, the Company shall not hold any interest in Amazing Goal and the business of the distribution high-end apparel and accessories was classified as discontinued operations for financial statement purpose. The transaction was completed at the date of Disposal Agreement. No revenue was recorded in such segment during the year (2009: HK$8.8 million).

CHANGE OF COMPANY NAME AND STOCK SHORT NAME

On 14 June 2010, the Company proposed that the name of the Company be changed from "**China Star Film Group Limited**" to "**KH Investment Holdings Limited**" and upon the change of name have becoming effective, the new Chinese name "嘉滙投資控股有限公司" will be adopted to replace "中國星電影集團有限公司" for identification purposes only. The proposed change of Company name is subject to (a) the passing of a special resolution by the shareholders at the special general meeting; and (b) the Registrar of Companies in Bermuda granting approval for the proposed change in name of the Company. A circular containing the details of the proposed change of Company name was despatched to the shareholders on 21 June 2010. The proposed change of the Company name was approved by the shareholders' at the special general meeting held on 14 July 2010. The Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in Bermuda on 22 July 2010 and the Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 16 August 2010.

The trading of the shares of the Company on the Stock Exchange under the new stock short name of "**KH INV HOLD**" in English and "嘉滙投資控股" in Chinese was effective on 26 August 2010.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2010, the Group had total assets of HK$138.1 million (2009: HK$594.2 million), including cash and bank balances of HK$66.8 million (2009: HK$230.5 million). The decrease in cash and bank balances was mainly attributed to the early redemption of convertible loan notes and promissory note and the distribution of special dividend during the year.

During the year under review, the Group financed its operation with internally generated cash flows, the proceeds from the disposal of a subsidiary and the proceeds from the issuance of new shares.

CAPITAL STRUCTURE

Save as disclosed below, there was no change with capital structure of the Group at 31 December 2010 as compared with that at 31 December 2009.

(a) Share consolidation and capital reorganisation

Pursuant to the resolutions passed on 15 January 2010, capital reorganisation (the "**First Capital Reorganisation**") had been effected by way of comprising (i) share consolidation that every five shares of HK$0.01 each in the issued share capital of the Company be consolidated into one consolidated share of HK$0.05 each ("**Consolidated Shares**"); (ii) capital reduction that the par value of all issued Consolidated Shares from HK$0.05 each to HK$0.01 each by canceling the paid-up capital to the extent of HK$0.04 on each issued Consolidated Share; and (iii) the transfer of the credit of HK$5,410,642.17 arising from the capital reduction of all issued Consolidated Shares to the contributed surplus account of the Company for the purpose to offset against the accumulated losses permitted by the laws of Bermuda and the bye-laws of the Company. The First Capital Reorganisation had been completed on 18 January 2010.

On 19 April 2010, a circular was despatched to the shareholders of the Company relating to capital reorganisation (the "**Second Capital Reorganisation**") that (i) the proposed reduction of the entire amount standing the credit of the share premium account of the Company; (ii) the proposed transfer the entire amount standing to the credit of the share premium account of the Company to the contributed surplus account of the Company; and (iii) the proposed application of the amount of HK$212,283,009.22 from the contributed surplus account of the Company to offset against the accumulated losses of the Company. The Second Capital Reorganisation is conditional upon the shareholders' approval and compliance with the relevant procedures and requirements under the GEM Listing Rules and Bermuda laws. The Second Capital Reorganisation had been completed on 20 May 2010.

(b) Placing of new shares

On 7 December 2009, the Company entered into a placing agreement with the placing agent, pursuant to which, the Company had conditionally agreed to place, through the placing agent, 200,000,000 placing shares by tranches provided that the number of placing shares for each tranche is in integral multiples of 50,000,000, on a fully written basis, to not fewer than six placees at a price of HK$0.3 per placing place share. A circular containing the details of the placing had been despatched to the shareholders on 23 December 2009. The placing had been approved by the shareholders at the special general meeting held on 15 January 2010. Each of the first and second tranche placing of 100,000,000 placing shares was completed on 25 January 2010 and 5 February 2010 respectively.

On 16 December 2010, the Company entered into a placing agreement with the placing agent, pursuant to which, the Company had conditionally agreed to place, through the placing agent, on a best effort basis, up to 84,000,000 placing shares under general mandate to not fewer than six placees at a price of HK$0.255 per placing share. The placing of 84,000,000 placing shares had been completed on 30 December 2010.

(c) On 9 August 2010, 59,183,672 consideration shares were issued in relation to the acquisition of a subsidiary.

(d) During the year ended 31 December 2010, certain option holders exercised their option rights to subscribe for an aggregate of 6,300,000 shares at an exercise price of HK$0.202 per share and an aggregate of 19,300,000 shares at an exercise price of HK$0.325 per share. The proceeds from the exercise of option rights amounted to HK$7.5 million.

(e) During the year, bank borrowing amounting to HK$0.1 million, convertible loan notes in an aggregate principal amount of HK$160 million and promissory note in the principal amount of HK$100 million were fully repaid by the Group.

(f) On 23 December 2010, 1,600,000 new shares were issued in respect of the conversion of convertible loan note in the principal amount of HK$0.8 million at a conversion price of HK$0.5 per share.

At 31 December 2010, the total borrowings of the Group amounted to HK$4.3 million (2009: HK$211.6 million), comprising the liability component of HK$4.3 million in respect of the convertible loan note with a principal amount of HK$6.2 million issued by the Company which is unsecured, interest free and maturing in September 2013.

GEARING RATIO

The gearing ratio, expressed as percentage of total liabilities over total assets, was 16.2% (2009: 70.5%). The improvement in gearing ratio was mainly contributed by the early redemption of convertible loan notes and promissory note during the year.

CHARGE ON THE GROUP'S ASSETS

At 31 December 2010, the Group did not have any charge on its assets.

FOREIGN EXCHANGE RISK

The Group has not used any foreign currency derivative instruments to hedge its exposure to foreign exchange risk. However, the management monitors closely the exposures and will consider hedging the exposures should the need rise.

COMMITMENTS

At 31 December 2010, save as (i) the commitment for capital contribution in relation to the formation of a joint venture company of HK$29.0 million and (ii) the balance of the purchase price in relation to the acquisition of a subsidiary of HK$42.0 million, the Group had no commitments (2009: Nil).

CONTINGENT LIABILITIES

At 31 December 2010, the Group had no contingent liabilities (2009: Nil).

EMPLOYEES

At 31 December 2010, the Group had 9 employees. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme. Other benefits include share options granted or to be granted under the share option scheme.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment during the year ended 31 December 2010.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as the acquisition and disposal as disclosed in the "the "Chairman's Statement" and the "Management Discussion and Analysis" sections, the Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies for the year ended 31 December 2010.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group does not have any concrete plan for material investments or capital assets for the coming year.

DIRECTORS

Executive Director

Mr. Lai Hok Lim, aged 52, is the chairman and chief executive officer of the Company. He is a practicing solicitor in Hong Kong since 1989. He graduated from the University of Hong Kong with a Bachelor of Arts Degree and holds a Bachelor of Arts (Law) Degree from the University of Sussex in the United Kingdom and a Bachelor of Law Degree from Beijing University in the People's Republic of China. He was appointed as an executive director and the chairman on 10 November 2008 and 16 November 2008 respectively.

Independent non-executive Directors

Mr. Yip Tai Him, aged 40, has over 16 years of experience in auditing, accounting and corporate finance. He is a member of the Institute of Chartered Accountants in England and Wales, Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Yip is currently an independent non-executive director of Wing Lee Holdings Limited, China Communication Telecom Services Company Limited, iOne Holdings Limited, GCL-Poly Energy Holdings Limited and Vinco Financial Group Limited, all of which are listed on the Stock Exchange. Mr. Yip was appointed as an independent non-executive director on 13 December 2008.

Mr. Law Yiu Sang, Jacky, aged 46, holds a bachelor of laws degree from Manchester Metropolitan University. He is a member of the Hong Kong Institute of Arbitrators. From 2006 to 2007, Mr. Law was a member of The Chartered Institute of Arbitrator. Mr. Law has previously worked in a number of different law firms and has over 18 years experience in assisting in management and legal documentation. Mr. Law was appointed as an independent non-executive director on 13 December 2008.

Ms. Chio Chong Meng, aged 41, holds a bachelor of arts degree from York University in Canada. She has worked with a reputable hotel chain in Macau for a number of years and acquired extensive hotel management experience in the area of sales, finance and business support. She is now the general manager of a hotel in Macau. Ms. Chio was appointed as an independent non-executive director on 1 January 2009.

Senior management

Mr. Chan Kin Wah, Billy, aged 47, is the company secretary of the Company. Prior to joining the Company on 20 August 2009, he worked in the accounting, finance and taxation field for over 16 years and has over 11 years of working experience in Hong Kong listed companies. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a CPA member of CPA Australia and a non-practicing member of the Chinese Institute of Certified Public Accountants. He holds a Bachelor of Administration Degree from the University of Ottawa in Canada and a Master of Commerce Degree in Professional Accounting from the University of New South Wales in Australia.

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2010.

The Stock Exchange issued the Code on Corporate Governance Practices ("**CG Code**") contained in Appendix 15 of the GEM Listing Rules which sets out corporate governance principles ("**Principles**") and code provisions ("**Code Provisions**") with which listed issuers are expected to follow and comply.

The Company has applied the Principles as set out in the CG Code that are considered to be relevant to the Company and has complied with most of the Code Provisions set out in the CG Code save for certain deviations, details of which will be explained in the relevant paragraphs in this report.

Good corporate governance has always been recognised as vital to the Group's success and to sustain development of the Group. The Company acknowledge the important role of its Board in providing effective leadership and direction to company business, and ensuring transparency and accountability of company operations. The Company also endeavors to periodically review its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibility for decision making in all major matters of the Company including: the approval and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transaction, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support of them to discharge its responsibilities.

Composition

As at 31 December 2010, the Board currently comprises four Directors: including one executive Director, namely Mr. Lai Hok Lim and three independent non-executive Directors, namely Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky, and Ms. Chio Chong Meng. Mr. Lai Hok Lim is the chairman of the Board. One of the independent non-executive directors has appropriate professional qualifications, or accounting or related financial management expertise. The number of independent non-executive directors are more than one-third of the Board. Biographical details of the Chairman and other directors are set out in the section of Profiles of Directors and Senior Management on page 11.

The directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. All the directors give sufficient time and attention to the Company's affairs. The Board believes that the ratio of executive to non-executive directors is reasonable and adequate to provide checks and balances that safeguard the interest of the shareholders and the Company as a whole.

The Board as a whole is responsible for the appointment of new directors and directors nomination for re-election by shareholders at the annual general meeting of the Company. Under the Company's bye-laws, the Board may from time to time appoint a director either to fill a vacancy or as an addition to the Board. Any new director appointed to fill a casual vacancy shall hold office until the first general meeting after his appointment and shall then be eligible for re-election at the next following annual general meeting. Any new director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election.

INDEPENDENCE

The Company has three independent non-executive directors, at least one of whom has appropriate financial management expertise, in compliance with the GEM Listing Rules. The Company considers these directors to be independent under the guidelines set out in Rules 5.09 of the GEM Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the chairman and chief executive officer of the Company have been performed by Mr. Lai Hok Lim, who is also an executive director. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently. The Board will review the effectiveness of this arrangement form time to time and will consider appointing an individual as the chief executive officer of the Company when it thinks appropriate.

NON-EXECUTIVE DIRECTORS

Under the Code provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. The term of office for non-executive directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's bye-laws. At each annual general meeting, one-third of the directors for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this code provision.

BOARD MEETINGS

The Board regularly meets in person or through other electronic means of communication at least four times every year to determine overall strategic direction and objectives and approve quarterly, interim and annual results, and other significant matters. At least 7 business days' notice of regular Board meeting are given to all directors, who are all given an opportunity to attend and include matters in the agenda for discussion. Apart from regular meetings, senior management from time to time provides directors information on activities and development of the businesses of the Group. The company secretary takes detailed minutes of the meetings and keeps records of matters discussed and decision resolved at the meetings.

During the year ended 31 December 2010, 31 meetings were held. Details of the attendance of the directors at the meetings of the Board and its respective committees are as follows:

Name of Director	Notes	Board Meeting Attended/Held	Audit Committee Attended/Held	Remuneration Committee Attended/Held
Executive Directors				
Mr. Lai Hok Lim		31/31	N/A	1/1
Mr. Heung Wah Keung	*(1)*	2/2	N/A	N/A
Mr. Wong Chi Chiu	*(2)*	17/18	N/A	N/A
Independent non-executive Directors				
Mr. Yip Tai Him		31/31	4/4	1/1
Mr. Law Yiu Sang, Jacky		31/31	4/4	1/1
Ms. Chio Chong Meng		31/31	4/4	1/1

Note:

(1) Mr Heung Wah Keung reigned from his position as an executive director on 21 January 2010.

(2) Mr. Wong Chi Chiu was appointed as an executive director on 25 January 2010 and resigned from his position as an executive director on 1 November 2010.

REMUNERATION COMMITTEE

A remuneration committee was formed with specific written terms of reference. The remuneration committee is responsible for reviewing and developing the remuneration polices of the directors and senior management. The remuneration committee consists of all three Independent non-executive Directors and an executive Director, namely Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky, Ms. Chio Chong Meng and Mr. Lai Hok Lim.

During the year under review, the remuneration committee held 1 meeting.

NOMINATION COMMITTEE

The Company does not establish a nomination committee at present. The appointment of new director(s) is therefore a matter for consideration and decision by the Board. In considering the nomination of a new director or where vacancies on the Board exist, the Board will take into account the skills, qualification, working experience, professional knowledge, leadership and personal integrity of the candidates.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. Rule 5.28 of the GEM Listing Rules requires that the audit committee must comprise a minimum of three members with a majority of independent non-executive directors and at least one member must have appropriate professional qualifications or accounting or related financial management expertise.

