Yuxing InfoTech Investment Holdings Limited

裕 興 科 技 投 資 控 股 有 限 公 司*

(Incorporated in Bermuda with limited liability)

Stock Code: 8005

Annual Report 2011

*for identification purposes only

Yuxing InfoTech Investment Holdings Limited
Annual Report 2011

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This annual report, for which the directors (the "Directors") of Yuxing InfoTech 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 GEM of the Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this annual 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 this annual report or any statement in this annual report misleading.

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Corporate Profile

The Company and its subsidiaries (collectively the "Group") commenced its business through Beijing Golden Yuxing Electronics and Technology Company Limited ("Golden Yuxing") which was established in the People's Republic of China (other than Hong Kong and Macau) (the "PRC") in 1996. Golden Yuxing became a Sino-foreign co-operative joint venture enterprise on 8th November 1999. Through reorganisation, the Company has become the ultimate holding company of the Group. The Company was incorporated in Bermuda as an exempted company on 6th October 1999 and was listed on GEM on 31st January 2000. It successfully raised gross proceeds of approximately HK$420 million.

As a result of the continuous introduction of new products, the Group has experienced rapid growth since its establishment. The Group is principally engaged in research and development ("R&D"), design, manufacturing, marketing and sale of information appliances (major in set-top boxes) through a network of partnerships and distributors in the PRC, Hong Kong and overseas.

Besides its comprehensive distribution network, the Group has established a strong team of R&D professionals, including experienced experts in hardware and software, digital devices, media display and network technology. Under the leadership of the Group's professional management team, our products have obtained high reputation in Hong Kong, the PRC and overseas markets.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Zhu Wei Sha *(Chairman)*
Chen Fu Rong *(Deputy Chairman)*
Shi Guang Rong
Wang An Zhong

Independent Non-executive Directors

Wu Jia Jun
Zhong Peng Rong
Shen Yan

COMPANY SECRETARY

Liu Wei, Solicitor

QUALIFIED ACCOUNTANT

Wu Wai Ting, Wendy
Member of Hong Kong Institute of Certified Public Accountants
Certified Practising Accountant of CPA Australia

COMPLIANCE OFFICER

Shi Guang Rong

AUTHORISED REPRESENTATIVES

Chen Fu Rong
Shi Guang Rong

AUDIT COMMITTEE

Shen Yan *(Chairman)*
Zhong Peng Rong
Wu Jia Jun

REMUNERATION COMMITTEE

Sun Li Jun *(Chairman)*
Wang An Zhong
Wu Jia Jun
Zhong Peng Rong
Shen Yan

AUDITOR

Mazars CPA Limited
Certified Public Accountants

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
China Construction Bank
Shanghai Commercial Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11, Bermuda

PLACES OF BUSINESS

Hong Kong
Unit 1808, 18th Floor
Tower III, Enterprise Square
9 Sheung Yuet Road
Kowloon Bay, Kowloon

The PRC
Block B, 7th Floor, Tian Cheng Technology Building
No. 2, Xinfeng Street, De Shen Men Wai
Beijing

Yanjiang Road East
Domestic Industrial Park
Torch Hi-Tech Industrial Development Zone
Zhong Shan

SHARE REGISTRARS AND TRANSFER OFFICES

Principal registrar
HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM11, Bermuda

Branch registrar
Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

STOCK CODE

8005

WEBSITE ADDRESS

www.yuxing.com.cn

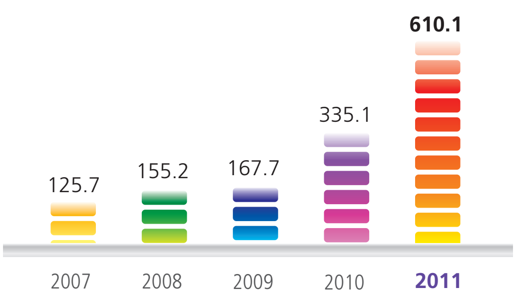
Financial Highlights and Calendar

FINANCIAL HIGHLIGHTS

	2011 HK$'000	2010 HK$'000
Revenue		
Turnover	**610,144**	335,099
Profitability		
Profit from operations	**39,780**	17,352
Profit for the year	**33,984**	14,809
Net worth		
Total equity attributable to owners of the parent	**2,261,674**	3,325,504
Per share		
Earnings per share attributable to owners of the parent – Basic	**1.96 cents**	0.90 cent
Net assets per share	**1.30 dollars**	1.92 dollars

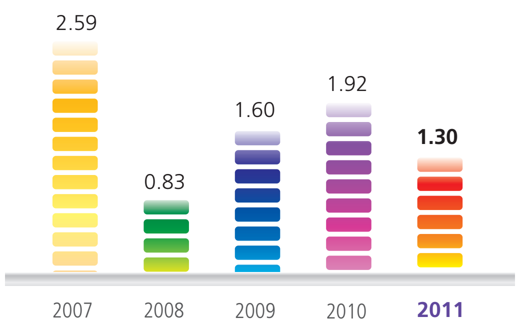
TURNOVER

HK$ million



NET ASSETS PER SHARE

HK$



FINANCIAL CALENDAR

Results for the year	Announcement on 20th March 2012
Annual report	Despatched to shareholders in late March 2012
Annual general meeting	16th May 2012

Chairman's Statement

Chairman's Statement

In 2011, our core Internet Protocol Television ("IPTV") set-top boxes ("STB") business sustained a steady growth momentum and doubled its revenue thanks to our remarkable achievements in market expansion. Our diligent effort over the past decade in the IPTV STB market eventually yielded us a bountiful harvest.

Benefiting from the favourable state policies in the PRC and the economy recovery across the world, our IPTV STB business enjoyed a good operating environment and gradually climbed to a new height. Through partnership with a number of global leading telecom operators, currently our products are promoted to Asia, Europe, Australia and North America etc. countries. In Asia, in addition to maintaining its competitive edge in Hong Kong market, our products also successfully penetrated into a number of provinces and cities in the PRC, creating first class broadband audio-visual experiences to its users. In the field of broadband digital audio-visual products, the Company has become an outstanding world-class solution provider and a renowned manufacturer of customised products.

The Company was running on the concept of the IPTV STB when its shares went public in 2000, which has now turned into reality and IPTV application has been created. We have built our own software platform (the intermediary software) and a team of outstanding researchers and management staff. The internet era has presented us, as an innovative Chinese enterprise, with vast opportunities, which cover not only the IPTV STB, but all internet.

The new year has dawned with both opportunities and challenges. Yuxing corporate doctrines of "Integrity and transparency, strict self-discipline, mutual trust and highly accountable" are spirits distilled over the past two decades. With these spirits, we have overcome numerous difficulties and stood a solid ground till today. We will adhere to these spirits as we move on and create a brighter future for the Company.

Currently, the amalgamation of the three nets, the linking of communication nets and the combination of software and hardware, will definitely create new opportunities for us, and make new room for innovative products over decade. The above spirits are the secret for survival, while "Be smarter" is the thinking way that we have followed.

The fierce competition in future will place us in an uneasy environment. We will concentrate on internet applications, exert our own advantages, and keep changing and improving, so as to outperform our competitors.

A substantial part of our assets are financial assets which render us a unique advantage in both the current competitive environment and the future sustainable development. The Company will adhere to the principles of "being scientific, secure and prudent", maintain and utilise this advantage, and grasp every opportunity for the further development of the Company.

Zhu Wei Sha
Chairman

Hong Kong, 20th March 2012

Group Financial Summary

CONSOLIDATED RESULTS

For the year ended 31st December

	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Turnover	**610,144**	335,099	167,673	155,167	125,730
Profit/(Loss) before taxation	**35,352**	14,999	(24,118)	(36,577)	23,239
Taxation	**(1,368)**	(190)	–	–	(726)
Profit/(Loss) attributable to owners of the parent	**33,984**	14,809	(24,118)	(36,577)	22,513

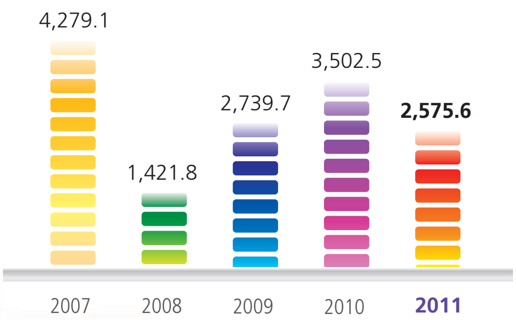
CONSOLIDATED ASSETS AND LIABILITIES

As at 31st December

	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Total assets	**2,575,574**	3,502,533	2,739,709	1,421,831	4,279,107
Total liabilities	**(313,900)**	(177,029)	(123,501)	(64,917)	(82,804)
Total equity attributable to owners of the parent	**2,261,674**	3,325,504	2,616,208	1,356,914	4,196,303

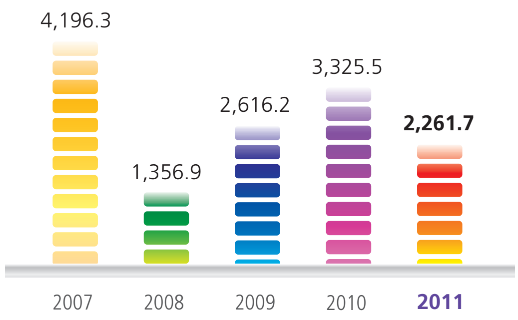
TOTAL ASSETS

HK$ million



NET ASSETS

HK$ million



Management Discussion and Analysis

FINANCIAL REVIEW

Turnover and Gross Profit

During the year under review, the Group's business achieved remarkable performance, with the total turnover and gross profit of the Group increased significantly by 82.1% and 64.4% to approximately HK$610.1 million and HK$86.8 million respectively for the year ended 31st December 2011 (the "Year") as compared with 2010. This increase in turnover and gross profit was mainly attributable to the rapid growth of the global IPTV market as well as rebound of the PRC domestic market, which together with the right positioning of the Group's products, had successfully captured the demand of users. As a result, the Group's turnover under Information Home Appliances (the "IHA") segment derived from the PRC and overseas markets for the Year increased remarkably to approximately HK$393.0 million and HK$153.3 million respectively representing significant increase of 99.7% and 90.0% as compared with last year.

Operating Results

Other Revenue and Net Income

Other revenue and net income of the Group increased by 20.3% to approximately HK$40.0 million for the Year as compared with last year (2010: approximately HK$33.2 million). This was mainly due to the dividend income recorded by the Group from its indirect investment in 51 million A shares of Ping An Insurance (Group) Company of China Limited ("Ping An Shares") of approximately HK$33.8 million for the Year (2010: approximately HK$26.3 million), which was a major contribution to the profit of the Group for the Year.

Operating Expenses

During the year under review, the Group actively expanded its products into the PRC and overseas markets which led to significant increase in its overall turnover in 2011. As a result, the Group's overall selling expenses increased by 38.5% to approximately HK$16.0 million for the Year as compared with last year. At the same time, the Group's general and administrative expenses for the Year slightly increased by 4.4% to approximately HK$61.9 million as compared with last year.

Other Operating Expenses

Other operating expenses increased to approximately HK$12.3 million for the Year (2010: approximately HK$2.5 million). The main reason was that the Group recorded net realised and unrealised losses on certain financial assets to approximately HK$9.6 million for the Year (2010: net unrealised losses on certain financial assets approximately HK$0.7 million).

Finance Costs

Finance costs of the Group increased to approximately HK$4.4 million for the Year (2010: approximately HK$2.4 million). Such increase in finance costs was due to an increase in short-term borrowings from banks for expansion and development the business of the Group during the year under review.

Profit for the Year

Due to the significant increase in the turnover of the Group, and the dividend income of approximately HK$33.8 million from the Group's indirect investment in 51 million Ping An Shares for the Year (2010: approximately HK$26.3 million), the Group recorded a profit attributable to owners of the parent of approximately HK$34.0 million for the Year (2010: approximately HK$14.8 million).