The main duties of the audit committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the compliance officer or external auditors before submission to the board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The audit committee held four meetings during the year ended 31 December 2010, to review the financial results and reports, financial reporting and compliance procedures, report on the company's internal control and risk management review and processes as well as the re-appointment of the external auditors.

There is no material uncertainty relating to events and conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the audit committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2010 has been reviewed by the audit committee.

AUDITORS' REMUNERATION

For the year ended 31 December 2010, the remuneration in respect of audit services provided by the auditors, HLB Hodgson Impey Cheng, amounted to HK$550,000.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in rules 5.48 to 5.67 to the GEM Listing Rules as its own code of conduct for dealings in securities of the Company by Directors (the "Model Code"). The Company, having made specific enquiry of all Directors, confirms that its Directors have complied with the required standard set out in the Model Code during the financial year ended 31 December 2010.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

SHAREHOLDER RIGHTS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meeting are contained in the Company's bye-laws. Details of such rights to demand a poll were included in the circular to shareholders in relation to the holding of 2010 annual general meeting and explained during the proceedings of the meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The chairman of the Board and the chairman of the audit committee attended the annual general meeting in 2010 to answer questions at the meeting.

Separate resolutions were proposed at the annual general meeting in 2010 on each substantial issue, including the election of individual directors.

CONCLUSION

The Company believes that good corporate governance is significant in maintaining investor confidence and attracting investment. The management will devote considerate effort to strengthen and improve the standards of the corporate governance of the Group.

The directors present the report of the directors and the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Details of the activities of its subsidiaries are set out in note 52 to the financial statements.

An analysis of the Group's turnover for the year by geographic segment is set out in note 7 to the consolidated financial statement.

RESULTS AND APPROPRIATIONS

The results of the Group for year ended 31 December 2010 are set out in the consolidated income statement on page 25 of this annual report.

The directors do not recommend the payment of any final dividend in respect of the year.

FINANCIAL SUMMARY

The summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 100 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in notes 37 and 38 to the consolidated financial statements respectively.

RESERVES

Details of the movement in the reserves of the Group and the Company during the year are set out on page 29 of this annual report and in note 40 to the consolidated financial statements respectively.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there is no restriction against such rights under the law of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CONVERTIBLE LOAN NOTES

Details of the movements in convertible loan notes during the year are set out in note 35 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders at 31 December 2010 amounting to HK$ 75,804,000 (2009: Nil).

CHARITABLE DONATIONS

The Group did not make any charitable donations during the year (2009: Nil).

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 51 to the consolidated financial statements.

CONNECTED TRANSACTIONS

On 26 November 2008, Mega Shell Services Limited (the "**Purchaser**"), a then wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Riche (BVI) Limited (the "**Vendor**"), a wholly-owned subsidiary of China Star Investment Holdings Limited (currently known as "**Eternity Investment Limited**"), a company incorporated in Bermuda and the issued shares of which are listed on the main board of the Stock Exchange, pursuant to which, the Purchaser had conditionally agreed to purchase the entire issued share capital of Shinhan-Golden Faith International Development Limited ("**Shinhan-Golden**") and World East Investments Limited ("**World East**") and all obligations, liabilities and debt owing or incurred by Shinhan-Golden and World East to the Vendor at a consideration of $211,466,310. A circular containing the details of the transaction had been despatched to the shareholders on 29 January 2009. As disclosed in the circular, as at the date of the sale and purchase agreement, the CJV Partner owed to the Vendor a debt in a sum of HK$374,677,812 (the "**CJV Partner's Loan**"). For the purpose of repayment of the CJV Partner's Loan, the Purchaser had agreed and undertaken with the Vendor that the Purchaser shall procure the Company to issue the Settlement Convertible Bond on the day falling on the fifth anniversary of the date of completion to the Vendor if any part of the CJV Partner's Loan have not been settled. The Vendor had agreed that upon the issue of the Settlement Convertible Bond to the Vendor, all CJV Partner's Loan then remaining outstanding shall be deemed to have been repaid and satisfied in full by the CJV Partner. Also, as part of security to the Vendor for the CJV Partner's Loan, the Company would provide the CJV Partner's Corporate Guarantee to the Vendor upon the completion of the transaction for a term of maximum of three financial years of the Company ending 31 December 2011.

As the Vendor was a connected person of the Company. The issue of the Settlement Convertible Bond to the Vendor and the provision of the CJV Partner's Corporate Guarantee to the Vendor will constitute a connected transaction and a continuing connected transaction respectively on the part of the Company and therefore will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The transactions were approved by the Independent Shareholders at an extraordinary general meeting on 16 February 2009 and had been completion on 8 April 2009.

The independent non-executive Directors of the Company have reviewed the continuing connected transaction and confirmed that the continuing connected transaction have been entered into (i) in the ordinary and usual course of business of the Company or of its subsidiaries (together "the Group"); (ii) wither on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Based on the worked performed, the auditor of the Company has confirmed in a letter to the board to the effect that the continuing connected transactions (i) had received approval of the Board; (ii) was entered into in accordance with the terms of the relevant agreement governing such transactions; and (iii) did not exceed the respective cap amounts for the year ended 31 December 2010.

The outstanding balance of the CJV Partner's Loan on 1 January 2010 was HK$155.5 million. The CJV Partner's Loan had been fully repaid by the Company during the year ended 31 December 2010 and the respective annual cap is HK$374,677,812.

Details of other connected transactions are set out in note 44 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2010.

DIRECTORS

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

Executive Directors

Mr. Lai Hok Lim
Mr. Heung Wah Keung (resigned on 21 January 2010)
Mr. Wong Chi Chiu (appointed on 25 January 2010 and resigned on 1 November 2010)

Independent non-executive Directors

Mr. Yip Tai Him
Mr. Law Yiu Sang, Jacky
Ms. Chio Chong Meng

In accordance with article 87(1) of the Company's bye-laws, Mr. Yip Tai Him and Mr. Law Yiu Sang, Jacky would retire and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the forthcoming annual general meeting has a services contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 December 2010, the interests and short positions of the directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules, were as follows:

Long positions in the ordinary shares of HK$0.01 each of the Company

Name of Director	Personal interests	Corporate interest	Number of underlying shares held	Total number of shares and underlying shares held	Percentage of the Company's issued share capital
Mr. Lai Hok Lim	3,348,000	—	—	3,348,000	0.66%

Save as disclosed above, at 31 December 2010, none of the directors, or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO); or which were required to be 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 Rules 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 38 to the consolidated financial statements.

EMPLOYEE AWARD PLAN

Particulars of the Company's employee award plan are set out in note 39 to the consolidated financial statements.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes and employee award plan disclosed in note 38 and note 39 to the consolidated financial statements respectively, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS

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

COMPETING INTERESTS

At 31 December 2010, none of the directors, the substantial shareholders nor their respective associates had an interest in any business which competes or may compete with the business of the Group.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2010, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long position in ordinary shares of HK$0.01 each of the Company

Name of shareholder	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Percentage of the Company's issued share capital
Galaxy Asset Management (HK) Limited	Beneficial owner	60,170,000	—	60,170,000	11.90%
UBS AG	Beneficial owner	57,270,000	—	57,270,000	11.33%

Save as disclosed above, at 31 December 2010, the Company has not been notified by any persons (other than the directors and chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits scheme of the Group are set out in note 17 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

—	the largest customer	45.33%
—	five largest customers combined	70.24%

Purchases

—	the largest supplier	25.19%
—	five largest suppliers combined	61.15%

At no time during the year did the directors, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the major customers or suppliers noted above.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises the three independent non-executive directors namely, Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng. During the year, the audit committee held four meetings to review the Group's annual report, interim report and quarterly reports.

REMUNERATION COMMITTEE

A remuneration committee has been established with written terms of reference. The remuneration committee comprises three independent non-executive directors, namely Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng and one executive director, namely Mr. Lai Hok Lim. The principal responsibilities of the remuneration committee include recommendation to the Board on the Group's policy and structure for all remuneration of directors and senior management, the determination of specific remuneration packages of all executive directors and senior managements, and review and approve performance-based remuneration. During the year, the remuneration committee held one meeting.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive directors to be independent.

AUDITORS

HLB Hodgson Impey Cheng had been appointed as the auditors of the company pursuant to the resolution passed at the special general meeting on 15 January 2010 and re-appointed pursuant to the resolution passed at the annual general meeting on 19 May 2010.

The consolidated financial statements for the year ended 31 December 2010 have been audited by HLB Hodgson Impey Cheng who will retire and, being eligible, offer themselves for re-appointment in the forthcoming annual general meeting.

On behalf of the Board

Lai Hok Lim
Chairman

Hong Kong, 18 March 2011

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
KH INVESTMENT HOLDINGS LIMITED
(FORMERLY KNOWN AS CHINA STAR FILM GROUP LIMITED)
(incorporated in the Cayman Islands and continued in Bermuda with limited liability)

We have audited the consolidated financial statements of KH Investment Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 99, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, 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.

AUDITORS' 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 Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the Group's state of affairs as at 31 December 2010, and of its 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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 18 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Continuing operations			
Turnover	6	21,790	7,198
Cost of sales		(16,694)	(5,750)
Gross profit		5,096	1,448
Other revenue	8	292	582
Other income	9	836	456
Administrative expenses		(17,713)	(17,375)
Other operating expenses	10	(119,533)	(2,638)
Finance costs	11	(5,939)	(10,197)
Loss before tax	12	(136,961)	(27,724)
Tax (charge)/credit	13	(5)	553
Loss for the year from continuing operations		(136,966)	(27,171)
Discontinued operations	14		
Profit for the year from discontinued operations		84,513	53,270
(Loss)/profit attributable to owners of the Company		(52,453)	26,099
(Loss)/earnings per share	16		
From continuing and discontinued operations			
Basic and diluted		HK(15.19) cents	HK37.96 cents
From continuing operations			
Basic and diluted		HK(39.66) cents	HK(39.52) cents
From discontinued operations			
Basic and diluted		HK24.47 cents	HK77.49 cents

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
(Loss)/profit for the year	**(52,453)**	26,099
Other comprehensive income		
Exchange differences arising on translation of foreign operations during the year	**(6,068)**	(537)
Total comprehensive income for the year	**(58,521)**	25,562
Total comprehensive income attributable to owners of the Company	**(58,521)**	25,562

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	18	204	8,027
Investment properties	19	—	118,619
Intangible assets	20	1,175	7,958
Goodwill	21	14,200	—
Total non-current assets		15,579	134,604
Current assets			
Trade receivables	23	1,439	186,716
Deposits, prepayments and other receivables	24	54,276	13,411
Financial assets at fair value through profit or loss	25	—	1
Properties held for sale	26	—	29,033
Cash and bank balances	27	66,770	230,463
Total current assets		122,485	459,624
Current liabilities			
Bank overdraft	27	32	—
Trade payables	28	325	197
Accruals and other payables	29	9,213	124,225
Interest-bearing bank and other borrowings	30	—	130
Amount due to a shareholder	32	—	155,535
Receipts in advance	33	8,370	42,428
Tax payable		78	15,303
Total current liabilities		18,018	337,818
Net current assets		104,467	121,806
Total assets less current liabilities		120,046	256,410
Non-current liabilities			
Promissory note	34	—	31,831
Convertible loan notes	35	4,348	17,596
Deferred taxation	36	—	31,603
Total non-current liabilities		4,348	81,030
Net assets		115,698	175,380
Equity			
Issued capital	37	5,056	6,763
Reserves		110,642	168,617
Total equity		115,698	175,380

The consolidated financial statements were approved and authorised for issue by the board of directors on 18 March 2011 and signed on its behalf by:

Lai Hok Lim
Director

Law Yiu Sang, Jacky
Director

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Investments in subsidiaries	22	1,000	—
Interests in jointly controlled entities		—	—
Total non-current assets		1,000	—
Current assets			
Deposits, prepayments and other receivables	24	40,215	—
Amounts due from subsidiaries	22	64,945	143,662
Amounts due from jointly controlled entities		—	2,939
Cash and bank balances	27	32,745	73,056
Total current assets		137,905	219,657
Current liabilities			
Accruals and other payables		2,566	4,256
Net current assets		135,339	215,401
Total assets less current liabilities		136,339	215,401
Non-current liabilities			
Promissory note	34	—	31,831
Convertible loan notes	35	4,348	17,596
Deferred taxation	36	—	24,428
Total non-current liabilities		4,348	73,855
Net assets		131,991	141,546
Equity			
Issued capital	37	5,056	6,763
Reserves	40	126,935	134,783
Total equity		131,991	141,546

The financial statements were approved and authorised for issue by the board of directors on 18 March 2011 and signed on its behalf by:

Lai Hok Lim
Director

Law Yiu Sang, Jacky
Director

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Issued capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Convertible loan notes reserve HK$'000	Share-based payments reserve HK$'000	Exchange reserve HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2009	16,446	135,062	—	12,693	98	—	(208,949)	(44,650)
Net profit for the year	—	—	—	—	—	—	26,099	26,099
Other comprehensive income for the year	—	—	—	—	—	(537)	—	(537)
Total comprehensive income for the year	—	—	—	—	—	(537)	26,099	25,562
Issue of convertible loan notes	—	—	—	241,878	—	—	—	241,878
Deferred tax of convertible loan notes	—	—	—	(39,910)	—	—	—	(39,910)
Redemption of convertible loan notes	—	—	—	(101,942)	—	—	4,840	(97,102)
Deferred tax released on redemption of convertible loan notes	—	—	—	14,929	—	—	—	14,929
Capital reduction	(22,564)	—	22,564	—	—	—	—	—
Issue of shares arising on acquisition of subsidiaries	118	2,001	—	—	—	—	—	2,119
Recognition of equity-settled share-based payments	—	—	—	—	4,197	—	—	4,197
Issue of shares upon exercise of share options	519	7,145	—	—	(2,827)	—	—	4,837
Cancellation of share options	—	—	—	—	(98)	—	98	—
Issue of new shares on open offer	12,128	49,066	—	—	—	—	—	61,194
Placing of new shares, net	116	2,210	—	—	—	—	—	2,326
At 31 December 2009 and 1 January 2010	6,763	195,484	22,564	127,648	1,370	(537)	(177,912)	175,380
Net loss for the year	—	—	—	—	—	—	(52,453)	(52,453)
Other comprehensive income for the year	—	—	—	—	—	(6,068)	—	(6,068)
Total comprehensive income for the year	—	—	—	—	—	(6,068)	(52,453)	(58,521)
Extension period of convertible loan notes	—	—	—	508	—	—	—	508
Redemption of convertible loan notes	—	—	—	(150,448)	—	—	48,482	(101,966)
Deferred tax released on redemption of convertible loan notes	—	—	—	24,981	—	—	(553)	24,428
Conversion of convertible loan notes	16	851	—	(308)	—	—	—	559
Capital reduction	(5,411)	—	5,411	—	—	—	—	—
Capital reorganisation	—	(252,834)	40,551	—	—	—	212,283	—
Release of exchange reserve upon disposal of subsidiaries	—	—	—	—	—	6,605	—	6,605
Issue of shares arising on acquisition of subsidiaries	592	17,755	—	—	—	—	—	18,347
Recognition of equity-settled share-based payments	—	—	—	—	3,468	—	—	3,468
Issue of shares upon exercise of share options	256	9,390	—	—	(2,101)	—	—	7,545
Lapsed of share options	—	—	—	—	(1,370)	—	1,370	—
Placing of new shares, net	2,840	76,737	—	—	—	—	—	79,577
Dividend paid *(Note 15)*	—	—	(40,232)	—	—	—	—	(40,232)
At 31 December 2010	5,056	47,383	28,294	2,381	1,367	—	31,217	115,698

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 *HK$'000*	2009 *HK$'000*
Operating activities		
Loss before tax from continuing operations	(136,961)	(27,724)
Profit before tax from discontinued operations	88,058	19,439
	(48,903)	(8,285)
Adjustments for:		
Finance costs	5,946	21,880
Interest income	(186)	(674)
Depreciation of property, plant and equipment	1,943	10,358
(Gain)/loss on disposal of property, plant and equipment	(102)	122
Impairment loss recognised in respect of intangible assets	6,783	—
Impairment loss recognised in respect of goodwill	3,844	55
(Gain)/loss arising on change in fair value of investment properties	(11,817)	52,395
Gain on period extension in convertible loan notes	(823)	—
Loss on early redemption of convertible loan notes	44,653	2,638
Loss on early redemption of promissory note	64,253	—
Impairment loss recognised in respect of amount due from jointly controlled entities	—	30,892
Write-off of property, plant and equipment	—	8,537
Provision for loss on early termination of licence agreement	—	13,439
Reversal of provision for loss on early termination of licence agreement	(7,361)	—
Equity-settled share option expenses	3,468	4,197
Gain on disposal of subsidiaries	(64,568)	—
Gain on disposal of jointly controlled entities	(10,022)	—
Gain on deemed disposal of subsidiaries	—	(32,758)
Gain on deemed disposal of jointly controlled entities	—	(17,077)
Gain from a bargain purchase	—	(105,848)
Loss on disposal of financial assets at fair value through profit or loss	—	351
Operating cash flow before movements in working capital	(12,892)	(19,778)
Decrease in inventories	—	6,025
Decrease in trade receivables	185,528	2,120
(Increase)/decrease in deposits, prepayments and other receivables	(42,109)	54,043
Decrease/(increase) in financial assets at fair value through profit or loss	1	(123)
Decrease in derivative financial instruments	—	(2,153)
Increase/(decrease) in trade payables	109	(572)
(Decrease)/increase in accruals and other payables	(27,538)	46,276
Decrease in amount due to shareholders	—	(192,023)
Increase in receipts in advance	5,230	1,362
Cash from/(used in) operations	108,329	(104,823)
Interest received	186	674
Hong Kong profits tax recovered	—	938
Net cash from/(used in) operating activities	108,515	(103,211)

	2010 HK$'000	2009 HK$'000
Investing activities		
Acquisition of subsidiaries	(51)	33,673
Purchases of items of property, plant and equipment	(1,980)	(4,190)
Proceeds on disposal of property, plant and equipment	1,150	—
Proceeds on disposal of investment properties	—	565,266
Proceeds on disposal of subsidiaries	104,125	—
Proceeds on disposal of jointly controlled entities	(634)	—
Proceeds from deemed disposal of subsidiaries	—	1,611
Proceeds from deemed disposal of jointly controlled entities	—	(74)
Net cash from investing activities	102,610	596,286
Financing activities		
Interest paid	(7)	(11,799)
Proceeds from issue of convertible loan notes	—	160,000
Proceeds from placing of new shares	79,577	2,326
Proceeds from issue of new shares upon exercise of share options	7,545	4,837
Proceeds from issue of new shares on open offer	—	61,194
Redemption of promissory note	(100,000)	—
Redemption of convertible loan notes	(160,000)	(138,199)
Repayment of bank loans	(83)	(304,408)
Repayment of amount due to a shareholder	(155,535)	—
Repayment of amounts due to jointly controlled entities	—	(31,917)
Repayment of trust receipt loans	—	(4,319)
Repayment of capital element of finance leases	(47)	(75)
Dividend paid to owners of the Company	(40,232)	—
Net cash used in financing activities	(368,782)	(262,360)
Net (decrease)/increase in cash and cash equivalents	(157,657)	230,715
Cash and cash equivalents at beginning of year	230,463	1,032
Effect of foreign exchange rate changes	(6,068)	(1,284)
Cash and cash equivalents at end of year	66,738	230,463
Analysis of balances of cash and cash equivalents		
Cash and bank balances	66,770	230,463
Bank overdraft	(32)	—
	66,738	230,463

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong respectively.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries and jointly controlled entities are set out in Notes 52 and 41 to the consolidated financial statements respectively.

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

In the current year, the Group has applied, for the first time, the following new and revised standards and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2010. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners
HK — Int 4 (Amendment)	Amendment to HK-Int 4 Lease — Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK — Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as disclosed below, the adoption of the new and revised HKFRSs has no material effect on the consolidated financial statements of the Group for the current or prior accounting period.

HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

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

- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

The impact of adoption of HKFRS 3 (as revised in 2008) on the acquisition during the current period has been related to the acquisition-related costs. It requires acquisition-related costs to be accounted for separately from the business combination. As a result, the Group has recognised these costs as an expense in profit or loss, whereas previously they would have been accounted as part of the cost of the acquisition. The acquisition costs in the current period were insignificant.

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 32 (Amendments)	Classification of Rights Issues[4]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[6]
HKFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets[6]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 July 2011
7 Effective for annual periods beginning on or after 1 January 2013

The directors of the Company has commenced their assessments of the impact of the above new and revised HKFRSs but it is not yet in a position to state whether these new and revised HKFRSs would have a material impact on the results and the financial position of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost convention, as modified for the revaluation of certain financial instruments and investment properties which are stated at their fair values.

Certain comparative figures have been reclassified to confirm with current year's presentation.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5 to the consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and the Group made up to 31 December each year.

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

All significant intercompany transactions, balances and unrealised gains on transactions are eliminated 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. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interest in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

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

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

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries *(continued)*

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010 (continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Business combinations

Business combinations that took place on or after 1 January 2010

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 at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 and HKAS 19 respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 are measured in accordance with that standard.

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

Business combinations *(continued)*

Business combinations that took place on or after 1 January 2010 *(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 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 another measurement basis required by another Standard.

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Goodwill

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash generating units, or groups of cash generating units, that is expected to benefit from the synergies of the acquisition.

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 from an acquisition in a financial year, the cash generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated 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 for goodwill is not reversed in subsequent periods.

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

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

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination (see the accounting policy above).

When a group entity transacts with a jointly controlled entity of the Group, profits or losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity 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 discounts and sales related taxes.

Sales of goods are recognised when the goods are delivered and title has passed.

Service income is recognised when services are provided.

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.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant leases.

Leases

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

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

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

Leases *(continued)*

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at 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 at 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 on monetary items are recognised in profit or loss in the period in which they arise except for (i) exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; (ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and (iii) exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

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

Foreign currencies *(continued)*

From 1 January 2010 onwards, on the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in the exchange reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs

Payments to defined contribution retirement benefit schemes managed by the PRC government and the Mandatory Provident Fund Scheme ("MPF") are recognised as expenses when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

For grants of share options that are conditional upon specified vesting conditions, 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, with a corresponding increase in equity (share-based payments 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 estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payments reserve.

For share options that are vested immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

Share-based payment transactions *(continued)*

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

At the time when the share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share premium. When share options are forfeited after the vesting duty or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to retained earnings.

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 profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and 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.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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 associates, and interests in joint ventures, 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax 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 realised, based on tax rates (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 or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses, except that when an item of property, plant and equipment is classified as held for sale, which it is not depreciated and is measured at the lower of carrying amount and fair value less costs to sell. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms or 20%
Furniture and equipment	20% — 30%
Motor vehicles	20% — 30%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation 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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

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

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Properties held for sale

Completed properties held for sale remaining unsold at the end of the reporting period are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

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

Provisions

Provisions are 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 the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is 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. Where 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).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of the subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 and the amount initially recognised less cumulative amortisation recognised in accordance with HKAS 18.

Financial instruments

Financial assets and financial liabilities are recognised on 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 one of the three categories, including 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.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

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

Financial instruments *(continued)*

Financial assets *(continued)*

Financial assets at FVTPL

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 future;
- on initial recognition, it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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.

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 receivables, deposits and other receivables and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss of financial assets below).

Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss of financial assets below).

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

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

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment loss of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been 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;
- breach of contract, default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial assets because of financial difficulties.

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

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for similar financial assets. 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, 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 receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment loss of financial assets (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss 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 loss on available-for-sale equity instrument will not be reversed in profit or loss in subsequent periods.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities generally classified into financial liabilities at FVTPL and other financial liabilities.

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 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.

Financial liabilities at FVTPL

Financial liabilities at FVTPL represent financial liabilities held for trading.

A financial liability is classified as held for trading if:

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

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

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

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Other financial liabilities

Other financial liabilities including promissory note, amount due to a shareholder, bank and other borrowings, trade payables, accruals and other payables and bank overdraft are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate 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 embedded call option for the holder to convert the notes into equity, is included in equity (convertible loan notes reserve). Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds.

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 by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes reserve will be released to retained profits. No gain or loss is recognised in the consolidated income statement upon conversion or expiration of the option.

If the conversion option of convertible loan notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible loan notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible loan notes based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the consolidated income statement.

Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible loan notes using the effective interest method.

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

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

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

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

Related parties

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

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly controlled entity;

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

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

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

Related parties *(continued)*

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and in the future period.

(b) Impairment of trade and other receivables

The Group's management determines impairment of trade and other receivables on a regular basis. The estimate is based on the credit history of its customers and current market conditions. The management of the Group reassesses the impairment of trade and other receivables at the end of the reporting period.

(c) Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash generating unit to which goodwill and intangible assets 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.

6. TURNOVER

Turnover represents the net amount received and receivable from goods sold to customers, after allowances for returns and trade discounts where applicable and services rendered. All significant intra-group transactions have been eliminated on consolidation.

	2010 *HK$'000*	2009 *HK$'000*
Continuing operations		
Artist management services	21,371	7,198
Infrared consultancy services	419	—
	21,790	7,198
Discontinued operations		
Distribution of high-end apparel and accessories	—	8,801
Rental income	—	8,224
	—	17,025
Total	21,790	24,223

7. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions.

For management purposes, the Group is currently engaged in three operating divisions, namely (i) infrared consultancy services; (ii) artist management; and (iii) film production. Two operations (distribution and service apartment operations) were discontinued in the current year (Note 14). The segmentations are based on the information about the operations of the Group that management uses to make decisions.

Principal activities are as follows:

(i)	Infrared consultancy services:	Providing infrared thermal imaging and thermograph solutions and consultancy services
(ii)	Artist management:	Service income from provision of artist management
(iii)	Film production:	Income from provision of film right
(iv)	Distribution:	Distribution of high-end apparel and accessories
(v)	Service apartment operations:	Property rental income

7. SEGMENT INFORMATION *(continued)*

The Group's reportable segments are strategic business units that operate different activities. They are managed separately because each business has different market and requires different marketing strategies.