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Liquidity, Charge on Group Assets and Financial Resources

As at 31st December 2011, the Group had net current assets of approximately HK$160.0 million. The Group had cash and bank balances and pledged bank deposits of approximately HK$70.5 million and HK$13.6 million respectively. The Group's financial resources were funded mainly by short-term bank loans and mortgage loans totaling approximately HK$106.0 million and its shareholders' funds. As at 31st December 2011, the Group's current ratio, as calculated by dividing current assets by current liabilities, was 1.5 times and the gearing ratio, as measured by total liabilities divided by total equity, was 13.9%. Hence, as at 31st December 2011, the overall financial and liquidity positions of the Group remained at a stable and healthy level.

Capital Structure

The shares of the Company were listed on GEM on 31st January 2000. The changes in the capital structure of the Company are set out in note 26 to the financial statements.

Significant Investments/Material Acquisitions and Disposals

The Group had no significant investment and no material acquisition or disposal during the year.

Segment Information

The Group's star business segment is the IHA. The total turnover of the IHA segment for the Year increased significantly by 83.8% to approximately HK$609.3 million as compared with last year. During the year under review, the Group had continued to expand its market share by launching its various types of STB into different provinces and municipals through the largest telecom equipment and system provider in the PRC. Consequently, a new sales record of the IHA segment in the PRC reached approximately HK$393.0 million for the Year, representing a surge of 99.7% as compared with last year. In addition, the Group has been actively strengthening its connections with leading telecom operators in many parts of the world by getting involved in various tests and evaluations organised by them and establishing partnerships with them. As a result, overall turnover of the IHA segment in overseas markets for the Year amounted to HK$153.3 million, representing a significant increase of 90.0% as compared with last year. Especially, sales in Russia for the Year increased significantly by 275.5% to approximately HK$97.8 million as compared with last year. Meanwhile, with the improvement in marketing and selling activities of a Hong Kong customer, the turnover of the IHA segment in the Hong Kong market also increased by 17.1% from last year to approximately HK$63.0 million for the Year. At the same time, the gross profit of the IHA segment for the Year also increased by 59.9% to approximately HK$86.7 million as compared with the year 2010. Consequently, the Group recorded a profit of approximately HK$23.0 million in the IHA segment for the Year (2010: approximately HK$5.8 million).

The Group's investing segment is principally engaged in investing in available-for-sale financial assets and trading of securities. The results of this segment decreased by 7.0% to approximately HK$24.5 million for the Year as compared with last year (2010: approximately HK$26.4 million). The main reason for this decrease was that the Group recorded net realised and unrealised losses on certain financial assets totaling approximately HK$9.6 million for the Year (2010: net unrealised losses on certain financial assets approximately HK$0.7 million), which was partly offset by the increase in dividend income from its indirect investment in 51 million Ping An Shares by approximately HK$7.5 million.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Segment Information *(Continued)*

In respect of the Group's trading segment, because of the lack of new breakthrough in recent years, the Group recorded a loss of approximately HK$0.3 million for the Year (2010: approximately HK$1.7 million). As to the other operations segment of the Group, due to the increase in the rental income from leasing out properties of the Group, the result of this segment increased by 46.4% to approximately HK$2.9 million for the Year as compared with last year.

Geographical markets of the Group were mainly located in the PRC during the year under review. The turnover for the Year generated from the PRC market increased remarkably by 96.3% to approximately HK$393.9 million as compared with last year. This increase was mainly attributable to the expansion of the Group's IHA business into more provinces and cities in the PRC during the year under review. At the same time, the turnover generated from Hong Kong market also increased by 17.1% to approximately HK$63.0 million for the Year as compared with last year, while sales in Russia market for the Year of approximately HK$97.8 million was recorded, representing a surge of 275.5% as compared with last year.

Exposure to Fluctuations in Exchange Rates

Most of the trading transactions of the Group were denominated in United States dollars and in Renminbi. The assets of the Group were mainly denominated in Renminbi and the remaining portions were denominated in Hong Kong dollars. The official exchange rates for United States dollars, Hong Kong dollars and Renminbi have been relatively stable for the Year and no hedging or other alternative measure has been implemented by the Group. As at 31st December 2011, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

Human Resources

As at 31st December 2011, the Group had over 830 (2010: over 560) full time employees, of which 12 (2010: 12) were based in Hong Kong and the rest were in the PRC. Staff costs of the Group amounted to approximately HK$61.5 million for the Year (2010: approximately HK$44.6 million). Increase in staff costs was mainly due to the increase in number of employees and the increase in salary of employees during the year under review. All employees of the Company's subsidiaries are selected and promoted based on their suitability for the position offered. The salary and benefit levels of the Group's employees are in line with the market. Employees are rewarded on a performance-related basis within the general framework of the Group's remuneration system which is reviewed annually. In addition to the basic salaries, staff benefits also include medical scheme, various insurance schemes and share option schemes.

Contingent Liabilities

In December 2008, Guangdong Jianlibao Group Company Limited ("JLB Group") initiated proceedings against (1) Mr. Zhang Hai, former chairman and chief executive officer of JLB Group, an independent third party of the Group, and the controlling shareholders, actual controller, directors, supervisors, senior management of Foshan Zhixing Technology Company Limited ("Foshan Zhixing") for infringing the interest of JLB Group; (2) Mr. Zhang Hai and the controlling shareholders, actual controller, directors, supervisors, senior management of Sheng Bang Qiang Dian Electronics (Shenzhen) Company Limited ("Shenzhen Sheng Bang") for infringing the interest of JLB Group; and (3) Mr. Zhang Hai and the controlling shareholders, actual controller, directors, supervisors, senior management of Golden Yuxing for infringing the interest of JLB Group (collectively the "Actions"). Foshan Zhixing, Shenzhen Sheng Bang and Golden Yuxing are wholly-owned subsidiaries of the Group.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Contingent Liabilities *(Continued)*

The People's Court of Sanshui District, Foshan City, Guangdong Province (the "Court of Sanshui") issued judgments ((2009) San Fa Min Er Chu Zi No. 38-1), ((2009) San Fa Min Er Chu Zi No. 39-1) and ((2009) San Fa Min Er Chu Zi No. 40-1) and summons dated 9th December 2008, which stated that, on application by JLB Group, the Court of Sanshui made orders of (1) freezing the bank deposits of Mr. Zhang Hai and Foshan Zhixing totaling RMB10,100,000 or sealing up and distraining its assets of such equivalent amount; (2) freezing the bank deposits of Mr. Zhang Hai and Shenzhen Sheng Bang totaling RMB40,620,000 or sealing up and distraining its assets of such equivalent amount; and (3) freezing the bank deposits of Mr. Zhang Hai and Golden Yuxing totaling RMB46,000,000 or sealing up and distraining its assets of an equivalent amount, together with a standby moratorium dated 13th January 2009 referring to Golden Yuxing's 36.66% equity interest in Gongbujiangda Jiangnan Industrial Development Company Limited (formerly known as Shenzhen Jiangnan Industrial Development Company Limited) ("JI") from the Court of Sanshui. The Group was notified in August of 2009 that the Actions have been transferred from the Court of Sanshui to the Intermediate People's Court of Foshan, Guangdong Province (the "Intermediate Court of Foshan").

On 20th October 2009, the Group was notified by JI that the Intermediate Court of Foshan has issued a notice of enforcement to JI on 4th September 2009, ordering JI to assist in freezing Golden Yuxing's 36.66% equity interest in JI and suspending the payment of dividends attributable to Golden Yuxing in respect of its equity interest in JI for a period from 7th September 2009 to 6th September 2011. In October 2011, the Group was further notified by JI that the freezing period would be extended to September 2012 (see note 20 to the financial statements). According to the legal opinion dated 12th March 2012 from the Group's PRC lawyers, Golden Yuxing is entitled to receive the dividend from JI but the suspension of the dividend payment is still in force. As the above freezing order will expire in September 2012, the dividend receivable from JI amounting to approximately HK$72.3 million was classified as current asset as at 31st December 2011 (2010: approximately HK$36.0 million).

On 11th January 2011, the Group received five civil judgments all dated 30th December 2010 from the Intermediate Court of Foshan which ruled that JLB Group was awarded damages of total amount of approximately RMB96.2 million together with interests and costs to be borne by defendants including Mr. Zhang Hai, Beijing Yuxing Software Company Limited ("Yuxing Software"), Golden Yuxing, Foshan Zhixing and Shenzhen Sheng Bang. The Company filed an appeal to the Higher People's Court of the Guangdong Province in the PRC (the "Guangdong Higher Court") against the said judgements in January 2011, and now such judgements have no legal effect and will be superseded by the final judgement from the appeal. On 28th July 2011, the Company received summons dated 21st July 2011 from the Guangdong Higher Court, requiring Golden Yuxing, Yuxing Software, Foshan Zhixing and Shenzhen Sheng Bang, all being wholly-owned subsidiaries of the Company, to attend the court hearing of the appeals. The PRC lawyers of the Company attended the court hearing on 2nd August 2011. As at the date of this report, no judgement for the appeal has been received from the Guangdong Higher Court. In the circumstance, none of the wholly-owned subsidiaries of the Group which are named as defendants in the judgements stated above will be required to satisfy the judgements and pay the damages together with interests and costs awarded by the Intermediate Court of Foshan.

As at 31st December 2011, certain cash and bank balances of the Group with carrying value of approximately HK$1.1 million (2010: approximately HK$1.1 million) were frozen by the Intermediate Court of Foshan.

The Board has sought legal advice from its PRC lawyers and is of the view that the Actions are based on unsubstantiated and invalid grounds. Therefore, no provision for damages and the related interests and costs is considered necessary.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Pending Litigation

In 2007, the JLB Group lodged a petition with the Guangdong Higher Court to institute a civil action against Golden Yuxing as purchaser and Sanshui Jianlibao Health Industry Investment Company Limited ("SJHII") as vendor, claiming, among other matters, that the sale by SJHII to Golden Yuxing in August 2004 of 10.435% (which was subsequently increased to 36.66% pursuant to adjustments of shareholders' equity interest in 2006) equity interest in JI (the "Acquisition"), a company whose principal assets were 479,117,788 Ping An Shares (subsequently reduced to 139,112,886 Ping An Shares as at 31st December 2007), was invalid.

On 18th February 2008, Golden Yuxing received a notification from Guangdong Higher Court, which said that JLB Group claimed that SJHII was actually a trustee holding the shares of JI on their behalf and had entered into the share sale agreement with Golden Yuxing without JLB Group's approval or authorisation. In addition, the fact that the aggregate investment cost exceeded 50% of Golden Yuxing's net assets also violated Rule 12 of the Company Law then in force in the PRC. The share sale transaction was therefore invalid and SJHII did not have the right to transfer the legal title of the JI's shares to Golden Yuxing. JLB Group thereby demanded the reversion and return of the JI's shares from Golden Yuxing to SJHII.

On 7th January 2009, the Group was awarded a judgment dated 23rd December 2008 from the Guangdong Higher Court which ruled that (1) the Acquisition and the registration of the transfer of the related equity interest in JI were legally valid; (2) the claim submitted by the JLB Group to invalidate the Acquisition was rejected; and (3) the counter-claim filed by Golden Yuxing with the Guangdong Higher Court in May 2008 as a result of JLB Group's claim was also rejected.

On 25th June 2009, Golden Yuxing was notified by the Supreme Court of the PRC (the "Supreme Court") that an appeal has been lodged by the JLB Group, and which was accepted by the Supreme Court.

In December 2009, the Group received the (2009) Min Er Zhong Zi No. 53 civil ruling made on 20th November 2009 from the Supreme Court which ruled that upon the hearing, with regard to the litigation, the Supreme Court was of the view that the trial judgement of the Guangdong Higher Court misapprehended the facts and therefore ruled (1) to revoke the civil ruling issued by the Guangdong Higher Court on 23rd December 2008; and (2) to return the case to the Guangdong Higher Court for rehearing.

On 22nd June 2010, the Group received summons dated 10th June 2010 from the Guangdong Higher Court which summoned Golden Yuxing to the court to respond to hearings scheduled on 25th June 2010. The Company has instructed its PRC lawyers to respond to the hearings. As at the date of this report, no judgement for the rehearing has been received from the Guangdong Higher Court. The Board has sought legal advice from its PRC lawyers and is still of the view that the claim submitted by JLB Group is based on invalid grounds. The Group has valid evidence which sufficiently ascertain their 36.66% ownership on the equity interest in JI and therefore no provision is considered necessary.

Management Discussion and Analysis

BUSINESS REVIEW

After a decade's development, the Group's core business, the IPTV STB of the IHA segment, still flourished and took an advantage in the market. Especially in Asia-Pacific region, where the Group held a leading position and achieved good development in the market. During the year under review, the Group's IPTV business enjoyed a rapid growth, with total turnover substantially increased by 82.1% to approximately HK$610.1 million for the Year as compared with last year.

Being one of the pioneers engaging in the R&D of broadband STB, the Group had a strong software and hardware R&D team of IPTV STB. In the field of hardware design, the Group had accumulated abundant experience, and the products covered a series of STB products including single-mode IPTV STB, dual mode IP+DVB-C/S/S2/T/T2, etc. The Group had flexibly customised a series of high-end and multi-function STB with DVR/media players according to customers' needs. Over the years, the Group had attached great importance to the R&D of the software and possessed the leading IPTV video, data and network application technology. In addition, the Group had completed the compatibility of technologies with advanced intermediary software manufacturers (including Huawei Technologies Company Limited, Orca Interactive Limited, Ericsson (China) Communications Company Limited and Cascade Limited, etc.) at domestic and abroad. The Group also has a large number of cross-platform codes with independent intellectual property rights and can quickly build products on the brand-new platform. Currently, the Group has more than 50 customised versions of STB, with a variety of customised software products serving more than 20 telecom operators across Asia, Europe, Australia and North America.

Helped by accurate market position and advanced technology, the Group's products precisely meet users' needs. Benefited from the rapidly growing domestic market, the Group successfully launched, through cooperation with major PRC telecom equipment and system providers, various types of STB into areas including Guangdong Province, Hubei Province, Sichuan Province, Shaanxi Province, Liaoning Province, Shanghai and Chongqing Municipalities, etc. As a result, the Group expanded its PRC market share and achieved a new sales record of approximately HK$393.0 million for the Year, up by 99.7% as compared with last year.

During the year under review, the global IPTV market improved constantly and the Group's products attained robust sales in overseas markets, with sales revenue amounting to approximately HK$153.3 million for the Year, up by 90.0% as compared with last year. The Group smoothly proceeded with its overseas market expansion to Russia, Australia and Spain, etc. and achieved good sales results due to secured product supply. The Group maintained satisfactory partnership and technical cooperation with global leading intermediary software and application providers, which laid a solid foundation for quickly adapting to more customers in different regions and accommodating the diverse needs of telecom operators and system integration suppliers.

The Hong Kong market also achieved satisfactory growth with turnover derived from Hong Kong increasing by 17.1% to approximately HK$63.0 million for the Year as compared with last year. The Group implemented marketing strategy with a Hong Kong customer to continuously launch high digital STB products to the market so as to provide users with high-quality entertainment experience and online services.

In relation to the claim submitted by JLB Group regarding the Acquisition, the Group has received summons dated 10th June 2010 from the Guangdong Higher Court on 22nd June 2010, which summoned Golden Yuxing to the court to respond to hearings scheduled on 25th June 2010. The Company has instructed its PRC lawyers to respond to the hearings, and there is no further judgement from Guangdong Higher Court as at the date of this report.

Besides, according to the Company's announcement dated 22nd October 2009, Intermediate Court of Foshan had issued a notice of enforcement to JI on 4th September 2009, ordering JI to assist in freezing Golden Yuxing's 36.66% equity interest in JI and its dividend entitlements held by Golden Yuxing and suspending the payment of dividends attributable to Golden Yuxing in respect of its equity interest in JI, for a period from 7th September 2009 to 6th September 2011. Subsequently, on 27th October 2011, the Company was informed that the freezing period had been extended from September 2011 to September 2012. According to the legal opinion dated 12th March 2012 from the Group's PRC lawyers, Golden Yuxing is entitled to receive the dividend from JI but the suspension of the dividend payment is still in force.

Management Discussion and Analysis

BUSINESS PROSPECT

Being one of the world's leading IPTV terminal suppliers, the Group has a strong software and hardware R&D team of IPTV STB, which has been focusing on the IPTV and home broadband entertainment markets for ten years. Today, the global IPTV market has entered a steady growth stage, in particular the huge PRC and overseas markets are set to bring promising returns to the Group.

In response to the rapidly growing business needs, the Group has established a number of domestic and overseas sales and support service centres, thereby improving the timeliness and satisfaction in customer service continuously. Meanwhile, in order to vigorously develop the IPTV STB business, the Group has made a series of adjustments since 2010 with its focus on improving production and supplier management, and comprehensively introduced the Enterprise Resources Planning Management System as well as strengthened assessment. Currently, the benefits of these management improvement measures accrue gradually, having significant effects on lowering costs and enhancing products competitiveness, thereby laying a solid foundation for the Company's stable growth.

In the future, the Group will adhere to the existing principles and aggressively explore opportunities for cooperation with small and medium size telecom operators while maintaining close partnership with global telecom operators, aiming at penetrating even more regional markets internationally and domestically. The Group will also continue to enhance its core technology R&D and customer service to continually provide better products to its customers and partners, thereby making the products the favorite choice of more users.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhu Wei Sha, aged 56, is a co-founder of the Group. He has been the chairman of the Board and the president of the Group since 1996. He graduated from the Department of Automatic Control of the Beijing University of Technology with a bachelor degree in engineering. He had worked at the Beijing Machinery Electronic Research Institute and the Industrial Economic Research Department of the China Social Science Institute and as the legal representative and general manager of the Beijing Shanchuan Jinji Technology Company. Mr. Zhu has extensive experience and insights in corporate management and operation as well as solid technical background. He also has an in-depth understanding of the growth of a corporation by combining the concepts of capital investment and business operation. He has accumulated years of successful experience in this regard. Mr. Zhu is currently a director and a shareholder of Super Dragon Company Limited ("Super Dragon") which has a 38.04% interest in the share capital of the Company.

Mr. Chen Fu Rong, aged 51, is a co-founder of the Group. He has been the deputy chairman of the Group since 2004 and a vice president of the Group since 1996. He graduated from the Department of Automatic Control of Beijing University of Technology with a bachelor degree in engineering. He had worked at the Industrial Economic Research Department of the China Social Science Institute and Beijing Machinery Electronics Company and has extensive experience in computer hardware design and management of R&D activities. Mr. Chen possesses 19 years' experience in R&D and engineering management. Mr. Chen is currently the executive president of Shenzhen Sheng Bang and is deputy chairman of the Board. Mr. Chen is also a director and a shareholder of Super Dragon.

Mr. Wang An Zhong, aged 55, is a vice president of the Group. He graduated with a master degree in engineering from the Department of Computer Science of the Beijing University of Technology. He was an associate professor and has extensive experience in lecturing and scientific research. He managed and was involved in a number of the State's research projects and won several awards. Mr. Wang joined the Group in 1997 as the general manager of R&D department. He is currently the vice president in operations of Golden Yuxing.

Mr. Shi Guang Rong, aged 51, has been a vice president of the Group since 1996. He graduated with a bachelor degree in engineering from the Department of Automatic Control of the Beijing University of Technology. He had worked at various enterprises in the PRC. He is responsible for the marketing and public relation matters of the Group and possesses 21 years' experience in product marketing and promotion. Mr. Shi is currently the chief executive officer of Yuxing Technology Company Limited, a wholly-owned subsidiary of the Group in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Jia Jun, aged 80, is currently an Honorary Academy Member and researcher of China Social Science Academy as well as a tutor of doctoral students. He is also honour president of the China Industrial Economic Association. He served as the vice general manager of the Chinese Industrial and Economic Research Institute from 1980 to 1993, and the vice president of the Young Entrepreneurs Association of China. Mr. Wu has extensive experience in conducting research in the economy and industries of the PRC and also in corporate management. He is a renowned scholar in Japanese corporate and industrial management of which he has an in-depth knowledge. He has published several books and articles on corporate management and economic reform. Mr. Wu was appointed as Independent Non-executive Director in October 1999.

Biographical Details of Directors and Senior Management

Mr. Zhong Peng Rong, aged 59, is a renowned Chinese economist. He worked with the central government of the PRC for many years as a chief researcher. He now serves as a professor of several famous universities and as an adviser to over 21 enterprises and local governments of the PRC. As the chairman and research fellow of the Beijing Shiye Consultancy Centre, he has formulated development strategies for enterprises in different industries and for local governments. He has an in-depth understanding of the macroeconomic environment and government administration in the PRC. Mr. Zhong was appointed as Independent Non-executive Director in October 1999.

Ms. Shen Yan, aged 48, holds a bachelor degree in Accounting and has over 17 years of experience in accounting and 13 years of experience in auditing. She is currently a tutor of Beijing University of Technology. Ms. Shen successively held important posts in a number of enterprises in the PRC and is well experienced in financial accounting, budget control and financial management. During that period, she took part in the research on the relevant financial management projects and has compiled and published a number of books on professional management. Before then, she worked in Beijing Zhong Gong Xin Certified Public Accountants (北京中公信會計師事務所), where she presided over audit works for China and international renowned enterprises operating in various fields such as manufacturing, professional affairs and services, and has accumulated invaluable experiences in relation to corporate finance management and audit works. In April 2008, Ms. Shen was appointed as the chief accountant of the Beijing University of Technology Investment Company (北京工業大學投資公司). Ms. Shen was appointed as Independent Non-executive Director in January 2005.

COMPANY SECRETARY

Mr. Liu Wei, aged 54, is qualified as a solicitor in the PRC, Hong Kong and England. He has extensive exposure in corporate finance and is a partner of DLA Piper Hong Kong. Mr. Liu graduated from the Northwest University of China, the Chinese University of Political Science and Law, the University of Cambridge and the University of Hong Kong, with a bachelor in Chinese literature, a master degree in law, a PhD in Law respectively. He also completed his Common Professional Examination (CPE) with the Manchester University in England, as well as a Postgraduate Certificate in Laws (PCLL) with the University of Hong Kong. Mr. Liu was appointed as the Company Secretary in July 2007.

SENIOR MANAGEMENT

Miss Wu Wai Ting, Wendy, aged 39, is the financial controller of the Group. She is a graduate of the Monash University in Australia with a master degree in Practising Accounting and holds a bachelor degree in Business (International Trade). Miss Wu is a Certified Practising Accountant of CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. She has 14 years' experience in accounting and finance. Miss Wu joined the Group in March 2000.

Directors' Report

The Directors have pleasure in submitting to all shareholders their report together with the audited consolidated financial statements of the Group for the year ended 31st December 2011.

CHANGE OF NAME

By an extraordinary general meeting passed on 25th May 2011, the name of the Company was changed from Yuxing InfoTech Holdings Limited to Yuxing InfoTech Investment Holdings Limited with effect from 26th May 2011, being the date of the certificate of incorporation on change of name issued by the Registrar of Companies of Bermuda.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 35 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 7 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 26 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December 2011 are set out in the consolidated income statement on page 31.