(a) Segment revenue and results

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

	Continuing operations								Discontinued operations							
	Infrared consultancy service		Artist management		Film production		Sub-total		Distribution		Service apartment operations		Sub-total		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover: Sales to external customers	419	–	21,371	7,198	–	–	21,790	7,198	–	8,801	–	8,224	–	17,025	21,790	24,223
Segment results	(3,877)	–	(483)	(2,307)	(7,450)	(1,441)	(11,810)	(3,748)	8,014	(23,592)	5,461	(16,826)	13,475	(40,418)	1,665	(44,166)
Unallocated other revenue and income							868	456					74,590	155,251	75,458	155,707
Unallocated expenses							(120,080)	(14,235)					–	(83,711)	(120,080)	(97,946)
(Loss)/profit from operating activities							(131,022)	(17,527)					88,065	31,122	(42,957)	13,595
Finance costs							(5,939)	(10,197)					(7)	(11,683)	(5,946)	(21,880)
(Loss)/profit before tax							(136,961)	(27,724)					88,058	19,439	(48,903)	(8,285)
Tax (charge)/credit							(5)	553					(3,545)	33,831	(3,550)	34,384
(Loss)/profit for the year							(136,966)	(27,171)					84,513	53,270	(52,453)	26,099

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

Segment results represent the (loss)/profit (suffered)/earned by each segment without allocation of central administration cost including directors' emolument, other gains or losses, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

7. SEGMENT INFORMATION *(continued)*

(b) Segment assets and liabilities

	Continuing operations								Discontinued operations						Consolidated	
	Infrared consultancy service		Artist management		Film production		Sub-total		Distribution		Service apartment operations		Sub-total		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	15,089	—	17,428	12,353	32,587	9,753	65,104	22,106	—	531	—	498,535	—	499,066	65,104	521,172
Unallocated assets							72,960	73,055					—	1	72,960	73,056
Total assets							138,064	95,161					—	499,067	138,064	594,228
Segment liabilities	504	—	14,869	11,314	—	2,330	15,373	13,644	—	18,924	—	286,142	—	305,066	15,373	318,710
Unallocated liabilities							6,993	3,675					—	96,463	6,993	100,138
Total liabilities							22,366	17,319					—	401,529	22,366	418,848

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

— all assets are allocated to reportable segments other than other financial assets and current and deferred tax assets. Goodwill is allocated to reportable segments as described in Note 21 to the consolidated financial statements. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segment; and

— all liabilities are allocated to reportable segments other than current and deferred tax liabilities, other financial liabilities, borrowing and convertible loan notes. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

(c) Other segment information

	Continuing operations								Discontinued operations						Consolidated	
	Infrared consultancy service		Artist management		Film production		Sub-total		Distribution		Service apartment operations		Sub-total		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Depreciation of property, plant and equipment	28	—	42	85	215	67	285	152	—	316	1,658	9,890	1,658	10,206	1,943	10,358
Write-off of property, plant and equipment	—	—	—	—	—	—	—	—	—	763	—	7,774	—	8,537	—	8,537
Capital expenditure	—	—	—	—	—	—	—	—	—	9	1,980	15,334	1,980	15,343	1,980	15,343
Impairment loss recognised in respect of intangible assets	—	—	—	—	6,783	—	6,783	—	—	—	—	—	—	—	6,783	—
Impairment loss recognised in respect of goodwill	3,844	—	—	—	—	—	3,844	—	—	55	—	—	—	55	3,844	55

7. SEGMENT INFORMATION *(continued)*

(d) Geographical information

The Group operates in two principal geographical areas — the People's Republic of China (excluding Hong Kong) (the "PRC") and Hong Kong.

The Group's revenue from external customers and information about its non-current assets* by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations				
The PRC	**18,584**	6,002	**—**	—
Hong Kong	**3,012**	250	**15,579**	9,203
Others	**194**	946	**—**	—
	21,790	7,198	**15,579**	9,203
Discontinued operations				
The PRC	**—**	8,224	**—**	125,340
Hong Kong	**—**	8,801	**—**	61
	—	17,025	**—**	125,401
Total	**21,790**	24,223	**15,579**	134,604

* Non-current assets excluded financial instruments.

(e) Information about major customer

Included in revenue arising from artist management of approximately HK$21,371,000 (2009: HK$7,198,000) are revenues of approximately HK$7,168,000 (2009: HK$2,347,000) which arose from service provided to Group's two major customers (the artist management segment). No other single customers contributed 10% or more to the Group's revenue for both 2010 and 2009.

8. OTHER REVENUE

	2010	2009
	HK$'000	*HK$'000*
Continuing operations		
Bank interest income	96	42
Sundry income	196	—
Management service income	—	540
	292	582
Discontinued operations		
Bank interest income	90	632
Sundry income	1,901	579
Management service income	—	10
	1,991	1,221
Total	2,283	1,803

9. OTHER INCOME

	2010	2009
	HK$'000	*HK$'000*
Continuing operations		
Gain on disposal of property, plant and equipment	13	—
Gain on period extension in convertible loan notes	823	—
Gain form a bargain purchase	—	456
	836	456
Discontinued operations		
Reversal of provision for loss on early termination of licence agreement	7,361	—
Gain arising on change in fair value of investment properties	11,817	—
Exchange gain, net	1,035	—
Gain on disposal of property, plant and equipment	89	—
Gain from a bargain purchase	—	105,392
Gain on deemed disposal of subsidiaries	—	32,758
Gain on deemed disposal of jointly controlled entities	—	17,077
	20,302	155,227
Total	21,138	155,683

10. OTHER OPERATING EXPENSES

	2010	2009
	HK$'000	*HK$'000*
Continuing operations		
Loss on early redemption of convertible loan notes	44,653	2,638
Loss on early redemption of promissory note	64,253	—
Impairment loss recognised in respect of intangible assets	6,783	—
Impairment loss recognised in respect of goodwill	3,844	—
	119,533	2,638
Discontinued operations		
Loss on disposal of jointly controlled entities	—	346
Impairment loss recognised in respect of goodwill	—	55
Impairment loss recognised in respect of amount due from jointly controlled entities	—	30,892
Loss on disposal of property, plant and equipment	—	122
Loss arising on change in fair value of investment properties	—	52,395
Loss arising on change in fair value of financial assets at fair value through profit or loss	—	351
	—	84,161
Total	119,533	86,799

11. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Continuing operations		
Effective interest expenses on convertible loan notes	2,023	4,318
Effective interest expenses on promissory note	3,916	5,879
	5,939	10,197
Discontinued operations		
Interest on bank loans and overdraft wholly repayable within five years	1	11,639
Interest on finance leases	6	44
	7	11,683
Total	5,946	21,880

12. LOSS BEFORE TAX

	2010 *HK$'000*	2009 *HK$'000*
Continuing operations		
Auditors' remuneration	550	450
Depreciation of property, plant and equipment	285	152
Minimum lease payments under operating leases on land and buildings	828	—
Staff costs (excluding directors' remuneration)		
Salaries and allowance	2,719	2,036
Equity-settled share option expenses	2,953	1,002
Pension scheme contributions	59	124
Discontinued operations		
Cost of inventories sold	—	4,697
Depreciation of property, plant and equipment	1,658	10,206
Minimum lease payments under operating leases on land and buildings	11	5,510
Provision for litigation claims arising on early termination of licence agreement	—	13,439
Staff costs (excluding directors' remuneration)		
Salaries and allowance	1,180	6,516
Pension scheme contributions	37	216

13. TAX CHARGE/(CREDIT)

	2010 *HK$'000*	2009 *HK$'000*
Continuing operations		
Current tax		
Hong Kong Profit Tax	5	—
Deferred tax *(Note 36)*	—	(553)
	5	(553)

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

13. TAX CHARGE/(CREDIT) *(continued)*

The tax charge/(credit) for the year can be reconciled to the (loss)/profit per the consolidated income statement as follows:

	2010	2009
	HK$'000	*HK$'000*
Continuing operations		
Loss before tax	(136,961)	(27,724)
Tax at the statutory tax rate	(22,599)	(4,574)
Tax effect of expenses not deductible for tax purpose	43,679	2,118
Tax effect of income not taxable for tax purpose	(23,768)	(82)
Tax effect of tax losses not recognised	3,079	1,985
Utilisation of tax losses previously not recognised	(386)	—
Tax charge/(credit) for the year	5	(553)

14. DISCONTINUED OPERATIONS

On 28 May 2010, the Group disposed of (i) its wholly owned subsidiary of Mega Shell Services Limited ("Mega Shell") and its subsidiaries (collectively referred to the "Mega Shell Group") and (ii) an amount due to its ultimate holding company (the "Mega Shell Sale Loan"). Upon completion of the disposal, the Mega Shell Group will cease to be subsidiaries of the Company and the business of service apartment operation which is solely carried out by the Mega Shell Group will become a discontinued operation of the Group. Details of the assets and liabilities disposed of and the calculation of the profit or loss on disposal are disclosed in Note 43(a) to the consolidated financial statements.

On 13 December 2010, the Group disposed of (i) its 19% owned jointly controlled entity of Amazing Goal International Limited ("Amazing Goal") and its subsidiaries (collectively referred to the "Amazing Goal Group") and (ii) an amount due to its ultimate holding company (the "Amazing Goal Sale Loan"). Upon completion of the disposal, the Amazing Goal Group will cease to be jointly controlled entities of the Company and the business of distribution which is solely carried out by the Amazing Goal Group will become a discontinued operation of the Group.

The combined results of the discontinued operations related to the Mega Shell Group and the Amazing Goal Group are set out below. The comparative information of the discontinued operations has been represented to include those operations classified as discontinued in the current year.

14. DISCONTINUED OPERATIONS *(continued)*

	2010 HK$'000	2009 HK$'000
Profit for the year from discontinued operations		
Turnover	—	17,025
Cost of sales	—	(8,108)
Gross profit	—	8,917
Other revenue	1,991	1,221
Other income	20,302	155,227
Selling and distribution costs	—	(342)
Administrative expenses	(8,818)	(49,740)
Other operating expenses	—	(84,161)
Finance costs	(7)	(11,683)
Profit before tax	13,468	19,439
Tax (charge)/credit	(3,545)	33,831
	9,923	53,270
Gain on disposal of the Mega Shell Group	64,568	—
Gain on disposal of the Amazing Goal Group	10,022	—
Tax charge	—	—
Profit for the year from discontinued operations	84,513	53,270
Cash flows from discontinued operations		
Net cash (outflows)/inflows from operating activities	(119,436)	430,859
Net cash inflows from investing activities	1,905	604,811
Net cash outflows from financing activities	(152)	(352,091)
Net cash (outflows)/inflows	(117,683)	683,579

15. DIVIDEND

	2010	2009
	HK$'000	*HK$'000*
Special dividends for 2009 paid on 25 May 2010 of HK$0.12 per share (2008: Nil)	40,232	—

The directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2010 (2009: Nil).

16. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share is based on the (loss)/profit for the year attributable to owners of the Company and the weighted average number of ordinary shares in issue during the year as adjusted for the effect of share consolidation.

From continuing and discontinued operations

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

	2010	2009
	HK$'000	*HK$'000*
		(restated)
(Loss)/earnings		
(Loss)/profit attributable to owners of the Company for the purposes of basic and diluted (loss)/earnings per share	(52,453)	26,099

	2010	2009
	'000	*'000*
		(restated)
Number of shares		
Weighted average number of ordinary share for the purposes of basic and diluted (loss)/earnings per share	345,323	68,746*

16. (LOSS)/EARNINGS PER SHARE *(continued)*

From continuing operations

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

	2010	2009
	HK$'000	*HK$'000*
		(restated)
Loss		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	(136,966)	(27,171)

The denominators used are the same as these detailed above of both basis and diluted loss per share.

From discontinued operations

Basic and diluted earnings per share for the discontinued operations are HK24.47 cents per share (2009: HK77.49 cents), based on the profit for the year from the discontinued operations of approximately HK$84,513,000 (2009: HK$53,270,000) and the denominators used are the same as those detailed above.

* The weighted average number of ordinary share for the year ended 31 December 2009 was adjusted retrospectively to reflect the effect of share consolidation in 2010.

For the year ended 31 December 2010 and 2009, diluted (loss)/earnings per share was not presented because the exercise of share option and conversion of all outstanding convertible loan notes would have anti-dilutive effects.

17. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The emoluments of each director on a named basis for the years ended 31 December 2010 and 2009 are set out below:

For the year ended 31 December 2010:

	Fees	Salaries and allowances	Retirement benefits scheme contribution	Share option benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Lai Hok Lim	120	—	—	198	318
Heung Wah Keung *(Note i)*	6	—	—	—	6
Wong Chi Chiu *(Note ii)*	554	—	—	317	871
Independent non-executive directors					
Yip Tai Him	120	—	—	—	120
Law Yiu Sang, Jacky	120	—	—	—	120
Chio Chong Meng *(Note iii)*	120	—	—	—	120
Total	1,040	—	—	515	1,555

17. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(continued)*

For the year ended 31 December 2009:

	Fees	Salaries and allowances	Retirement benefits scheme contribution	Share option benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Lai Hok Lim	120	—	—	235	355
Heung Wah Keung *(Note i)*	48	—	—	—	48
Gouw San Bo, Elizabeth *(Note iv)*	—	—	—	—	—
Lee Chan Wah *(Note v)*	76	—	—	—	76
Non-executive director					
Duncan Chiu *(Note iv)*	—	—	—	—	—
Independent non-executive directors					
Yip Tai Him	120	—	—	—	120
Law Yiu Sang, Jacky	120	—	—	—	120
Chio Chong Meng *(Note iii)*	120	—	—	—	120
Total	604	—	—	235	839

Notes:

i. Mr. Heung Wah Keung was appointed as executive director on 6 August 2009 and resigned on 21 January 2010.

ii. Mr. Wong Chi Chiu was appointed as executive director on 25 January 2010 and resigned on 1 November 2010.

iii. Ms. Chio Chong Meng was appointed as independent non-executive director on 1 January 2009.

iv. Ms. Gouw San Bo, Elizabeth and Mr. Duncan Chiu were retired as executive director and non-executive director on 20 April 2009 respectively.

v. Mr. Lee Chan Wah was appointed as executive director on 10 November 2008 and resigned on 20 August 2009.

Of the five highest paid individuals, one (2009: one) was director of the Company and his remuneration has been included in the directors' remuneration disclosures above and the disclosure below.

17. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(continued)*

Details of the emoluments of the remaining four (2009: four) non-directors, highest paid employees of Group for the year are as follows:

	2010	2009
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	2,011	1,598
Share option benefit	92	—
Retirement benefits scheme contributions	36	10
	2,139	1,608

The number of non-director, highest paid individuals whose remuneration fell within the following bands, is as follows:

	2010	2009
	HK$'000	*HK$'000*
Nil to HK$1,000,000	3	4
HK$1,000,001 – HK$1,500,000	—	—
HK$1,500,001 – HK$2,000,000	1	—

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2009: Nil).

During the year, share options were granted to directors, highest paid employee in respect of their services to the Group, further details of which are included in the disclosures in Note 38 to the consolidated financial statements. The fair value of such options, which has been charged to the consolidated income statement, was determined as at the date of the grant and was included in the above non-director, highest paid employees' remuneration disclosures.

Retirement benefit costs

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is defined contribution retirement scheme administrated by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the MPF Scheme vest immediately. At the end of the reporting period, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contribution payable in the future years.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost:				
At 1 January 2009	10,794	2,049	1,616	14,459
Acquisition of subsidiaries	710	24,455	3,016	28,181
Addition	39	4,151	—	4,190
Deemed disposal of subsidiaries	(1,601)	(136)	(808)	(2,545)
Deemed disposal of jointly controlled entities	(993)	(84)	(501)	(1,578)
Write-off of property, plant and equipment	(8,239)	(23,463)	—	(31,702)
Exchange alignment	—	126	—	126
At 31 December 2009 and 1 January 2010	710	7,098	3,323	11,131
Acquisition of a subsidiary	53	222	43	318
Addition	—	1,980	—	1,980
Disposal of subsidiaries	(710)	(9,064)	(1,313)	(11,087)
Disposal of jointly controlled entities	—	—	(307)	(307)
Disposal	—	(2)	(1,288)	(1,290)
At 31 December 2010	53	234	458	745
Accumulated depreciation and impairment:				
At 1 January 2009	10,062	1,422	969	12,453
Acquisition of subsidiaries	136	6,034	535	6,705
Deemed disposal of subsidiaries	(1,421)	(70)	(661)	(2,152)
Deemed disposal of jointly controlled entities	(880)	(42)	(186)	(1,108)
Write-off of property, plant and equipment	(7,969)	(15,196)	—	(23,165)
Charged for the year	361	9,603	394	10,358
Exchange alignment	—	13	—	13
At 31 December 2009 and 1 January 2010	289	1,764	1,051	3,104
Acquisition of a subsidiary	6	76	5	87
Disposal of subsidiaries	(347)	(3,350)	(347)	(4,044)
Disposal of jointly controlled entities	—	—	(307)	(307)
Disposal	—	(2)	(240)	(242)
Charged for the year	62	1,618	263	1,943
At 31 December 2010	10	106	425	541
Net book value:				
At 31 December 2010	**43**	**128**	**33**	**204**
At 31 December 2009	421	5,334	2,272	8,027

The net book value of the Group's property, plant and equipment held under finance leases included in the total amounts of motor vehicles at 31 December 2010 amounted to Nil (2009: approximately HK$323,000).

19. INVESTMENT PROPERTIES

	2010	2009
	HK$'000	*HK$'000*
At 1 January	118,619	—
Acquisition of subsidiary *(Note 42(b))*	—	920,564
Gain/(loss) arising on change in fair value	11,817	(163)
Exchange alignments	—	5,061
Disposal	—	(806,843)
Disposal of subsidiaries *(Note 43(a))*	(130,436)	—
At 31 December	—	118,619

The fair values of the Group's investment properties at the end of the reporting period have been arrived at on the basis of a valuation carried out on that date by Messrs. Grant Sherman Appraisal Limited, an independent qualified professional valuer not connected to the Group. Messrs. Grant Sherman Appraisal Limited is a member of the Hong Kong Institute of Valuers and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

The carrying amount of investment properties shown above comprises:

	2010	2009
	HK$'000	*HK$'000*
Outside Hong Kong, held under		
Long-term leases	—	118,619

20. INTANGIBLE ASSETS

	Franchise rights	Film rights	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 January 2009	5,000	—	5,000
Acquisition of subsidiaries *(Note 42(d))*	—	7,958	7,958
At 31 December 2009 and 1 January 2010	5,000	7,958	12,958
Derecognised on disposal of jointly controlled entities	(5,000)	—	(5,000)
At 31 December 2010	—	7,958	7,958
Accumulated amortisation and impairment:			
At 1 January 2009, 31 December 2009 and 1 January 2010	5,000	—	5,000
Impairment loss recognised during the year	—	6,783	6,783
Derecognised on disposal of jointly controlled entities	(5,000)	—	(5,000)
At 31 December 2010	—	6,783	6,783
Carrying amount:			
At 31 December 2010	**—**	**1,175**	**1,175**
At 31 December 2009	—	7,958	7,958

Impairment test of intangible assets

For the purpose of impairment testing, franchise rights and film rights have been allocated to the cash generating units of distribution and film production respectively.

Film production

The film rights allocated to film production business have indefinite useful lives and no amortisation has been made.

For the year ended 31 December 2010, the directors of the Company reassessed the recoverable amount of film rights allocated to film production business with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent firm of professional valuer, and an impairment loss of approximately HK$6,783,000 was recognised.

The recoverable amount of the film right allocated to film production business was assessed by reference to value-in-use model which based on a five-year cash flow projection approved by the directors of the Company. A discount rate of 16.40% per annum was applied when assessing the recoverability of the film right.

Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation throughout the budget period. The cash flows beyond that five-year period have been extrapolated using a zero growth rate which does not exceed the long term average growth rate for the market in which film rights operates. There are a number of assumptions and estimations involved for the preparation of cash flow projections. Key assumptions include gross margin, growth rate and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the management's forecast. The discount rate used is pre-tax and reflect specific risks relating to the industry.

The impairment loss has been included in the "other operating expenses" line item in the consolidated income statement.

21. GOODWILL

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated statement of financial position, arising from the acquisition of a subsidiary and a jointly controlled entity, are as follows:

	2010	2009
	HK$'000	*HK$'000*
Cost:		
At 1 January	55	—
Arising from acquisition of a jointly controlled entity *(Note i)*	—	55
Arising from acquisition of a subsidiary *(Note 42(a))*	18,044	—
Derecognised on disposal of jointly controlled entities	(55)	—
At 31 December	18,044	55
Accumulated impairment loss:		
At 1 January	55	—
Impairment loss recognised during the year	3,844	55
Derecognised on disposal of jointly controlled entities	(55)	—
At 31 December	3,844	55
Carrying amount:		
At 31 December	14,200	—

Note:

(i) On 2 November 2009, a jointly controlled entity of the Group acquired the remaining 50% interest in LOC Limited from a third party. The consideration for the acquisition was in form of cash, with US$1 paid at the acquisition. The goodwill arising from the acquisition were amounted to approximately HK$55,000.

Impairment test of goodwill

For the purpose of impairment testing, goodwill has been allocated to the following cash generating units. The carrying amount of goodwill (before recognition of impairment loss) at the end of the reporting period was allocated to cash generating units as follows:

	2010	2009
	HK$'000	*HK$'000*
Infrared consultancy services	18,044	—
Distribution	—	55
	18,044	55

21. GOODWILL *(continued)*

Infrared consultancy services

For the year ended 31 December 2010, the directors of the Company reassessed the recoverable amount of goodwill allocated to infrared consultancy services business with reference to the valuation performed by Asset Appraisal Limited, an independent firm of professional valuer, and an impairment loss of approximately HK$3,844,000 was recognised. The impairment mainly represented the increase in fair value of the consideration shares issued on the completion date of the acquisition of a subsidiary during the year.

The recoverable amount of the goodwill allocated to infrared consultancy services business was assessed by reference to value-in-use model which based on a five-year cash flow projection approved by the directors of the Company. A discount rate of 17.71% per annum was applied when assessing the recoverability of the goodwill.

Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation throughout the budget period. The cash flows beyond that five-year period have been extrapolated using an average growth rate of 1.05 times per annum which is the projected long term average growth rate for the infrared consultancy services market. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the cash generating unit.

Distribution

The recoverable amount of the goodwill allocated to distribution business was assessed by reference to value-in-use model which based on a five-year cash flow projection approved by the directors of the Company. A discount rate of 14% per annum was applied when assessing the recoverability of the goodwill.

There are a number of assumptions and estimations involved for the preparation of the cash flow projection. Key assumptions included gross margin and discount rate which are determined by the management of the Group based on past performance and its expectation for market development. Gross margin are budgeted gross margin. The discount rate used is pre-tax and reflect specific risks relating to the industry.

The impairment loss has been included in the “other operating expenses” line item in the consolidated income statement.

22. INTERESTS IN SUBSIDIARIES

The Company

	2010 *HK$'000*	2009 *HK$'000*
Unlisted shares at cost	1,000	—
Impairment in value	—	—
	1,000	—
Amounts due from subsidiaries	64,945	143,662
	65,945	143,662

Details of the Company's subsidiaries at 31 December 2010 are set out in Note 52 to the consolidated financial statements.

23. TRADE RECEIVABLES

An aged analysis of the Group's trade receivables at the end of the reporting period is as follow:

	2010 *HK$'000*	2009 *HK$'000*
0 – 90 days	911	186,716
91 – 180 days	40	—
181 – 365 days	488	—
	1,439	186,716
Impairment loss recognised	—	—
	1,439	186,716

Notes:

(i) The credit terms granted to the Group's customers vary and are generally the results of negotiations between the Group and individual customers. The Group has no significant concentrations of credit risk, with exposure spreads over a large number of customers. The credit terms of trade receivables are generally on 30 to 180 days.

23. TRADE RECEIVABLES *(continued)*

Notes: (continued)

(ii) Included in the trade receivables balances are debtors with an aggregate carrying amount of approximately HK$488,000 (2009: Nil) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The aged analysis of trade receivables which are past due but not impaired was as follow:

	2010 *HK$'000*	2009 *HK$'000*
181 – 365 days	488	—

(iii) The movement of the allowance for impairment loss of trade and retention receivables was as follows:

	2010 *HK$'000*	2009 *HK$'000*
At 1 January	—	490
Bad debt written off	—	(490)
At 31 December	—	—

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2010 *HK$'000*	2009 *HK$'000*
Deposits	53,861	9,055
Prepayments	290	2,167
Other receivables	125	2,189
	54,276	13,411

At 31 December 2010, deposits amounted to HK$40,000,000 represented the deposit paid by the Company for acquisition of Sinofocus Media (Holdings) Limited as announced by the Company on 1 December 2010 (Note 51(i)).

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010 *HK$'000*	2009 *HK$'000*
Equity investment listed in Hong Kong, at fair value	—	1

The fair value of listed securities in Hong Kong is determined based on the quoted market bid prices available on the relevant stock exchanges.

26. PROPERTIES HELD FOR SALE

	2010 HK$'000	2009 HK$'000
Properties held for sale	—	29,033

Properties held for sale solely comprised of certain units of apartments held by 北京莎瑪房地產開發有限公司, an indirectly wholly owned subsidiary of Mega Shell, of which sale and purchase agreements were entered into and full consideration have been received by 北京莎瑪房地產開發有限公司 in respect of these units of apartments (Note 33). However, the transfers of legal titles of these units of apartments have not yet been completed at the date of disposal of Mega Shell (Note 43(a)).

27. CASH AND CASH EQUIVALENT

	The Group		The Company	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Cash and bank balances:				
Renminbi	—	155,747	—	—
US Dollars	2	—	—	—
Hong Kong Dollars	66,768	74,716	32,745	73,056
	66,770	230,463	32,745	73,056
Bank overdraft:				
Hong Kong Dollars	(32)	—	—	—
Total	66,738	230,463	32,745	73,056

Cash at bank/(bank overdraft) earns/(suffers) interest at floating rates based on daily bank deposit rates.

28. TRADE PAYABLES

An aged analysis of the Group's trade payables at the end of the reporting period is as follow:

	2010 HK$'000	2009 HK$'000
0 – 90 days	4	197
91 – 180 days	159	—
181 – 365 days	162	—
	325	197

29. ACCRUALS AND OTHER PAYABLES

	2010 HK$'000	2009 HK$'000
Accruals	4,092	104,009
Other payables	5,121	20,216
	9,213	124,225

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2010			2009		
	Effective interest rate (%)	Maturity of interest reprice date whichever is earlier	HK$'000	Effective interest rate (%)	Maturity of interest reprice date whichever is earlier	HK$'000
Current						
Finance lease payables — *Note 31*	—	—	—	2.75-3.25	2010	47
Bank loans — unsecured	—	—	—	6.25	2010	83
			—			130

	2010 HK$'000	2009 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	—	83
Other borrowings repayable:		
Within one year or on demand	—	47
	—	130

31. FINANCIAL LEASE PAYABLES

The Group leases its motor vehicles for its business. The leases are classified as finance leases.

At the end of the reporting period, the total future minimum lease payments under finance lease and the present value were as follows:

	Minimum lease payments		Present value lease payments	
	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Amount payable:				
Within one year	—	53	—	47
Total minimum finance lease payments	—	53	—	47
Future finance charges	—	(6)		
Total net finance lease payables	—	47		
Portion classified as current liabilities	—	(47)		
Long term portion	—	—		

32. AMOUNT DUE TO A SHAREHOLDER

Amount due to a shareholder was unsecured, interest-free and has been fully repaid during the year ended 31 December 2010.

33. RECEIPTS IN ADVANCE

	2010	2009
	HK$'000	HK$'000
Trade deposits received	8,370	3,094
Deposit received on sales of properties	—	39,334
	8,370	42,428

At 31 December 2009, receipts in advance amounted to approximately HK$39,334,000 represented the full amount of considerations received from sales of certain units of apartment (Note 26). Since the transfers of legal titles of these units of apartments have not yet been completed at the date of disposal of Mega Shell (Note 43(a)), no revenue could be recognised for the year ended and the total amount was recorded as receipts in advance at 31 December 2009.

34. PROMISSORY NOTE

In April 2009, the Group issued a promissory note with principal amount of HK$100,000,000 as a part of consideration in acquisition of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and World East Investments Limited ("World East"). Details were set out in Note 42(b) to the consolidated financial statements. The effective interest rate is 30.97%.

On 26 May 2010, the Group early redeemed the entire promissory note and a loss on early redemption of promissory note of approximately HK$64,253,000 is recognised during the year 2010.