The Board does not recommend the payment of a dividend for the year ended 31st December 2011.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 35 and note 27 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under the laws of Bermuda.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 7.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year under review.

Directors' Report

SHARE OPTIONS

Details of the Company's share option scheme is set out in note 32 to the financial statements.

The following table discloses movement in the Company's share options held by the Directors during the year:

Name of director	Exercise price per share HK$	Exercisable period	Number of share options: At 1st January 2011	Exercised during the year	Granted during the year	Forfeited during the year	At 31st December 2011
Mr. Wang An Zhong	0.2975	26th December 2006 – 17th May 2013	1,600,000	–	–	–	**1,600,000**
Mr. Wu Jia Jun	0.2975	26th December 2006 – 17th May 2013	960,000	–	–	–	**960,000**
Mr. Zhong Peng Rong	0.2975	26th December 2006 – 17th May 2013	1,600,000	–	–	–	**1,600,000**
Ms. Shen Yan	0.2975	26th December 2006 – 17th May 2013	960,000	–	–	–	**960,000**
			5,120,000	–	–	–	**5,120,000**

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Details of the movement in the Company's share options held by continuous contract employees (other than the Directors) during the year are set out in note 32 to the financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

A brief biographical details of Directors and senior management are set out on pages 15 and 16.

Directors' Report

DIRECTORS

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

Executive Directors:

Mr. Zhu Wei Sha *(Chairman)*
Mr. Chen Fu Rong *(Deputy Chairman)*
Mr. Shi Guang Rong
Mr. Wang An Zhong

Independent Non-executive Directors:

Mr. Wu Jia Jun
Mr. Zhong Peng Rong
Ms. Shen Yan

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Zhong Peng Rong and Ms. Shen Yan will be subject to retirement by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM").

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years from 7th October 1999 and has automatically renewed the service contract upon the expiry of the initial term of three years on 7th October 2002 and subsequent terms of three years on 7th October 2005. Their respective service contracts (which are automatically renewed upon expiry for successive terms of one year after 7th October 2005) are subject to termination by either party giving not less than 6 months' notice in writing.

The Independent Non-executive Directors, Messrs. Wu Jia Jun and Zhong Peng Rong, were appointed for a two-year term expiring on 24th October 2011 and have agreed to continue their appointment for another two-year term expiring on 24th October 2013. Ms. Shen Yan was appointed as Independent Non-executive Director for a term of two years expiring on 11th January 2012 and has agreed to continue her appointment for another two-year term expiring on 11th January 2014.

Save as disclosed above, no Directors proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

CONTRACTS OF SIGNIFICANCE

Save for the Directors' service contracts as disclosed in this report, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contracts of significance (including those in relation to provision of services) between members of the Group and the controlling shareholder or any of its subsidiaries subsisted at the end of the year or at any time during the year.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and the five highest paid individuals in the Group are set out in notes 10 and 11 to the financial statements respectively.

Directors' Report

EMOLUMENT POLICY

The Directors are paid fees in line with market practice. The Group adopted the following main principles in determining the remuneration of the Directors and other employees:

- No individual should determine his or her own remuneration;
- Remuneration should be broadly aligned with companies with whom the Group competes for human resources; and
- Remuneration should reflect performance and responsibility with a view to motivating and retaining high performing individuals and enhancing the value of the Company to its shareholders.

In addition to the basic salaries, a share option scheme is adopted for rewarding good performers as well as retaining talented staff for the continual operation and development of the Group.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2011, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as required pursuant to the minimum standards of dealing by the Directors as referred to in rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Exchange were as follows:

(1) Long positions in the shares of the Company

Name of Director	Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Mr. Zhu Wei Sha	Corporate *(Note 1)*	660,000,000	Interest of a controlled corporation	38.04%
	Personal *(Note 2)*	300,000	Beneficial owner	0.02%
Mr. Chen Fu Rong	Corporate *(Note 1)*	660,000,000	Interest of a controlled corporation	38.04%
Mr. Shi Guang Rong	Personal	26,000,000	Beneficial owner	1.50%
Mr. Wang An Zhong	Personal	5,136,756	Beneficial owner	0.30%

Notes:

1. Messrs. Zhu Wei Sha and Chen Fu Rong held these shares through Super Dragon, a company in which Messrs. Zhu Wei Sha and Chen Fu Rong held 63.6% and 36.4% of the entire issued share capital respectively. Both Mr. Zhu Wei Sha and Mr. Chen Fu Rong are directors of Super Dragon.

2. Dragon Treasure Limited ("Dragon Treasure") is a nominee company and acts as the trustee for holding these shares in the Company on behalf of the past and present employees of the Group, including Mr. Zhu Wei Sha.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

(2) Long positions in the underlying shares of the Company

Pursuant to the existing share option scheme approved by the shareholders of the Company on 18th May 2003, Directors in the capacity as beneficial owners were granted unlisted and physically settled share options to subscribe for shares of the Company, details of which as at 31st December 2011 were as follows:

				Number of share options				
Name of Director	Date of grant	Exercise price per share HK$	Exercisable period	At 1st January 2011	Exercised during the year	Granted during the year	Forfeited during the year	At 31st December 2011
Mr. Wang An Zhong	26th December 2006	0.2975	26th December 2006 – 17th May 2013	1,600,000	–	–	–	**1,600,000**
Mr. Wu Jia Jun	26th December 2006	0.2975	26th December 2006 – 17th May 2013	960,000	–	–	–	**960,000**
Mr. Zhong Peng Rong	26th December 2006	0.2975	26th December 2006 – 17th May 2013	1,600,000	–	–	–	**1,600,000**
Ms. Shen Yan	26th December 2006	0.2975	26th December 2006 – 17th May 2013	960,000	–	–	–	**960,000**
				5,120,000	–	–	–	**5,120,000**

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 31st December 2011, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as required to be notified to the Company and the Exchange pursuant to the minimum standards of dealing by Directors as referred to in rule 5.46 of the GEM Listing Rules.

Directors' Report

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Director or chief executive of the Company, as at 31st December 2011, the following is a list of the substantial shareholders (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholders	Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Super Dragon *(Note 1)*	Corporate	660,000,000	Beneficial owner	38.04%
Dragon Treasure *(Note 2)*	Corporate	78,528,584	Trustee	4.53%

Notes:

1. Super Dragon is beneficially owned by Mr. Zhu Wei Sha, as to 63.6%, and Mr. Chen Fu Rong, as to 36.4% respectively. Both Mr. Zhu Wei Sha and Mr. Chen Fu Rong are directors of Super Dragon.

2. Dragon Treasure is a nominee company and acts as the trustee for holding these shares in the Company on behalf of the past and present employees of the Group, including Mr. Zhu Wei Sha, whose interests in the shares and underlying shares of the Company are disclosed in the section "Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures" above.

Save as disclosed above, as at 31st December 2011, the Company had not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

–	the largest supplier	14.6%
–	five largest suppliers combined	37.6%

Sales

–	the largest customer	64.4%
–	five largest customers combined	98.0%

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

COMPETING INTERESTS

None of the Directors or management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group during the year.

PUBLIC FLOAT

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

AUDITOR

The consolidated financial statements of the Company for the year ended 31st December 2011 were audited by Mazars CPA Limited, who has been the auditor of the Company since the year 2008.

A resolution for the re-appointment of Mazars CPA Limited as the auditor of the Company will be proposed at the forthcoming AGM of the Company.

On behalf of the Board
Yuxing InfoTech Investment Holdings Limited
Zhu Wei Sha
Chairman

Hong Kong, 20th March 2012

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the continued growth of the Group and for safeguarding and maximizing shareholders' interests.

The Group has adopted a set of Code on Corporate Governance ("Company Code") which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It is prepared by referencing to the principles, code provisions and recommended best practices set out in the Code on Corporate Governance Practices ("GEM Code") contained in Appendix 15 of the GEM Listing Rules. The Board will continue to monitor and revise the Company Code and assess the effectiveness of corporate governance practices in tandem with changes in the environment and requirements under the GEM Code, to ensure the Company Code is in line with the expectations and interests of shareholders and comply with the GEM Code and the GEM Listing Rules.

Subject to the deviations as disclosed hereof, the Company has complied with all the provisions of the GEM Code during the year under review.

(a) Under provision A.2.1 of the GEM Code, the role of chairman and chief executive officer should be separated and should not be performed by the same individual. The responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. Mr. Zhu Wei Sha is the chairman of the Board and the chief executive officer of the Group. As such, such dual role constitutes a deviation from Code Provisions A.2.1. However, the Board is of the view that: (i) the Company has sufficient internal controls to provide checks and balances on the functions of the chairman and chief executive officer; (ii) Mr. Zhu Wei Sha as the chairman of the Board and the chief executive officer of the Group is responsible for ensuring that all Directors act in the best interests of the shareholders. He is fully accountable to the shareholders and contributes to the Board and the Group on all top-level and strategic decisions; and (iii) this structure will not impair the balance of power and authority between the Board and the management of the Company.

(b) Under provision E.1.2 of the GEM Code, the chairman of the Board should attend the AGM and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) to be available to answer questions at the AGM. Mr. Chen Fu Rong, the deputy chairman of the Company has been performing the above duties in lieu of Mr. Zhu Wei Sha, the chairman of the Board, who was on an overseas business trip on the day of the AGM.

SECURITIES TRANSACTIONS BY DIRECTORS

Although the Company has not adopted any code of conduct regarding the Directors' securities transactions, it has made specific enquiry with all Directors and all Directors have confirmed that they have complied with all the required standards of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules during the year under review.

Corporate Governance Report

BOARD COMPOSITION

The Board is responsible for managing the Company on behalf of shareholders. The Board is of the view that it is the Directors' responsibility to create value for shareholders as a whole and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith.

The Board comprises a total of seven Directors, with four Executive Directors, namely, Mr. Zhu Wei Sha (Chairman), Mr. Chen Fu Rong (Deputy Chairman), Mr. Shi Guang Rong and Mr. Wang An Zhong; and three Independent Non-executive Directors, namely, Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

The primary functions of the Board include:

- Deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realizing the strategies and goals of the Group;
- being held accountable for the internal control system of the Group and responsible for reviewing its effectiveness;
- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Group in a balanced, clear and comprehensible manner. These responsibilities are applicable to quarterly, interim and annual reports of the Company, other price sensitive announcements published according to the GEM Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information discloseable under statutory requirements;
- whilst Executive Directors, who oversee the overall business of the Group, are responsible for the daily operations of the Group, the Board is responsible for affairs involving the overall policies, finance and shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy. Implementation and execution of such decisions is delegated to the management; and
- regularly reviewing its own functions and the powers conferred upon Executive Directors to ensure appropriate arrangements are in place.

The management is well informed of its powers and duties with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company.

Corporate Governance Report

BOARD COMPOSITION *(Continued)*

The full Board meets at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person.

In 2011, the Board held eight full Board meetings. The attendance record of each member of the Board is set out below:

Executive Directors	**Attendance**
Mr. Zhu Wei Sha *(Chairman)*	7/8
Mr. Chen Fu Rong *(Deputy Chairman)*	7/8
Mr. Wang An Zhong	8/8
Mr. Shi Guang Rong	8/8
Independent Non-executive Directors	
Mr. Wu Jia Jun	5/8
Mr. Zhong Peng Rong	4/8
Ms. Shen Yan	5/8

All the Independent Non-executive Directors are appointed for two-year term, and subject to rotation and re-election pursuant to the Company's Bye-laws. Details of their appointment are referred to the section "Directors' Service Contracts" on page 19.

To the knowledge of the Directors, the Board members have no financial, business, families or other material relationships with each other.