	2010 *HK$'000*	2009 *HK$'000*
At 1 January	31,831	—
Issue of promissory note, fair value	—	25,952
Effective interest expenses	3,916	5,879
Redemption of promissory note	(35,747)	—
At 31 December	—	31,831

35. CONVERTIBLE LOAN NOTES

(a) On 11 June 2008, the Company issued convertible loan note with a principal amount of HK$6.2 million to an independent third party, JL Investments Capital Limited, for a term of one year with a coupon rate of 2% per annum (the "JL Convertible Note"). The JL Convertible Note is convertible into shares of the Company at the initial conversion price of HK$0.025 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the JL Convertible Note is 7.29%.

During the year 2008, the amount of HK$3,000,000 of JL Convertible Note was converted into ordinary shares of the Company.

On 3 February 2009, the Company early redeemed the entire JL Convertible Note and a gain on early redemption of convertible loan note of approximately HK$173,000 was recognised during the year ended 31 December 2009.

(b) On 16 July 2008, the Company issued convertible loan note with a principal amount of HK$7 million to Far East Holdings International Limited, for a term of three years with a coupon rate of 2% per annum (the "FE Convertible Note"). The FE Convertible Note is convertible into shares of the Company at the initial conversion price of HK$0.025 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the FE Convertible Note is 7.29%.

On 3 February 2009, the Company early redeemed the entire FE Convertible Note and a gain on redemption of convertible loan note of approximately HK$1,767,000 was recognised during the year ended 31 December 2009.

35. CONVERTIBLE LOAN NOTES *(continued)*

(c) On 25 September 2008, the Company issued convertible loan note with a principal amount of HK$35 million to Goldig Investment Group Limited with a term of three years and zero coupon rate (the "Goldig Convertible Note"). The Goldig Convertible Note is convertible into shares of the Company at the initial conversion price of HK$0.125 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the Goldig Convertible Note is 13.25%.

On 3 February 2009, the Company early redeemed principal amount of HK$28 million of the Goldig Convertible Note and a gain on early redemption of convertible loan note of approximately HK$11,719,000 was recognised during the year ended 31 December 2009.

Pursuant to the Company's circular dated 12 August 2009, the Company and the bondholders of the Goldig Convertible Note entered into the deed of amendments to modify the terms and conditions of the remaining of HK$7 million of the Goldig Convertible Note. Where the maturity date shall be the fifth anniversary of the date of issue instead of the third anniversary of the date of issue, and the mandatory conversion of any outstanding amount of the Goldig Convertible Note into new conversion shares at HK$0.239.

On 23 December 2010, an amount of HK$0.8 million of Goldig Convertible Note was converted into ordinary shares of the Company.

(d) On 29 January 2009, the Company issued convertible loan note with a principal amount of HK$60 million to China Star Entertainment Limited, for a term of 10 years with zero coupon rate (the "CS Convertible Note"). The CS Convertible Note is convertible into shares of the Company at the initial conversion price of HK$0.5 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the CS Convertible Note is 34.9%.

On 26 May 2010, the Company early redeemed the entire CS Convertible Note and a loss on early redemption of convertible loan note of approximately HK$17,669,000 is recognised during the year ended 31 December 2010.

(e) On 8 April 2009, the Company issued convertible loan note with a principal amount of HK$100 million to Eternity Investment Limited (formerly known as China Star Investment Holdings Limited) as part of consideration for the acquisition of Shinhan-Golden and World East, for a term of 10 years with zero coupon rate (the "CSI Convertible Note"). The CSI Convertible Note is convertible into shares of the Company at the initial conversion price of HK$0.5 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the CSI Convertible Note is 31.34%

On 26 May 2010, the Company early redeemed the entire CSI Convertible Note and a loss on early redemption of convertible loan note of approximately HK$26,984,000 is recognised during the year ended 31 December 2010.

(f) On 28 April 2009, the Company issued convertible loan note with a principal amount of HK$100 million to Xing Lin Medical Information Technology Company Limited (formerly known as Brilliant Arts Multi-Media Holding Limited), for a term of 10 years with zero coupon rate (the "BA Convertible Note"). The BA Convertible Note is convertible into shares of the Company at the initial conversion price of HK$0.521 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the BA Convertible Note is 27.8%.

On 2 October 2009, the Company early redeemed the entire BA Convertible Note and a loss on early redemption of convertible loan note of approximately HK$16,296,000 is recognised during the year ended 31 December 2009.

35. CONVERTIBLE LOAN NOTES *(continued)*

The movement of the liability component of the convertible loan notes recognised in the statement of financial position of the Group and the Company are calculated as follows:

	2010	2009
	HK$'000	*HK$'000*
Liability component at 1 January	17,596	33,731
Convertible loan notes issued during the year	—	18,122
Extension of period	(1,331)	—
Conversion during the year	(559)	—
Redemption during the year	(13,381)	(38,459)
Effective interest expenses	2,023	4,318
Interest paid	—	(116)
Liability component at 31 December	4,348	17,596
Current liabilities	—	—
Non-current liabilities	4,348	17,596
	4,348	17,596

36. DEFERRED TAXATION

The movements in the Group's deferred tax liabilities/(assets) during the year are as follows:

The Group

	Revaluation of investment properties	Convertible loan notes	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009	—	—	—
Addition through acquisition of subsidiaries *(Note 42(b))*	55,363	—	55,363
Issue of convertible loan notes *(Note 40)*	—	39,910	39,910
Credited to consolidated income statement	(41)	(553)	(594)
Release on redemption of convertible loan notes *(Note 40)*	—	(14,929)	(14,929)
Release on disposal of investment properties	(48,147)	—	(48,147)
At 31 December 2009 and 1 January 2010	7,175	24,428	31,603
Release on redemption of convertible loan notes *(Note 40)*	—	(24,428)	(24,428)
Charged to consolidated income statement	3,545	—	3,545
Release on disposal of subsidiaries *(Note 43(a))*	(10,720)	—	(10,720)
At 31 December 2010	—	—	—

36. DEFERRED TAXATION *(continued)*

The Company

	Convertible loan notes *HK$'000*
At 1 January 2009	—
Issue of convertible loan notes *(Note 40)*	39,910
Credited to consolidated income statement	(553)
Release on redemption of convertible loan notes *(Note 40)*	(14,929)
At 31 December 2009 and 1 January 2010	24,428
Release on redemption of convertible loan notes *(Note 40)*	(24,428)
At 31 December 2010	—

At 31 December 2010, the Group has estimated unused tax losses of approximately HK$74,622,000 (2009: HK$71,929,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax asset was recognised during the year (2009: Nil) due to the unpredictability of future profit streams.

37. SHARE CAPITAL

	2010 *HK$'000*	2009 *HK$'000*
Authorised:		
3,000,000,000 ordinary shares of HK$0.01 each	**30,000**	30,000
Issued and fully paid:		
505,649,726 ordinary shares of HK$0.01 each (2009: 676,330,271 ordinary shares of HK$0.01 each)	**5,056**	6,763

37. SHARE CAPITAL *(continued)*

A summary of the movements of the Company's issued capital and share premium account is as follows:

	Notes	Number of shares in issue	Issued capital HK$'000
At 1 January 2009, ordinary shares of HK$0.05 each		328,926,613	16,446
Open offer of new shares	*(i)*	686,601,997	12,128
Share consolidation (10 into 1)	*(ii)*	(414,447,533)	—
Capital reduction	*(ii)*	—	(22,564)
Issue of shares arising on acquisition of subsidiaries	*(iii)*	11,769,194	118
Placing of new shares	*(iv)*	11,560,000	116
Issue of shares upon exercise of share option	*(v)*	51,920,000	519
At 31 December 2009 and 1 January 2010, ordinary shares of HK$0.01 each		676,330,271	6,763
Share consolidation (5 into 1)	*(vi)*	(541,064,217)	—
Capital reduction	*(vi)*	—	(5,411)
Placing of new shares	*(vii)*	284,000,000	2,840
Issue of shares arising on acquisition of subsidiaries	*(viii)*	59,183,672	592
Conversion of convertible loan notes	*(ix)*	1,600,000	16
Issue of shares upon exercise of share option	*(x)*	25,600,000	256
At 31 December 2010, ordinary shares of HK$0.01 each		505,649,726	5,056

Notes:

For the year ended 31 December 2009

(i) On 31 January 2009, 131,570,645 ordinary shares of HK$0.05 each at a price of HK$0.05 each were issued by the Company by way of open offer; and

On 2 July 2009, 555,031,352 ordinary shares of HK$0.01 each at a price of HK$0.1 each were issued by the Company by way of open offer.

(ii) Pursuant to an ordinary resolution passed in a special general meeting on 6 April 2009, every ten issued shares of the Company were consolidated into one consolidated share of HK$0.50 each. The consolidated shares of HK$0.50 each were then reduced to HK$0.01 each by canceling the paid-up capital to the extent of HK$0.49 on each issued consolidated share.

(iii) On 8 April 2009, 11,769,194 ordinary shares of the Company with par value of HK$0.01 each at a price of HK$0.18 each were issued as part of consideration on acquisition of Shinhan-Golden and World East. Details of the acquisition were set out in Note 42(b) to the consolidated financial statements.

(iv) On 14 May 2009, the Company placed 11,560,000 ordinary shares of HK$0.01 each at a placing price of HK$0.205 per share.

(v) In 2009, 51,920,000 ordinary shares of the Company with par value of HK$0.01 each were issued upon exercise of share options by the share option holders.

37. SHARE CAPITAL *(continued)*

Notes: (continued)

For the year ended 31 December 2010

(vi) Pursuant to an ordinary resolution passed in a special general meeting on 15 January 2010, every five issued shares of the Company of HK$0.01 each were consolidated into one consolidated share of HK$0.05 each. The consolidated shares of HK$0.05 each were then reduced to HK$0.01 each by canceling the paid-up capital to the extent of HK$0.04 on each issued consolidated share. The credit of approximately HK$5,411,000 arising from the reduction of issued share capital will be transferred to the contributed surplus account of the Company and be applied to offset against the accumulated losses permitted by the laws of Bermuda and the Bye-laws. Immediately after the capital consolidation, the number of issued shares of the Company was reduced to 135,266,054 shares of HK$0.01 each and the paid-up capital was reduced to approximately HK$1,352,000.

(vii) On 25 January 2010, the Company completed the first tranche placing of 100,000,000 ordinary shares of HK$0.01 each at a placing price of HK$0.30 per share with the net proceeds from the placing amounted to approximately HK$29,680,000;

On 5 February 2010, the Company completed the second tranche placing of 100,000,000 ordinary shares of HK$0.01 each at a placing price of HK$0.30 per share with the net proceeds from the placing amounted to approximately HK$29,670,000; and

On 30 December 2010, the Company completed the placing of 84,000,000 ordinary shares of HK$0.01 each at a placing price of HK$0.255 per share with the net proceeds from the placing amounted to approximately HK$20,227,000.

(viii) On 9 August 2010, 59,183,672 ordinary shares of the Company with par value of HK$0.01 each at a price of HK$0.31 were issued as part of consideration on acquisition of Infrared Engineering & Consultants Limited. Details of acquisition were set out in Note 42(a) to the consolidated financial statements.

(ix) On 23 December 2010, Goldig Convertible Notes with principal amount of HK$800,000 was converted into 1,600,000 ordinary shares at a conversion price of HK$0.50 per share.

(x) In 2010, 25,600,000 ordinary shares of the Company with par value of HK$0.01 each were issued upon exercise of share options by the share option holders.

38. SHARE OPTION SCHEME

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, grant options to selected persons to subscribe for shares in the Company as incentives or rewards for their contribution to the Group. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not less than the highest of (i) the nominal value of the shares on the date of the offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on the GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK$1.00 to the Company by way of consideration for the grant.

38. SHARE OPTION SCHEME *(continued)*

On 3 July 2007, the Company granted share options to certain of its directors and employees to subscribe for an aggregate of 2,970,000 shares under the Scheme at an exercise price of HK$0.219 per share and adjusted to HK$3.784 per share after share consolidation and capital reorganisation.

On 3 September 2009, the Company granted share options to certain of its directors and employees to subscribe for an aggregate of 62,400,000 shares under the Scheme at an initial exercise price of HK$0.091 per share and adjusted to HK$0.455 per share after capital reorganisation.

On 13 November 2009, the Company granted share options to certain of its directors and employees to subscribe for an aggregate of 18,720,000 shares under the Scheme at an initial exercise price of HK$0.1 per share and adjusted to HK$0.5 per share after capital reorganisation.

On 18 May 2010, the Company granted share options to certain of its consultants to subscribe for an aggregate of 8,400,000 shares under the Scheme at an exercise price of HK$0.202 per share.

On 2 June 2010, the Company granted share options to certain of its directors, employees and consultants to subscribe for an aggregate of 31,450,000 shares under the Scheme at an exercise price of HK$0.325 per share.

On 3 December 2010, the Company granted share options to certain of its consultants to subscribe for an aggregate of 2,040,000 shares under the Scheme at an exercise price of HK$0.347 per share.

38. SHARE OPTION SCHEME *(continued)*

During the year ended the Company's share options granted under the Scheme are as follows:

Date of grant	Category of eligible persons	Exercise price *HKD*	Exercise period	Outstanding at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31 December 2009 and 1 January 2010	Adjustment for capital reorgani-sation	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2010
3 July 2007	Directors	3.784*	3 July 2007 to 5 March 2012	114,567	–	–	–	(114,567)	–	–	–	–	–	–
	Employees	3.784*	3 July 2007 to 5 March 2012	57,284	–	–	–	(57,284)	–	–	–	–	–	–
3 September 2009	Directors	0.091	3 September 2009 to 2 September 2010	–	6,240,000	(6,240,000)	–	–	–	–	–	–	–	–
	Employees	0.455*	3 September 2009 to 2 September 2010	–	12,480,000	(6,240,000)	–	–	6,240,000	(4,992,000)	–	–	(1,248,000)	–
	Consultants	0.455*	3 September 2009 to 2 September 2010	–	43,680,000	(26,960,000)	–	–	16,720,000	(13,376,000)	–	–	(3,344,000)	–
13 November 2009	Employees	0.5*	13 November 2009 to 12 November 2010	–	6,240,000	–	–	–	6,240,000	(4,992,000)	–	–	(1,248,000)	–
	Consultants	0.5*	13 November 2009 to 12 November 2010	–	12,480,000	(12,480,000)	–	–	–	–	–	–	–	–
18 May 2010	Consultants	0.202	18 May 2010 to 17 May 2011	–	–	–	–	–	–	–	8,400,000	(6,300,000)	–	2,100,000
2 June 2010	Directors	0.325	2 June 2010 to 1 June 2011	–	–	–	–	–	–	–	5,450,000	(2,100,000)	–	3,350,000
	Employees	0.325	2 June 2010 to 1 June 2011	–	–	–	–	–	–	–	2,100,000	(2,100,000)	–	–
	Consultants	0.325	2 June 2010 to 1 June 2011	–	–	–	–	–	–	–	23,900,000	(15,100,000)	–	8,800,000
3 December 2010	Consultants	0.347	3 December 2010 to 2 December 2011	–	–	–	–	–	–	–	2,040,000	–	–	2,040,000
	Total			171,851	81,120,000	(51,920,000)	–	(171,851)	29,200,000	(23,360,000)	41,890,000	(25,600,000)	(5,840,000)	16,290,000
	Exercisable at the end of the year								29,200,000					16,290,000
	Weighted average exercise price			HKD3.784	HKD0.43	HKD0.42	–	HKD3.784	HKD0.46	HKD0.46	HKD0.30	HKD0.29	HKD0.46	HKD0.31

* The exercise prices and numbers of share options which remained outstanding at the end of the reporting period have been adjusted due to completion of open offer and capital reorganisation during the year.

38. SHARE OPTION SCHEME *(continued)*

The fair value of options granted under the Scheme measured at the date of grant during the year ended was approximately HK$3,468,000. The following significant assumptions were used to derive the fair values using the Black-Scholes Model:

Date of granted	**18 May 2010**	**2 June 2010**	**3 December 2010**
Total number of share options	8,400,000	31,450,000	2,040,000
Option value	0.0440	0.0945	0.0624
Option life	1 year	1 year	0.5 year
Expected tenor	0.49 year	0.5 year	0.5 year
Exercise price	0.202	0.325	0.347
Stock price at the date of grant	0.18	0.325	0.33
Volatility	105.73%	116.01%	78.854%
Risk free rate	0.17%	0.34%	0.339%

39. EMPLOYEE AWARD PLAN

The Company's employee award plan (the "Plan") was adopted by the Board of Directors on 24 July 2007 for the primary purpose of recruiting and motivating employees and directors to achieve superior performance. The Plan is valid and effective for 10 years commencing on 24 July 2007. Under the Plan, the Remuneration Committee of the Company may conditionally grant an award to any directors or employee of the Company and its subsidiaries. Upon vesting of the award, the grantee shall be entitled to a cash payment under the award if the award price exceeds the vesting price, subject to an overall limit as stated in the award letter.

The amount of award payment shall be determined in accordance with the following formula:

(Vesting Price – Award price) x Award Number

Vesting price means the average closing price of the Company's shares as stated in the daily quotation sheets issued by the stock exchange for five business days immediately preceding the vesting date.

No grantee was entitled to any payment under the award during the year ended 31 December 2010.

40. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity on page 29 to the consolidated financial statements.

The Company

	Share premium HK$'000	Contributed surplus HK$'000 (Note i)	Convertible loan notes reserve HK$'000 (Note ii)	Share-based payments reserve HK$'000 (Note iii)	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2009	135,062	—	12,693	98	(193,341)	(45,488)
Net loss for the year	—	—	—	—	(23,880)	(23,880)
Total comprehensive income for the year	—	—	—	—	(23,880)	(23,880)
Issue of convertible loan notes	—	—	241,878	—	—	241,878
Deferred tax of convertible loan notes *(Note 36)*	—	—	(39,910)	—	—	(39,910)
Redemption of convertible loan notes	—	—	(101,942)	—	4,840	(97,102)
Deferred tax released on redemption of convertible loan notes *(Note 36)*	—	—	14,929	—	—	14,929
Capital reduction	—	22,564	—	—	—	22,564
Issue of shares arising on acquisition of subsidiaries	2,001	—	—	—	—	2,001
Recognition of equity-settled share-based payments	—	—	—	4,197	—	4,197
Issue of shares upon exercise of share options	7,145	—	—	(2,827)	—	4,318
Cancellation of share options	—	—	—	(98)	98	—
Issue of new shares on open offer	49,066	—	—	—	—	49,066
Placing of new shares, net	2,210	—	—	—	—	2,210
At 31 December 2009 and 1 January 2010	195,484	22,564	127,648	1,370	(212,283)	134,783
Net loss for the year	—	—	—	—	(1,789)	(1,789)
Total comprehensive income for the year	—	—	—	—	(1,789)	(1,789)
Extension period of convertible loan notes	—	—	508	—	—	508
Redemption of convertible loan notes	—	—	(150,448)	—	48,482	(101,966)
Deferred tax released on redemption of convertible loan notes *(Note 36)*	—	—	24,981	—	(553)	24,428
Conversion of convertible loan notes	851	—	(308)	—	—	543
Capital reduction	—	5,411	—	—	—	5,411
Capital reorganisation	(252,834)	40,551	—	—	212,283	—
Issue of shares arising on acquisition of subsidiaries	17,755	—	—	—	—	17,755
Recognition of equity-settled share-based payments	—	—	—	3,468	—	3,468
Issue of shares upon exercise of share options	9,390	—	—	(2,101)	—	7,289
Lapsed of share options	—	—	—	(1,370)	1,370	—
Placing of new shares, net	76,737	—	—	—	—	76,737
Dividend paid *(Note 15)*	—	(40,232)	—	—	—	(40,232)
At 31 December 2010	47,383	28,294	2,381	1,367	47,510	126,935

40. RESERVES *(continued)*

Notes:

(i) The contributed surplus of the Company represents the capital reduction and capital reorganisation of share capital and reserves of the Company during the year.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if it is, or would after the payment be, unable to pay its liabilities as they become due or the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

(ii) The convertible loan notes reserve represents the value of the unexercised equity component of convertible loan notes issued by the Company.

(iii) The share-based payments reserve of the Company and the Group arises on the grant of share options of the Company and is dealt with in accordance with the accounting policies set out in Note 4 to the consolidated financial statements.

41. JOINTLY CONTROLLED ENTITIES

On 13 December 2010, the Group disposed of (i) its 19% owned jointly controlled entity of Amazing Goal and its subsidiaries and (ii) the Amazing Goal Sale Loan for a consideration of HK$1. A gain on disposal of approximately HK$10,022,000 arose from this disposal.

The following amounts are included in the Group's consolidated financial statements as a result of the proportionate consolidation of the above joint ventures up to the date of disposal.

	2010	2009
	HK$'000	*HK$'000*
Non-current assets	—	61
Current assets	—	469
Current liabilities	—	(26,302)
Net liabilities	—	(25,772)
Discontinued operations		
Turnover	—	8,801
Cost of sales	—	(4,697)
Other revenue and income	8,520	50,043
Selling and distribution expenses	—	(342)
Administrative expenses	(507)	(27,088)
Other operating expenses	—	(875)
Finance costs	(7)	(311)
Profit/(loss) before tax	8,006	(25,531)
Tax charge	—	—
Profit/(loss) for the year	8,006	(25,531)

41. JOINTLY CONTROLLED ENTITIES *(continued)*

The Group has the following significant interests in joint ventures:

Name	Place of incorporation	Issued and fully paid up capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Amazing Goal	British Virgin Island ("BVI")	US$100	19%	—	Investment holding
GL Retailing (Hong Kong) Limited (Formerly known as Golife (Hong Kong) Limited)	Hong Kong	HK$500,000	—	19%	Distribution of high-end apparel and accessories
Golife (Trading) Limited	Hong Kong	HK$300,000	—	19%	Distribution of high-end jewellery and accessories
CR Hong Kong (Trading) Limited	Hong Kong	HK$300,000	—	19%	Distribution of high-end apparel and accessories
Golife (Management) Limited	Hong Kong	HK$10,000	—	19%	Provision of management services
GOL (International) Limited	BVI	US$1	—	19%	Dormant
Peak Choice Limited	BVI	US$1	—	19%	Investment in securities
Sunfame Limited	BVI	US$100	—	19%	Dormant
Profit First Investments Limited	BVI	US$1	—	19%	Investment holding
Better Point Limited	BVI	US$1	—	19%	Investment holding

42. ACQUISITIONS OF SUBSIDIARIES

During the year ended 31 December 2010, the Group acquired the following subsidiaries from independent third parties.

(a) Acquisition of Infrared Engineering & Consultants Limited ("Infrared")

On 9 August 2010, the Group acquired the entire issued share capital and the outstanding shareholders' loan of Infrared for total consideration of approximately HK$18,347,000. The fair value of identifiable assets and liabilities of Infrared at the date of acquisition immediately before the acquisition were as follows:

	Fair value
	HK$'000
Property, plant and equipment	231
Trade receivables	251
Deposits, prepayments and other receivables	193
Amount due from shareholders	218
Cash and bank balances	27
Bank overdraft	(78)
Trade payables	(216)
Accruals and other payables	(31)
Tax payable	(74)
Net assets acquired	521
Sale loan	(218)
Goodwill	18,044
Total consideration	18,347
Consideration satisfied by:	
Fair value of shares issued *(Note i)*	18,347
Net cash outflow in respect of acquisition of a subsidiary:	
Cash and bank balances acquired	27
Bank overdraft acquired	(78)
	(51)

Note:

(i) 59,183,672 ordinary shares of the Company with par value of HK$0.01 each were issued. The fair value of issued ordinary shares of the Company was determined with reference to the published price available at the date of acquisition of HK$0.31 per share, amounted to approximately HK$18,347,000.

42. ACQUISITIONS OF SUBSIDIARIES *(continued)*

During the year ended 31 December 2009, the Group acquired the following subsidiaries from independent third parties.

(b) Acquisition of Shinhan-Golden and World East

On 8 April 2009, the Group acquired the entire issued share capital and the Mega Shell Sale Loan for total consideration of HK$135,744,000. The identifiable assets and liabilities of Shinhan-Golden and World East at the date of acquisition immediately before the acquisition were as follows:

	Shinhan-Golden	World East	Elimination on current account	Fair value
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	20,123	7	—	20,130
Investment properties	920,564	—	—	920,564
Amount due from Shinhan-Golden	—	386,166	(386,166)	—
Investment in associate	—	3,896	(3,896)	—
Properties held for sale	28,969	—	—	28,969
Trade receivables	184	—	—	184
Prepayments, deposits and other receivables	1,689	4,971	—	6,660
Cash and bank balances	51,434	—	—	51,434
Amount due to Mega Shell	(47,199)	(745)	—	(47,944)
Amount due to China Star Investment Holding Limited	—	(375,535)	—	(375,535)
Trade payables and accruals	(13,252)	(217)	—	(13,469)
Receipts in advance	(39,645)	—	—	(39,645)
Amount due to World East	(386,166)	—	386,166	—
Bank loans, secured	(302,794)	—	—	(302,794)
Non-controlling interest	(3,896)	—	3,896	—
Deferred taxation	(55,363)	—	—	(55,363)
Net assets acquired	174,648	18,543	—	193,191
Sale loan				47,944
Gain from a bargain purchase				(105,391)
				135,744

42. ACQUISITIONS OF SUBSIDIARIES *(continued)*

(b) Acquisition of Shinhan-Golden and World East *(continued)*

	HK$'000
Consideration satisfied by:	
Fair value of shares issued *(Note i)*	2,119
Fair value of promissory note *(Note ii)*	25,952
Fair value of convertible loan notes *(Note 35(e))*	100,000
Cash	6,847
Transaction cost directly attributable to this acquisition	826
Total consideration	135,744
Net cash inflow in respect of acquisition of a subsidiary:	
Cash consideration paid	(6,847)
Transaction cost paid	(826)
Cash and bank balances acquired	51,434
	43,761

Notes:

(i) As part of the consideration for the acquisition, 11,769,194 ordinary shares of the Company with par value of HK$0.01 each were issued. The fair value of issued ordinary shares of the Company was determined with reference to the published price available at the date of acquisition of HK$0.18 per share, amounted to approximately HK$2,119,000.

(ii) The face value of promissory note in amount of HK$100,000,000 would be paid by the Company with a fixed term of five years and will not carry any interest. The fair value of promissory note in amount of HK$25,952,000 was based on the calculation of the discounted cash flow method with discount rate 30.97%.