Corporate Governance Report

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. The chairman of the Board is mainly responsible for identifying suitable candidates for the Board when there is a vacancy or an additional director is considered necessary. The chairman of the Board will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications of the relevant candidates to determine the suitability to the Group on the basis of their qualifications, experience and background. The decision of appointing directors must be approved by the Board. Any newly appointed director shall hold office only up to the next following AGM of the Company and shall then be eligible for re-election at that meeting.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established in October 2005. It comprises Mr. Sun Li Jun (Chairman), Mr. Wang An Zhong and all Independent Non-executive Directors, Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan. The remuneration committee performs its functions, which primarily include assisting the Board in the overall management of the remuneration practices of the Group to ensure that effective policies, processes and practices are implemented in respect of the incentives for the Executive Directors and senior management, in accordance with provision B.1.3 of the GEM Code.

During the year 2011, the remuneration committee of the Company convened one meeting, in which the remuneration committee reviewed and approved the remuneration packages of the Executive Directors and senior management.

Details of the attendance of the remuneration committee meetings are as follows:

Members	**Attendance**
Mr. Sun Li Jun *(Chairman)*	1/1
Mr. Wang An Zhong	1/1
Mr. Wu Jia Jun	1/1
Mr. Zhong Peng Rong	1/1
Ms. Shen Yan	1/1

AUDITOR'S REMUNERATION

The remuneration in respect of audit services provided by the auditor, Mazars CPA Limited, to the Group in the year 2011 amounted to HK$995,000. Non-audit services (including review of interim report and financial information) provided by Mazars CPA Limited to the Group in the year 2011 were amounting to HK$42,000.

Corporate Governance Report

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 20th November 1999 with written terms of reference in compliance with the GEM Listing Rules.

The Committee provides an important link between the Board and the Company's auditor in matters coming within the scope of the Group's audit. The primary duties of the Committee are to review and supervise the financial reporting process of the Group. It also reviews the effectiveness of both the external audit and of internal controls and risk evaluation. The Committee comprises three Independent Non-executive Directors of the Company, namely Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan. Ms. Shen was appointed as the chairman of the Committee and she has appropriate professional qualifications in accounting and auditing experience. The Committee held four meetings during the current financial year. The Group's audited annual results for the year ended 31st December 2011 have been reviewed by the Committee.

The attendance record of each member of the Committee is set out below:

Members	Attendance
Ms. Shen Yan *(Chairman)*	4/4
Mr. Zhong Peng Rong	3/4
Mr. Wu Jia Jun	4/4

The Committee has carefully reviewed the Company's quarterly, half-yearly and annual results and internal control system of the Group and has made suggestions to improve them. The Committee also carried out and discharged its duties set out in the GEM Code.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

Statements of Directors' responsibilities for preparing the financial statements and external auditor's reporting responsibilities are set out in the "Independent Auditor's Report".

INTERNAL CONTROL

The Directors have reviewed and are satisfied with the effectiveness of the Group's internal control system, including, in particular, financial, operational and compliance controls and risk management functions, to safeguard the Group's assets against unauthorised use or disposition, and to protect the interests of the shareholders of the Company.

Independent Auditor's Report

M MAZARS

MAZARS CPA LIMITED
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TO THE SHAREHOLDERS OF
YUXING INFOTECH INVESTMENT HOLDINGS LIMITED
(formerly known as Yuxing InfoTech Holdings Limited)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Yuxing InfoTech Investment Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 31 to 94, which comprise the consolidated and the Company's balance sheet as at 31st December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda (as amended), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report

MAZARS

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31st December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

We draw attention to note 29 to the financial statements concerning the uncertainty related to the possible outcome of an appeal made by the Group to the Higher People's Court of the Guangdong Province in the People's Republic of China against the decision of the Intermediate People's Court of Foshan, Guangdong Province for ordering the Group to pay damages in an aggregate amount of approximately RMB96,200,000 and related interests and costs for infringing the interest of a third party. Upon advice from the Group's lawyers in the People's Republic of China, the directors consider that the order has no legal effect following the appeal and the claim submitted by the plaintiff is based on unsubstantiated and invalid grounds. Accordingly, no provision for damages and the related interests and costs is necessary. Therefore, the consolidated financial statements of the Group do not include any adjustments that would result from the outcome of the lawsuit. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 20th March 2012

Eunice Y M Kwok
Practising Certificate number: P04604

Consolidated Income Statement

For the year ended 31st December 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	7	**610,144**	335,099
Cost of sales		**(523,306)**	(282,269)
Gross profit		**86,838**	52,830
Other revenue and net income	8	**39,951**	33,223
Distribution and selling expenses		**(15,996)**	(11,550)
General and administrative expenses		**(61,883)**	(59,263)
Other operating expenses		**(12,310)**	(2,538)
Fair value gains on investment properties	16	**3,180**	4,650
Profit from operations	9	**39,780**	17,352
Finance costs	12	**(4,428)**	(2,353)
Profit before taxation		**35,352**	14,999
Taxation	13	**(1,368)**	(190)
Profit attributable to owners of the parent	14	**33,984**	14,809
Earnings per share	15		
– Basic		**1.96 cents**	0.90 cent
– Diluted		**1.93 cents**	0.89 cent

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2011

	2011 HK$'000	2010 HK$'000
Profit attributable to owners of the parent	**33,984**	14,809
Other comprehensive (loss)/income:		
Change in fair value of available-for-sale financial assets	**(1,259,750)**	573,096
Exchange differences arising on translation of PRC subsidiaries	**161,663**	90,222
Other comprehensive (loss)/income for the year	**(1,098,087)**	663,318
Total comprehensive (loss)/income attributable to owners of the parent	**(1,064,103)**	678,127

Consolidated Balance Sheet

As at 31st December 2011

	Notes	As at 31st December 2011 HK$'000	As at 31st December 2010 HK$'000
NON-CURRENT ASSETS			
Investment properties	16	**36,300**	33,120
Property, plant and equipment	17	**97,762**	94,704
Prepaid lease payments	18	**13,515**	13,240
Available-for-sale financial assets	20	**1,954,113**	3,062,027
		2,101,690	3,203,091
CURRENT ASSETS			
Inventories	22	**95,753**	70,763
Trade and other receivables	23	**208,886**	112,496
Prepaid lease payments	18	**382**	364
Dividend receivable	29	**72,345**	35,962
Financial assets at fair value through profit or loss	21	**12,421**	15,038
Pledged bank deposits		**13,607**	8,680
Cash and bank balances		**70,490**	56,139
		473,884	299,442
CURRENT LIABILITIES			
Trade and other payables	24	**206,920**	115,650
Bank loans	25	**105,978**	61,185
Tax payable		**1,002**	194
		313,900	177,029
NET CURRENT ASSETS		**159,984**	122,413
NET ASSETS		**2,261,674**	3,325,504
CAPITAL AND RESERVES			
Share capital	26	**43,378**	43,355
Reserves	27	**2,218,296**	3,282,149
TOTAL EQUITY		**2,261,674**	3,325,504

Approved by the Board on 20th March 2012 and signed on behalf of the Board by:

Zhu Wei Sha
Chairman

Shi Guang Rong
Vice President

Balance Sheet

As at 31st December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	19	**641,112**	631,667
CURRENT ASSETS			
Trade and other receivables	23	**314**	312
Cash and bank balances		**3,738**	17,093
		4,052	17,405
CURRENT LIABILITIES			
Trade and other payables	24	**504**	1,308
Amounts due to subsidiaries	19	**4,872**	4,872
		5,376	6,180
NET CURRENT (LIABILITIES)/ASSETS		**(1,324)**	11,225
NET ASSETS		**639,788**	642,892
CAPITAL AND RESERVES			
Share capital	26	**43,378**	43,355
Reserves	27	**596,410**	599,537
TOTAL EQUITY		**639,788**	642,892

Approved by the Board on 20th March 2012 and signed on behalf of the Board by:

Zhu Wei Sha
Chairman

Shi Guang Rong
Vice President

Consolidated Statement of Changes in Equity

For the year ended 31st December 2011

	Attributable to owners of the parent								
	Share capital HK$'000	Share premium HK$'000	Statutory reserves HK$'000	Contributed surplus HK$'000	Share option reserves HK$'000	Investment revaluation reserves HK$'000	Translation reserves HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1st January 2010	40,757	7,767	20,190	234,621	30,751	1,790,142	434,402	57,578	2,616,208
Profit for the year	–	–	–	–	–	–	–	14,809	14,809
Other comprehensive income:									
Change in fair value of available-for-sale financial assets	–	–	–	–	–	573,096	–	–	573,096
Exchange differences arising on translation of PRC subsidiaries	–	–	–	–	–	–	90,222	–	90,222
Total other comprehensive income	–	–	–	–	–	573,096	90,222	–	663,318
Total comprehensive income for the year	–	–	–	–	–	573,096	90,222	14,809	678,127
Transactions with owners:									
Issue of shares under share option scheme	98	1,424	–	–	(353)	–	–	–	1,169
Issue of new shares upon a private placing	2,500	27,500	–	–	–	–	–	–	30,000
Total transactions with owners	2,598	28,924	–	–	(353)	–	–	–	31,169
At 31st December 2010 and at 1st January 2011	43,355	36,691	20,190	234,621	30,398	2,363,238	524,624	72,387	3,325,504
Profit for the year	–	–	–	–	–	–	–	33,984	33,984
Other comprehensive loss:									
Change in fair value of available-for-sale financial assets	–	–	–	–	–	(1,259,750)	–	–	(1,259,750)
Exchange differences arising on translation of PRC subsidiaries	–	–	–	–	–	–	161,663	–	161,663
Total other comprehensive loss	–	–	–	–	–	(1,259,750)	161,663	–	(1,098,087)
Total comprehensive loss for the year	–	–	–	–	–	(1,259,750)	161,663	33,984	(1,064,103)
Transactions with owners:									
Issue of shares under share option scheme	23	312	–	–	(62)	–	–	–	273
Total transactions with owners	23	312	–	–	(62)	–	–	–	273
At 31st December 2011	**43,378**	**37,003**	**20,190**	**234,621**	**30,336**	**1,103,488**	**686,287**	**106,371**	**2,261,674**

Consolidated Cash Flow Statement

For the year ended 31st December 2011

	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**35,352**	14,999
Adjustments for:		
Exchange difference	**(466)**	(116)
Impairment in respect of trade receivables	**56**	38
Impairment on other receivables	**3,857**	400
Reversal of write-down of inventories	**(380)**	(5,573)
Reversal of impairment on trade receivables	**(68)**	(70)
Interest income	**(547)**	(475)
Interest paid	**4,428**	2,353
Dividend income	**(34,170)**	(26,431)
Fair value gains on investment properties	**(3,180)**	(4,650)
Amortisation of prepaid lease payments	**372**	355
Depreciation of property, plant and equipment	**7,567**	7,178
Impairment on inventories	**357**	5,148
Loss on disposal of property, plant and equipment	**193**	29
Loss/(Gain) on disposal of financial assets at fair value through profit or loss	**4,014**	(605)
Net unrealised holding loss on financial assets at fair value through profit or loss	**5,612**	683
OPERATING PROFIT/(LOSS) BEFORE CHANGES IN WORKING CAPITAL	**22,997**	(6,737)
Increase in inventories	**(21,457)**	(34,166)
Increase in trade and other receivables	**(95,835)**	(40,445)
Increase in trade and other payables	**86,959**	47,158
CASH USED IN OPERATIONS	**(7,336)**	(34,190)
Income taxes paid	**(598)**	–
NET CASH USED IN OPERATING ACTIVITIES	**(7,934)**	(34,190)

Consolidated Cash Flow Statement

For the year ended 31st December 2011

	2011 **HK$'000**	2010 HK$'000
INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	**(51,711)**	(99,278)
Purchase of property, plant and equipment	**(6,521)**	(1,627)
Proceeds from disposal of financial assets at fair value through profit or loss	**44,771**	90,572
Interest received	**547**	475
Dividend received	**363**	91
Proceeds from disposal of property, plant and equipment	**67**	72
NET CASH USED IN INVESTING ACTIVITIES	**(12,484)**	(9,695)
FINANCING ACTIVITIES		
Proceeds from issue of new shares upon a private placing	**–**	30,000
Proceeds from issue of shares under share option scheme	**274**	1,169
New bank loans raised	**156,201**	501,277
Repayment of bank loans	**(113,735)**	(489,673)
Interest paid	**(4,428)**	(2,353)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**38,312**	40,420
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**17,894**	(3,465)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**64,819**	66,479
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,384**	1,805
CASH AND CASH EQUIVALENTS AT END OF YEAR	**84,097**	64,819
Analysis of the balances of cash and cash equivalents:		
Pledged bank deposits *(Note)*	**13,607**	8,680
Cash and bank balances	**70,490**	56,139
	84,097	64,819

Note: The pledged bank deposits are matured within three months from the commencement of deposit date.

Notes to the Financial Statements

1. CORPORATE INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM"). The name of the Company was changed from Yuxing InfoTech Holdings Limited to Yuxing InfoTech Investment Holdings Limited. The change of name was approved by shareholders at the extraordinary general meeting held on 25th May 2011 and during the year became effective on 26th May 2011, the date of the certificate of incorporation on change of name issued by the Registrar of Companies of Bermuda.

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are detailed in note 35 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also complied with the applicable disclosure provisions of the Rules Governing The Listing of Securities on the GEM.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2010 consolidated financial statements. The adoption of the following new/revised HKFRSs which are relevant to the Group and effective from the current year had no significant effects on the Group's results and financial position for the current and prior years. A summary of the principal accounting policies adopted by the Group is set out below.

Adoption of new/revised HKFRSs

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 was revised to include a new definition of related party and to provide a partial exemption from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

(a) a government that has control, joint control or significant influence over the reporting entity; and

(b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

The Group adopted the new definition in its accounting policies but such adoption does not have an effect on the disclosures made in the consolidated financial statements.

Improvements to HKFRSs 2010 – Improvements to HKFRSs 2010

The improvements comprise a number of improvements to Standards of which Amendments to HKAS 1 (Revised): *Presentation of Financial Statements: Clarification of consolidated statement of changes in equity* is considered to be relevant to the Group. The Amendments clarify that the reconciliation of each component of other comprehensive income may be presented either in the consolidated statement of changes in equity or in the notes to the financial statements. The Group has decided to continue presenting the reconciliation in the consolidated statement of changes in equity and such adoption does not have any effect on the disclosures made in the consolidated financial statements.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost, except for investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss, which are measured at fair value as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31st December each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceased.

Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from owners of the parent. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in event of liquidation, is measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis.

Allocation of total comprehensive income

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Changes in ownership interest

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. 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 the owners of the parent.

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 determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary is recognised on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary is accounted for as a financial asset, associate, jointly controlled entity or others as appropriate from the date when control is lost.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries

A subsidiary is an entity in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. 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. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

As the Group's lease payments for its leasehold property located in Hong Kong cannot be allocated reliably between the land and buildings elements at the inception of the lease because similar land and buildings are not sold or leased separately, the entire lease payments are included in the cost of the leasehold property as a finance lease in property, plant and equipment.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Buildings	3% or over the relevant lease term, whichever is shorter
Leasehold property	3% or over the relevant lease term, whichever is shorter
Leasehold improvements	5% – 33% or over the relevant lease term, whichever is shorter
Office equipment, furniture and fixtures	20% – 33%
Plant and machinery	10% – 20%
Motor vehicles	10% – 33%

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

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Investment properties

Investment properties are land and/or building that are held by owner or lessee under finance lease, to earn rental income and/or for capital appreciation. These include properties held for a currently undetermined future use and properties that are held under operating lease, which satisfy the definition of investment property and carry at fair value.

Investment properties are stated at fair value at balance sheet date. Any gain or loss arising from a change in fair value is recognised in profit or loss. The fair value of investment property is based on a valuation by an independent valuer who holds a recognised professional qualification and has recent experience in the location and category of property being valued.

(g) Prepaid lease payments for leasehold land

Prepaid lease payments for leasehold land are up-front payments to acquire fixed-term interests in lessee-occupied land that are classified as operating leases. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to profit or loss.

(h) Intangible assets

Research and development costs

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit or loss as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised on a straight-line basis over a period which reflects the pattern in which the related economic benefits are recognised.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments

Financial assets and financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire; or (ii) the Group transfers the financial asset and the Group has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss only if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and/or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

Loans and receivables

Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income shall be reclassified to profit or loss as a reclassification adjustment. The fair value of available-for-sale financial assets is based on a valuation by an independent valuer.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

When an available-for-sale financial asset is impaired, a cumulative loss comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss in profit or loss, is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss in respect of available-for-sale equity instrument are not reversed through profit or loss. Any subsequent increase in fair value of available-for-sale equity instrument after recognition of impairment loss is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Financial liabilities

The Group's financial liabilities include trade and other payables and bank loans. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

(j) Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent 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, net of bank overdrafts.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(l) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Rental income under operating lease is recognised when the properties are let out and on the straight line basis over the lease terms.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

(m) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;

(b) Income and expenses for each income statement are translated at average exchange rate; and

(c) All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity. On disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation is recognised in profit or loss when the gain or loss on disposal is recognised.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Impairment of other assets

At each balance sheet date, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit or loss immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income in profit or loss immediately.

(o) Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(q) Leases

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Rentals payable and receivable under operating leases are charged or credited to profit or loss statement on a straight-line basis over the term of the relevant lease.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits

Short-term employee benefits

Salaries, annual bonuses and paid annual leave are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined contribution plans

The obligations for contributions to Mandatory Provident Fund Scheme (the "MPF") in Hong Kong are recognised as an expense in profit or loss as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Contributions to the state-managed retirement benefit schemes in jurisdictions other than Hong Kong, which are calculated on certain percentages of the applicable payroll costs, are charged as expense when employees have rendered services entitling them to the contributions.

(s) Share-based payment transactions

Equity-settled transactions

The Group's employees, including the Directors, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of the equity instruments at the grant date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a reserve within equity. The fair value is determined using the Black-Scholes Option Model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company ("market conditions").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the vesting conditions are to be fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, with a corresponding adjustment to the reserve within equity.

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

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, any deferred tax arising from initial recognition of other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investment in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

(u) Related parties

A related party is a person or entity that is related to the Group.

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of the parent of the Group.

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

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

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

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Related parties *(Continued)*

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

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

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

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

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

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

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Financial Statements

3. FUTURE CHANGES IN HKFRSs

At the date of authorisation of these consolidated financial statements, the HKICPA has issued a number of new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKFRS 1 (Revised)	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
Amendments to HKFRS 7	*Disclosures – Transfer of Financial Assets*[1]
Amendments to HKAS 12	*Deferred Tax: Recovery of Underlying Assets*[2]
Amendments to HKAS 1 (Revised)	*Presentation of items of other comprehensive income*[3]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKFRS 10	*Consolidated financial statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosures of Interests with Other Entities*[4]
HKFRS 13	*Fair value measurement*[4]
HK(IFRIC) – Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]
Amendments to HKFRS 7	*Disclosure – Offsetting Financial Assets and Financial Liabilities*[4]
Amendments to HKAS 32	*Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HKFRS 9	*Financial Instruments*[6]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of assessing the possible impact on the future adoption of these new/revised HKFRSs, but is not yet in a position to reasonably estimate their impact on the Group's consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates, assumptions concerning the future and judgements are made by the management in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Fair value of available-for-sale financial assets

As described in notes 6(f) and 20 to the financial statements, the valuation techniques applied by the external valuers for the available-for-sale financial assets have been agreed with the Directors. The Directors use their judgment to determine whether valuation techniques applied are appropriate to the circumstances of the Group.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

Notes to the Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Allowance for inventories

The Group's management reviews the condition of inventories at each balance sheet date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The Group carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

Impairment in respect of trade and other receivables

The provisioning policy for impairment in respect of trade and other receivables of the Group is based on the evaluation by management of the collectability of the outstanding receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each debtor. If the financial conditions of these debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment will be required. At the balance sheet date, the carrying amount of trade and other receivables after provision for impairment amounted to approximately HK$208,886,000 *(2010: approximately HK$112,496,000)*.

Impairment of investment in subsidiaries

The Company assesses annually if investment in subsidiaries has suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether amounts due from these entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and lead to the adjustments of their carrying amounts.

Outstanding litigations

The Group's management assesses the need for provisions in its consolidated financial statements based on the development in the legal proceedings and the legal opinions provided by the PRC lawyers of the Company. At balance sheet date, the Group had pending litigations which are summarised in notes 29 and 30 to the financial statements. These litigations involve a possible payment of damages in an aggregate amount of approximately RMB96,200,000 (equivalent to approximately HK$118,663,000) plus related interests and costs for which the Group's management does not consider it necessary to provide for. The outcome of these pending litigations might also have consequential effects on the ownership of the available-for-sale financial assets and the recoverability of dividend receivable that was carried at approximately HK$1,954,113,000 *(2010: approximately HK$3,062,027,000)* and approximately HK$72,345,000 *(2010: approximately HK$35,962,000)* respectively. The assessments of the Group's management on the uncertainties of the pending litigations on these two aspects are detailed in notes 29 and 30 to the financial statements.

Notes to the Financial Statements

5. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Meanwhile, the Group monitors its capital structure on the basis of a target gearing ratio determined as the proportion of debt to equity. For this purpose the Group defines debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables and taxation payable).

In 2011, the Group's strategy was to maintain healthy gearing ratio at below 15% *(2010: 5% to 10%)*. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The debt-to-equity ratio at 31st December 2011 and 2010 was as follows:

		Group		Company	
		2011	2010	**2011**	2010
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Current liabilities:					
Trade and other payables	24	**206,920**	115,650	**504**	1,308
Bank loans	25	**105,978**	61,185	**–**	–
Taxation payable		**1,002**	194	**–**	–
Amounts due to subsidiaries	19	**–**	–	**4,872**	4,872
Total debt		**313,900**	177,029	**5,376**	6,180
Total equity		**2,261,674**	3,325,504	**639,788**	642,892
Debt-to-equity ratio		**13.9%**	5.3%	**0.8%**	1.0%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a concentration of credit risk as 70.9% (*2010: 61.2%*) and 83.9% (*2010: 78.9%*) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

In addition, 100% *(2010: 100%)* of the dividend receivables was due from Gongbujiangda Jiangnan Industrial Development Company Limited (formerly known as Shenzhen Jiangnan Industrial Development Company Limited) ("JI") as mentioned in note 29.

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 23.

The Company

The Company's credit risk is primarily attributable to amounts due from subsidiaries. As at 31st December 2011, the Company had a concentration of credit risk as 53.4% *(2010: 53.0%)* and 99.8% *(2010: 99.8%)* of the total amounts due from subsidiaries is originated from the Company's largest subsidiary and three largest subsidiaries respectively.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Group has unutilised borrowing facilities of approximately HK$92,918,000 *(2010: approximately HK$73,425,000)* as of the balance sheet date to meet the liquidity needs.