42. ACQUISITIONS OF SUBSIDIARIES *(continued)*

(c) Acquisition of China Star Management Limited ("CSM") and Anglo Market International Limited ("AMI")

On 31 July 2009, the Group acquired the entire issued share capital of CSM and AMI for total consideration of HK$3,137,971. The identifiable assets and liabilities of the CSM and AMI at the date of acquisition immediately before the acquisition were as follows:

	CSM	**AMI**	**Elimination on current account**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	79	—	—	79
Amount due from AMI	643	—	(643)	—
Deposits paid	8,556	521	—	9,077
Trade receivables	912	648	—	1,560
Prepayments, deposits and other receivables	956	158	—	1,114
Cash and bank balance	321	395	—	716
Amount due to Imperial Services Limited	(4,954)	(25)	—	(4,979)
Amount due to CSM	—	(643)	643	—
Trade payables and accruals	(1,851)	(700)	—	(2,551)
Receipts in advance	(296)	(1,125)	—	(1,421)
Net assets acquired	4,366	(771)	—	3,595
Gain from a bargain purchase				(457)
Total consideration				3,138
Consideration satisfied by:				
Cash				3,138
Net cash outflow in respect of the acquisition of subsidiaries:				
Cash consideration paid				(3,138)
Cash and bank balances acquired				716
				(2,422)

42. ACQUISITIONS OF SUBSIDIARIES *(continued)*

(d) Acquisition of Creative Formula Limited ("Creative Formula")

On 8 October 2009, the Group acquired the entire issued share capital of Creative Formula for total consideration of HK$8.2 million. The identifiable assets and liabilities of Creative Formula at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value
	HK$'000
Property, plant and equipment	1,267
Intangible assets	7,958
Other prepayments	26
Cash and bank balance	535
Accruals	(1,585)
Net assets acquired	8,201
Consideration satisfied by:	
Cash consideration	8,201
Net cash outflow in respect of the acquisition of a subsidiary:	
Cash consideration paid	(8,201)
Cash and bank balances acquired	535
	(7,666)

43. DISPOSAL/DEEMED DISPOSAL OF SUBSIDIARIES

(a) Disposal of Mega Shell

On 28 May 2010, the Group disposed of a wholly owned subsidiary of Mega Shell and its subsidiaries and Mega Shell Sale Loan for a consideration of RMB119,570,000 (equivalent to approximately HK$136,029,000). A gain on disposal of approximately HK$64,568,000 arose from this disposal was recognised in the consolidated income statement. Summary of the effect of the disposal of the subsidiaries is as follows:

	HK$'000
Property, plant and equipment	7,043
Investment properties	130,436
Prepayments and other receivables	1,436
Properties held for sale	29,033
Cash and bank balances	31,904
Other payable and accruals	(69,773)
Amount due to the ultimate holding company	(10,916)
Receipts in advance	(39,288)
Tax payable	(15,215)
Deferred taxation	(10,720)
Net assets disposed of	53,940
Mega Shell Sale Loan	10,916
Release of translation reserve	6,605
	71,461
Gain on disposal	64,568
Total consideration	136,029
Satisfied by:	
Cash consideration received	136,029
Net cash inflow in respect of disposal of subsidiaries:	
Cash consideration received	136,029
Cash and cash equivalents disposed of	(31,904)
	104,125

The subsidiaries disposed of during the year did not contribute significantly to the Group's results and cash flows.

43. DISPOSAL/DEEMED DISPOSAL OF SUBSIDIARIES *(continued)*

(b) Deemed disposal of Amazing Goal, a then subsidiary of the Company

In July 2009, the Group's interest in Amazing Goal decreased from 100% to 50% following the allotment and issuance of 50 shares of Amazing Goal at a price of US$1 each to Chung Chiu (PTC) Limited ("Chung Chiu") pursuant to a subscription agreement. Gain on deemed disposal of partial interest in Amazing Goal as a subsidiary amounted to approximately HK$32,758,000.

After the transactions mentioned above, Amazing Goal became a jointly controlled entity of the Group.

Detail of the net assets at the disposal date was as follows:

	HK$'000
Property, plant and equipment	393
Inventories	952
Other investment	1
Trade receivables	269
Deposits, prepayments and other receivables	3,067
Trade payables	(1,019)
Accruals and other payables	(11,443)
Amount due to the Company	(22,193)
Tax payable	(294)
Bank overdraft	(1,611)
Interest-bearing borrowings	(880)
Gain on deemed disposal of subsidiaries	(32,758)

44. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group and the Company had the following material transactions with related parties during the year:

(a) Related entities

	Notes	2010 HK$'000	2009 HK$'000
Management fee charged by a related company	(i)	2,400	4,800
Acquisition of subsidiaries from related companies	(ii)	—	147,094
Dividend paid to a related company	(iii)	2,542	—
Repayment of convertible loan notes and promissory note to related companies	(iv)	260,000	—
Repayment loan to a related company	(v)	155,535	—

Notes:

(i) Management fee was charged at a rate mutually agreed between the Group and the related company in which certain directors of the Company's subsidiary have beneficial interests, by reference to sharing of office premises and supplies, and manpower in provision of administrative services to the Group.

(ii) On 8 April 2009, the Group acquired the entire issued share capital and the outstanding shareholders' loan of Shinhan-Golden and World East for total consideration of approximately HK$135,755,000. On 31 July 2009, the Group acquired the entire issued share capital of CSM and AMI for approximately HK$3,138,000, and on 8 October 2009, the Group acquired the entire issued share capital of Creative Formula for total consideration of approximately HK$8,201,000.

(iii) On 5 May 2010, a special dividend of approximately HK$2,542,000 was distributed to Eternity Investment Limited ("Eternity") (formerly known as China Star Investment Holdings Limited), a company which Mr. Heung Wah Keung, a director of the Company, was beneficial/interested in it.

(iv) The Group repaid convertible loan notes and promissory note amounted to HK$100,000,000 and HK$100,000,000 respectively to Eternity and convertible loan notes amounted to HK$60,000,000 to China Star Entertainment Limited during the year.

(v) The Group repaid a shareholder's loan of approximately HK$155,535,000 to Eternity during the year.

(b) Compensation of key management personnel

	2010 HK$'000	2009 HK$'000
Salaries and other benefits	1,732	1,674
Provident fund convertors	1	10
	1,733	1,684

45. OPERATING LEASE ARRANGEMENT

The Group as lessee

The Group leases certain retail shops and office premises under operating lease arrangements. Leases for retail shops and office premises are negotiated for terms ranging from 1 to 3 years. Leases for retail shops were no longer exist due to discontinued operations of distribution business.

At the end of the reporting period, the Group had future minimum lease payments under non-cancelable operating leases falling due is as follows:

	2010	2009
	HK$'000	*HK$'000*
Within one year	224	—
In the second to fifth years, inclusive	—	—
	224	—

46. COMMITMENTS

The Group and the Company did not have any significant commitments at the end of the reporting period (2009: Nil).

47. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at the end of the reporting period (2009: Nil).

48. FINANCIAL INSTRUMENTS

	2010	2009
	HK$'000	*HK$'000*
Financial assets		
Financial assets at fair value through profit or loss	—	1
Loans and receivables (including cash and cash equivalents)	122,195	428,423
	122,195	428,424
Financial liabilities		
Financial liabilities at amortised cost	22,289	371,942

48. FINANCIAL INSTRUMENTS *(continued)*

Fair value estimation

The fair value of financial assets and financial liabilities with standard terms and conditions and trade in active liquid market are determined with reference to quoted market bid prices and ask prices respectively.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification of repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by the fair value hierarchy:

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
At 31 December 2010	**—**	**—**	**—**	**—**
At 31 December 2009				
Financial assets at fair value through profit or loss	1	—	—	1

There were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise convertible loan notes, promissory note, amount due to a shareholder, interest-bearing bank and other borrowings, trade payables and bank overdraft. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables as well as deposits and other receivables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The board of directors reviews and agrees policies for managing each of the risks which are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 4 to the consolidated financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its bank borrowings, bank overdraft and bank balances with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

At the end of the reporting period, the Group has no significant expense to interest rate risk. The exposures to the interest rate risk are monitored on an ongoing basis.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

The Group operates mainly in both the PRC and Hong Kong and majority of transactions are dominated in Renminbi and Hong Kong dollars. Therefore, the Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting dates are as follows:

	Assets		Liabilities	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Renminbi	—	340,481	—	39,334

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in Renminbi. At 31 December 2010, if there is a 50 basis points higher/lower in the Hong Kong dollars against the Renminbi with other variables held constant, the Group's translation reserve would be increase or decrease by Nil (2009: approximately HK$1,506,000).

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdraft, bank loans, finance leases, other interest-bearing loans, promissory note and convertible loan notes.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

	Weighted average effective interest rate	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Total carrying amount HK$'000
31 December 2010							
Non-derivative financial liabilities							
Convertible loan notes	13.86%	—	—	6,211	—	6,211	4,348
Accruals and other payables	—	9,213	—	—	—	9,213	9,213
Trade payables	—	325	—	—	—	325	325
Bank overdraft	—	32	—	—	—	32	32
		9,570	—	6,211	—	15,781	13,918
31 December 2009							
Non-derivative financial liabilities							
Convertible loan notes	13.61%-13.86%	—	—	12,579	359,757	372,336	17,596
Promissory note	13.86%	—	—	158,905	—	158,905	31,831
Amount due to a shareholder	—	155,535	—	—	—	155,535	155,535
Interest-bearing bank and other borrowings	2.75%-6.25%	130	—	—	—	130	130
Accruals and other payables	—	124,225	—	—	—	124,225	124,225
Trade payables	—	197	—	—	—	197	197
		280,087	—	171,484	359,757	811,328	329,514

Credit risk

At 31 December 2010, 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 credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 23 to the consolidated financial statements.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Fair value estimation

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

(i) the fair value of financial assets and financial liabilities, with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices.

(ii) the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model.

Except for the liability component of convertible loan notes which recorded amortised cost as below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their respective fair values:

	31 December 2010		31 December 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Promissory note	—	—	31,831	23,892
Convertible loan notes	4,348	4,570	17,596	53,679

Note:

The fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without conversion option.

50. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 2009.

The Group monitors capital using a gearing ratio, which is interest-bearing borrowings divided by the total of borrowings and equity. Borrowings include interest-bearing borrowings and convertible loan notes. Equity includes all share capital and reserves at the end of the reporting period.

50. CAPITAL MANAGEMENT *(continued)*

	2010	2009
	HK$'000	*HK$'000*
Borrowings:		
Interesting-bearing bank and other borrowings	—	130
Convertible loan notes, liability components	4,348	17,596
	4,348	17,726
Equity:		
Total equity	115,698	175,380
Gearing ratio	3.76%	10.1%

51. EVENTS AFTER THE REPORTING PERIOD

The following events have occurred subsequent to 31 December 2010:

(i) On 16 November 2010, the Company entered into a sale and purchase agreement with an independent third party in relation to a very substantial acquisition to acquire (i) the entire issued share capital of Sinofocus Media (Holdings) Limited ("Sinofocus"), a wholly owned subsidiary of Media China Corporation Limited ("Media China") which is listed on the main board of the Stock Exchange, which is engaged in television advertising in the PRC and (ii) the aggregate outstanding shareholder's loan owing by Sinofocus to Media China. The deposit of HK$40,000,000 has been paid by the Company in cash upon signing of the sale and purchase agreement (Note 24) and the remaining consideration of HK$42,000,000 shall be payable by the Company in cash upon the completion. The acquisition is not yet completed on the date when the consolidated financial statements are authorised for issue.

(ii) On 8 December 2010, the Company, China Star Entertainment (BVI) Limited ("China Star (BVI)"), a wholly owned subsidiary of China Star Entertainment Limited which is listed on the main board Stock Exchange, and China Star Film Group Limited (the "JV Company") entered into a joint venture agreement (the "JV Agreement") relating to the formation of the JV Company, which is principally engaged in production and distribution of films. Pursuant to the JV Agreement, the Company agreed to further subscribe and the JV Company agreed to further issue and allot 29 shares of the JV Company at a price of HK$1,000,000 per share for a total consideration of HK$29,000,000. The JV Company shall be owned as to 50% by the Company and as to 50% by China Star (BVI). The formation of the JV Company was completed on 7 January 2011.

(iii) On 3 January 2011, the Company granted 38,740,000 share options to certain of its directors, consultants and employees to subscribe for an aggregate of 38,740,000 shares under the Scheme at an exercise price of HK$0.335 per share. The share options are exercisable for the period from 3 January 2011 to 2 January 2012.

52. PARTICULARS OF INTERESTS IN SUBSIDIARIES

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

Name	Place of incorporation	Issued and fully paid up capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
China Star Film Group Limited	BVI	HK$1,000,000	100%	—	Investment holding
Dance Star Group Limited	BVI	US$1	100%	—	Investment holding
Mega Shell	BVI	US$1	100%	—	Investment holding
Premium Dignity Investments Limited	BVI	US$1	100%	—	Investment holding
AMI	BVI	US$1	—	100%	Artist management
China Star Film Production Limited	Hong Kong	HK$1	—	100%	Film production
CSM	Hong Kong	HK$290,000	—	100%	Artist management
Creative Formula	Hong Kong	HK$10,000,000	—	100%	Film production
Infrared	Hong Kong	HK$2	—	100%	Infrared consultancy services
Shinhan-Golden	BVI	US$10,000,000	—	100%	Investment holding
World East	BVI	US$1	—	100%	Investment holding
北京莎瑪房地產開發有限公司	The PRC	US$15,000,000	—	100%	Property management

53. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 18 March 2011.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group for the last five financial years are set out below. This summary does not form part of the audited financial statement.

	Year ended 31/12/2010 HK$'000	Year ended 31/12/2009 HK$'000	Year ended 31/12/2008 HK$'000 (restated)	Year ended 31/12/2007 HK$'000 (restated)	For the period from 1/4/2006 to 31/12/2006 HK$'000 (restated)
Result					
Turnover	21,790	7,198	74,122	62,339	18,885
(Loss)/profit before tax	(136,961)	(27,724)	(75,306)	(93,305)	1,824
Tax (charge)/credit	(5)	553	—	—	(676)
(Loss)/profit for the year from continuing operations	(136,966)	(27,171)	(75,306)	(93,305)	1,148
Profit for the year from discontinued operations	84,513	53,270	—	340	—
(Loss)/profit for the year	(52,453)	26,099	(75,306)	(92,965)	1,148
(Loss)/profit attributable to owners of the Company	(52,453)	26,099	(75,306)	(92,965)	1,148

	Year ended 31/12/2010 HK$'000	Year ended 31/12/2009 HK$'000	Year ended 31/12/2008 HK$'000 (restated)	Year ended 31/12/2007 HK$'000 (restated)	For the period from 1/4/2006 to 31/12/2006 HK$'000 (restated)
Assets and liabilities					
Total assets	138,064	594,228	27,212	45,187	102,385
Total liabilities	(22,366)	(418,848)	(71,862)	(34,159)	(70,837)
	115,698	175,380	(44,650)	11,028	31,548