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

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

Specifically, bank loans with a repayment on demand clause are included in the earliest period regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

Group

	2011			2010		
	Carrying amount HK$'000	**Total contractual undiscounted cash flow HK$'000**	**Within 1 year or on demand HK$'000**	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000
Trade and other payables *(note 24)*	**206,920**	**206,920**	**206,920**	115,650	115,650	115,650
Bank loans *(note 25)*	**105,978**	**110,905**	**110,905**	61,185	64,166	64,166
	312,898	**317,825**	**317,825**	176,835	179,816	179,816

Company

	2011			2010		
	Carrying amount HK$'000	**Total contractual undiscounted cash flow HK$'000**	**Within 1 year or on demand HK$'000**	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000
Other payables *(note 24)*	**504**	**504**	**504**	1,308	1,308	1,308
Amounts due to subsidiaries *(note 19)*	**4,872**	**4,872**	**4,872**	4,872	4,872	4,872
	5,376	**5,376**	**5,376**	6,180	6,180	6,180

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

The amounts repayable under loan agreements that include a clause that gives lenders the unconditional right to call loans at any time are classified under the "within one year or on demand" bracket. In this regard, bank loans of approximately HK$13,131,000 *(2010: approximately HK$14,259,000)* (see note 25) as at the balance sheet date have been so classified even though the Directors do not expect that lenders would exercise their rights to demand repayment and thus these borrowings (including the aggregate principal and interest cash outflows) would be repaid according to the following schedule as set out in the loan agreements:

	Group	
	2011	2010
	HK$'000	HK$'000
Bank loans with a repayment on demand clause		
Within one year	**1,472**	1,472
More than one year but less than two years	**1,472**	1,472
More than two years but less than five years	**4,416**	4,416
Over five years	**7,813**	9,284
	15,173	16,644

(c) Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's secured interest-bearing borrowings and bank deposits.

At the balance sheet date, if interest rates had been 100 basis points higher or lower (but on condition that interest rate would not fall below zero) and all other variables were held constant, the Group's net profit would be decreased by approximately HK$257,000 *(2010: approximately HK$9,000)* or increased by approximately HK$669,000 *(2010: approximately HK$452,000)* respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2010.

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk

The Group has transactional currency exposure. Such exposure arises from trading transactions denominated in a currency other than the functional currency of an operating unit to which they relate. The Group's exposure to foreign currency risk principally arises from changes in exchange rate of United States dollars against Hong Kong dollars. Management considers that the Group has limited exposure to foreign currency risk since the relevant exchange rate has remained relatively stable. The Group has no significant foreign currency risk in its PRC operations as the carrying amounts of financial assets and liabilities are denominated in RMB.

(e) Equity price risk

The Group is exposed to price risk arising from securities investments classified as available-for-sale financial assets and financial assets at fair value through profit or loss (see notes 20 and 21).

At the balance sheet date, if the quoted market price had been 20% higher/lower while all other variables were held constant, the Group's net profit would be increased/decreased by approximately HK$2,484,000 *(2010: approximately HK$3,008,000)* due to change in the fair value of financial assets at fair value through profit or loss. Investment revaluation reserves would be increased/decreased by approximately HK$390,823,000 *(2010: approximately HK$612,405,000)* as a result of changes in fair value of available-for-sale investments. The Group's sensitivity to equity price has not changed significantly from the prior year.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the Group's investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's securities investments would be considered impaired as a result of a reasonably possible decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2010.

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS *(Continued)*

(f) Fair value

In the opinion of the Directors, the carrying amounts of financial assets and liabilities approximate their fair values.

The following presents the carrying value of financial instruments measured at fair value at 31st December 2011 across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data; and
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

Assets measured at fair value

	31st December 2011 HK$'000	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**
Financial assets at fair value through profit or loss *(note 21)*	**12,421**	**12,421**	**–**	**–**
Available-for-sale financial assets *(note 20)*	**1,954,113**	**–**	**–**	**1,954,113**

	31st December 2010 HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Financial assets at fair value through profit or loss *(note 21)*	15,038	15,038	–	–
Available-for-sale financial assets *(note 20)*	3,062,027	–	–	3,062,027

During the year ended 31st December 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The only movement in the Level 3 equity shares since 1st January 2011, excluding the effect of the exchange realignment, was a fair value decrease of approximately HK$1,259,750,000 *(2010: fair value increase of approximately HK$573,096,000)* which has been recorded in other comprehensive income.

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS *(Continued)*

(f) Fair value *(Continued)*

Assets measured at fair value based on Level 3

Fair value measurement at 31st December 2011:

Description	Available-for-sale financial assets	
	2011	2010
	HK$'000	HK$'000
Opening balance	**3,062,027**	2,405,260
In other comprehensive income		
(Decrease)/Increase in fair value	**(1,259,750)**	573,096
Exchange realignment	**151,836**	83,671
Closing balance	**1,954,113**	3,062,027
Total gains or losses for the year included in profit or loss for assets held at the end of the balance sheet date	**–**	–

Significant assumptions used in determining fair value of available-for-sale financial assets:

Basis of determining fair value of the available-for-sale financial assets has been detailed in note 20. In particular, the market value of A shares of Ping An Insurance (Group) Company of China Limited ("Ping An Shares") as of the balance sheet date of RMB34.44 (equivalent to HK$42.48) *(2010: RMB56.16 (equivalent to HK$66.00))* per share has been reduced by RMB3.48 (equivalent to HK$4.29) *(2010: RMB5.67 (equivalent to HK$6.66)) per share* because of the lack of marketability during the freezing order as detailed in note 29. Should the reduction in market value of Ping An Shares for the lack of marketability be 10% higher/lower while all the other variables were held constant, the carrying amount of the shares would be decreased/increased by approximately HK$21,892,000 *(2010: approximately HK$33,983,000)*.

Notes to the Financial Statements

7. SEGMENT INFORMATION

For management purposes, the current major operating segments of the Group are information home appliances, investing and trading.

The information home appliances segment is principally engaged in manufacture, sales and distribution of information home appliances and complementary products to consumer markets.

The investing segment is principally engaged in investing in available-for-sale financial assets and trading of securities.

The trading segment is principally engaged in selling electronic components, plastic and miscellaneous products.

Other operations of the Group mainly comprise the leasing out of properties.

For the purpose of assessing the performance of the operating segments and allocating resources between segments, the Executive Directors assess segment profit or loss before income tax without allocation of finance costs, changes in fair value of investment properties, Directors' emoluments, head office staff salaries, legal and professional fees and other administrative costs and the basis of preparing such information is consistent with that of the consolidated financial statements.

All assets are allocated to reportable segments other than head office bank balances and other unallocated financial and corporate assets which are managed on a group basis. All liabilities are allocated to reportable segments other than unallocated head office and corporate liabilities which are managed on a group basis.

Inter-segment sales transactions are charged at prevailing market rates.

Notes to the Financial Statements

7. SEGMENT INFORMATION *(Continued)*

Business segments

Turnover represents net invoiced value of goods sold to customers less returns and allowance. An analysis of the Group's turnover, other revenue and net income, segment results and segment assets and liabilities by business segments is as follows:

For the year ended 31st December 2011

	Information home appliances HK$'000	Investing HK$'000	Trading HK$'000	Other operations HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	609,292	–	852	–	–	610,144
Inter-segment sales	–	–	12,365	–	(12,365)	–
OTHER REVENUE AND NET INCOME	743	34,170	51	6,412	(2,352)	39,024
Total	610,035	34,170	13,268	6,412	(14,717)	649,168
RESULTS						
Segment results	22,980	24,512	(298)	2,905	–	50,099
Unallocated corporate income						380
Interest income						547
Fair value gain on investment properties						3,180
Other unallocated corporate expenses						(14,426)
Profit from operations						39,780
Finance costs						(4,428)
Profit before taxation						35,352
Taxation						(1,368)
Profit for the year						33,984

Notes to the Financial Statements

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

As at 31st December 2011

	Information home appliances HK$'000	Investing HK$'000	Trading HK$'000	Other operations HK$'000	Unallocated HK$'000	Consolidated HK$'000
ASSETS						
Segment assets	454,278	2,040,440	5,662	53,657	–	2,554,037
Unallocated corporate assets					21,537	21,537
Consolidated total assets						2,575,574
LIABILITIES						
Segment liabilities	283,824	1,228	3,365	11,466	–	299,883
Unallocated corporate liabilities					14,017	14,017
Consolidated total liabilities						313,900
OTHER INFORMATION						
Capital additions	6,458	–	–	–	63	6,521
Depreciation and amortisation	6,691	–	455	513	280	7,939
Impairment on inventories	35	–	322	–	–	357
Reversal of write-down of inventories	–	–	(380)	–	–	(380)
Impairment in respect of trade receivables	47	–	9	–	–	56
Reversal of impairment on trade receivables	–	–	(68)	–	–	(68)
Impairment on other receivables	3,857	–	–	–	–	3,857

Notes to the Financial Statements

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31st December 2010

	Information home appliances HK$'000	Investing HK$'000	Trading HK$'000	Other operations HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	331,516	–	3,583	–	–	335,099
Inter-segment sales	–	–	2,316	–	(2,316)	–
OTHER REVENUE AND NET INCOME	2,384	27,036	180	2,348	–	31,948
Total	333,900	27,036	6,079	2,348	(2,316)	367,047
RESULTS						
Segment results	5,768	26,354	(1,670)	1,984	–	32,436
Unallocated corporate income						800
Interest income						475
Fair value gain on investment properties						4,650
Other unallocated corporate expenses						(21,009)
Profit from operations						17,352
Finance costs						(2,353)
Profit before taxation						14,999
Taxation						(190)
Profit for the year						14,809

Notes to the Financial Statements

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

As at 31st December 2010

	Information home appliances HK$'000	Investing HK$'000	Trading HK$'000	Other operations HK$'000	Unallocated HK$'000	Consolidated HK$'000
ASSETS						
Segment assets	288,859	3,120,020	7,747	47,965	–	3,464,591
Unallocated corporate assets					37,942	37,942
Consolidated total assets						3,502,533
LIABILITIES						
Segment liabilities	148,289	–	2,016	12,501	–	162,806
Unallocated corporate liabilities					14,223	14,223
Consolidated total liabilities						177,029
OTHER INFORMATION						
Capital additions	1,600	–	–	–	27	1,627
Depreciation and amortisation	6,496	–	475	–	562	7,533
Impairment on inventories	4,798	–	350	–	–	5,148
Reversal of write-down of inventories	(5,485)	–	(88)	–	–	(5,573)
Recovery of bad debts previously written off	(272)	–	(129)	–	–	(401)
Impairment in respect of trade receivables	–	–	38	–	–	38
Reversal of impairment on trade receivables	–	–	(70)	–	–	(70)
Impairment on other receivables	–	–	400	–	–	400

Notes to the Financial Statements

7. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group operates in three principal geographical areas: the People's Republic of China (other than Hong Kong and Macau) (the "PRC"), Hong Kong and Russia.

The following table sets out information about the geographical location of (i) the Group's revenue from external customers; and (ii) the Group's non-current assets other than available-for-sale financial assets. The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the non-current assets is based on the physical location of the assets.

	Revenue from external customers		**Non-current assets**	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**393,868**	200,624	**108,151**	104,615
Hong Kong	**62,982**	53,800	**39,426**	36,449
Russia	**97,810**	26,048	**–**	–
Other overseas markets	**55,484**	54,627	**–**	–
	610,144	335,099	**147,577**	141,064

In addition to the information disclosed above, the Group generated other revenue and net income from information home appliances segment of approximately HK$600,000 *(2010: approximately HK$973,000)* and approximately HK$143,000 *(2010: approximately HK$1,411,000)* in the PRC and Hong Kong respectively, and the Group generated other revenue and net income from investing segment of approximately HK$33,823,000 *(2010: approximately HK$25,949,000)* and approximately HK$347,000 *(2010: approximately HK$1,087,000)* in the PRC and Hong Kong respectively.

The Group also generated other revenue and net income from trading segment of approximately HK$51,000 *(2010: approximately HK$180,000)* in the PRC, and the Group generated other revenue and net income from other operations segment of approximately HK$2,780,000 *(2010: approximately HK$1,148,000)* and approximately HK$1,280,000 *(2010: approximately HK$1,200,000)* in the PRC and Hong Kong respectively.

Information about major customers

Revenues from external customers contributing over 10% of the total revenue from the Group's information home appliances segment are as follows:

	2011	2010
	HK$'000	HK$'000
Customer A	**392,854**	191,426
Customer B	**62,980**	44,795
Customer C	**97,810**	–
	553,644	236,221

Notes to the Financial Statements

8. OTHER REVENUE AND NET INCOME

	2011 HK$'000	2010 HK$'000
Other revenue		
Dividend income from unlisted securities	**33,807**	26,340
Dividend income from listed securities	**363**	91
Interest income	**547**	475
Rental income from investment properties	**1,280**	1,200
Rental income from buildings	**2,780**	1,148
Sundry income	**1,106**	2,893
	39,883	32,147
Other net income		
Gains on disposal of financial assets at fair value through profit or loss	**–**	605
Reversal of impairment on trade receivables	**68**	70
Recovery of bad debts previously written off	**–**	401
	68	1,076
	39,951	33,223

Notes to the Financial Statements

9. PROFIT FROM OPERATIONS

Profit from operations have been arrived at after charging/(crediting):

	2011 HK$'000	2010 HK$'000
Auditor's remuneration	**995**	963
Impairment in respect of trade receivables	**56**	38
Impairment on other receivables	**3,857**	400
Amortisation of prepaid lease payments	**372**	355
Depreciation of property, plant and equipment	**7,567**	7,178
Cost of inventories	**523,306**	282,269
Foreign exchange loss	**1,066**	693
Loss on disposal of property, plant and equipment	**193**	29
Reversal of write-down of inventories*	**(380)**	(5,573)
Reversal of impairment in respect of trade receivables	**(68)**	(70)
Impairment on inventories	**357**	5,148
Loss/(Gain) on disposal of financial assets at fair value through profit or loss	**4,014**	(605)
Net unrealised holding loss on financial assets at fair value through profit or loss	**5,612**	683
Direct outgoings from leasing of investment properties	**8**	11
Operating lease charges on premises	**3,654**	2,902
Research and development costs	**842**	1,930
Staff costs (including Directors' emoluments *(note 10)*):		
Salaries and allowances	**55,179**	40,621
Retirement benefits scheme contributions	**6,287**	3,968
Total staff costs	**61,466**	44,589

* *The reversal of write-down of inventories arose from disposal of inventories which had been written-down in previous years.*

Notes to the Financial Statements

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven Directors *(2010: seven)* were as follows:

		Other emoluments		
Name of Director	**Fees**	**Salaries, allowances and other benefits in kind**	**Retirement benefits scheme contributions**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Executive Directors				
Zhu Wei Sha	**–**	**600**	**12**	**612**
Chen Fu Rong	**–**	**360**	**63**	**423**
Shi Guang Rong	**–**	**480**	**63**	**543**
Wang An Zhong	**–**	**374**	**63**	**437**
Independent Non-executive Directors				
Wu Jia Jun	**70**	**–**	**–**	**70**
Zhong Peng Rong	**70**	**–**	**–**	**70**
Shen Yan	**70**	**–**	**–**	**70**
Total for 2011	**210**	**1,814**	**201**	**2,225**
Executive Directors				
Zhu Wei Sha	–	739	12	751
Chen Fu Rong	–	360	12	372
Shi Guang Rong	–	515	12	527
Wang An Zhong	–	360	46	406
Independent Non-executive Directors				
Wu Jia Jun	70	–	–	70
Zhong Peng Rong	70	–	–	70
Shen Yan	70	–	–	70
Total for 2010	210	1,974	82	2,266

During the year 2011 and 2010, no emolument was paid by the Group to any Director as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emolument during the year.

Notes to the Financial Statements

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, no Director *(2010: two)* is included in the five highest paid individuals of the Group. Details of Directors' emoluments are set out in note 10 above. The emoluments of the remaining five *(2010: three)* highest paid individuals, who are employees of the Group, are as follows:

	2011 **HK$'000**	2010 HK$'000
Basic salaries, allowances and other benefits in kind	**3,194**	1,738
Retirement benefits scheme contributions	**210**	91
	3,404	1,829

The emoluments of each of the above highest paid individuals for both years were less than HK$1,000,000.

12. FINANCE COSTS

	2011 **HK$'000**	2010 HK$'000
Interest on bank loans wholly repayable within five years	**4,084**	1,981
Interest on bank loans wholly repayable over five years	**344**	372
Total borrowing costs	**4,428**	2,353

The analysis shows the finance costs of bank loans, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayment dates set out in the loan agreements. For the year ended 31st December 2011 and 2010, the interest on bank loans which contain a repayment on demand clause amounted to approximately HK$344,000 and HK$372,000 respectively.

Notes to the Financial Statements

13. TAXATION

The taxation charged to profit or loss represents:

	2011 HK$'000	2010 HK$'000
Current tax		
Hong Kong profits tax	**187**	–
PRC enterprise income tax	**1,181**	190
	1,368	190
Deferred taxation		
Origination and reversal of temporary difference	**(144)**	(252)
Benefit of tax losses recognised	**144**	252
	–	–
Charge for the year	**1,368**	190

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits from Hong Kong for 2011. No Hong Kong Profits Tax has been provided for 2010 as the Group did not have any assessable profit from Hong Kong.

The income tax provision in respect of operations in the PRC is calculated at the applicable tax rate of 25% on the estimated assessable profits for 2011 and 2010 based on existing legislation, interpretations and practices in respect thereof.

Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2011 HK$'000	2010 HK$'000
Profit before taxation	**35,352**	14,999
Tax at a weighted average rate of 22.46% *(2010: 24.1%)* applicable to the jurisdictions concerned	**7,941**	3,612
Tax effect of non-deductible expenses	**756**	4,512
Tax effect of non-taxable income	**(9,152)**	(11,707)
Tax effect of utilisation of tax loss not previously recognised	**(2,906)**	(2,125)
Tax effect of unrecognised tax losses and timing differences	**4,600**	5,898
Others	**129**	–
Tax expenses for the year	**1,368**	190

Notes to the Financial Statements

13. TAXATION *(Continued)*

Recognised deferred tax assets and liabilities

	Assets		Liabilities	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Depreciation allowances	–	–	**(1,499)**	(1,355)
Tax losses	**1,499**	1,355	–	–
Deferred tax assets/(liabilities)	**1,499**	1,355	**(1,499)**	(1,355)
Offsetting	**(1,499)**	(1,355)	**1,499**	1,355
Net deferred tax assets/(liabilities)	–	–	–	–

Unrecognised deferred tax assets arising from

	2011 HK$'000	2010 HK$'000
Deductible temporary differences	**56,367**	57,244
Tax losses	**127,250**	104,796
	183,617	162,040

At 31st December 2011, the Group had unrecognised deferred tax assets of approximately HK$42,058,000 *(2010: approximately HK$38,427,000)* in respect of the tax losses and other temporary differences. As it is not probable that taxable profits will be available against which the deductible temporary differences and the unused tax losses of the Group can be utilised, deferred tax assets have not been recognised. The expiry of unrecognised tax losses are as follows:

	2011 HK$'000	2010 HK$'000
Tax losses without expiry date	**30,799**	18,275
Tax losses expiring on 31st December 2016	**5,785**	–
Tax losses expiring on 31st December 2015	**9,587**	6,276
Tax losses expiring on 31st December 2014	**56,240**	36,003
Tax losses expiring on 31st December 2013	**6,248**	21,280
Tax losses expiring on 31st December 2012	**18,591**	19,749
Tax losses expiring on 31st December 2011	–	3,213
	127,250	104,796

The profits earned by PRC subsidiaries from 1st January 2008 onwards would be subject to withholding tax if they are distributed. The estimated withholding tax effects on the distribution of retained profits of these PRC subsidiaries were approximately HK$8,104,000 *(2010: approximately HK$4,465,000)*. In the opinion of the Directors, all undistributed profits are expected to be retained in the PRC subsidiaries and not to be remitted out of the PRC in the foreseeable future. Accordingly, no provision for deferred tax have been made.

Notes to the Financial Statements

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT AND DIVIDENDS

The profit attributable to owners of the parent includes a loss of approximately HK$3,377,000 *(2010: a profit of approximately HK$20,213,000)* which has been dealt with in the financial statements of the Company.

No dividend was paid or proposed during the year and up to the date of these consolidated financial statements *(2010: HK$Nil)*.

15. EARNINGS PER SHARE

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

	2011 HK$'000	2010 HK$'000
Profit attributable to owners of the parent	**33,984**	14,809

	2011 '000	2010 '000
Issued ordinary shares at 1st January	**1,734,200**	1,630,272
Effect of share options exercised	**175**	314
Issue of new shares upon a private placing	**–**	12,603
Weighted average number of ordinary shares for basic earnings per share	**1,734,375**	1,643,189
Effect of dilutive potential ordinary shares:		
Exercise of share options	**29,019**	15,406
Weighted average number of ordinary shares for diluted earnings per share	**1,763,394**	1,658,595
Earnings per share:		
– Basic	**1.96 cents**	0.90 cent
– Diluted *(Note)*	**1.93 cents**	0.89 cent

Note: The calculation of diluted earnings per share for the year ended 31st December 2011 is based on the profit attributable to owners of the parent of approximately HK$33,984,000 *(2010: approximately HK$14,809,000)*, and the weighted average number of ordinary shares issued during the year of approximately 1,734,375,000 *(2010: approximately 1,643,189,000)* after adjusting for the number of dilutive potential ordinary shares arising from the outstanding share options granted under the Company's share option scheme.

Notes to the Financial Statements

16. INVESTMENT PROPERTIES

	Group	
	2011	2010
	HK$'000	HK$'000
At fair value		
At beginning of year	**33,120**	28,470
Fair value gains	**3,180**	4,650
At balance sheet date	**36,300**	33,120

All the investment properties are held under medium-term leases and situated in Hong Kong.

The investment properties were revalued as at 31st December 2011 on an open market basis by BMI Appraisals Limited, which are independent qualified professional valuers not connected with the Group and with appropriate qualifications and recent experience 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.

Notes to the Financial Statements

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings held for own use HK$'000 (Note (a))	Leasehold property HK$'000 (Note (b))	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Plant & machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Reconciliation of carrying amounts– year ended 31st December 2010							
At beginning of year	69,442	2,931	11,414	2,369	10,010	1,088	97,254
Additions	–	–	411	1,113	103	–	1,627
Disposal	–	–	–	(8)	(6)	(87)	(101)
Depreciation	(2,640)	(100)	(1,408)	(761)	(1,955)	(314)	(7,178)
Exchange realignment	2,353	–	362	63	295	29	3,102
At balance sheet date	69,155	2,831	10,779	2,776	8,447	716	94,704
Reconciliation of carrying amounts – year ended 31 st December 2011							
At beginning of year	69,155	2,831	10,779	2,776	8,447	716	94,704
Additions	–	–	7	1,216	5,298	–	6,521
Disposal	–	–	–	(139)	(92)	(33)	(264)
Depreciation	(2,773)	(99)	(1,476)	(1,039)	(2,082)	(98)	(7,567)
Exchange realignment	3,364	–	499	113	359	33	4,368
At balance sheet date	**69,746**	**2,732**	**9,809**	**2,927**	**11,930**	**618**	**97,762**
At 31st December 2010							
Cost	85,376	2,972	21,085	9,560	33,703	4,075	156,771
Accumulated depreciation and impairment losses	(16,221)	(141)	(10,306)	(6,784)	(25,256)	(3,359)	(62,067)
	69,155	2,831	10,779	2,776	8,447	716	94,704
At 31st December 2011							
Cost	89,610	2,972	22,094	10,095	39,463	4,124	168,358
Accumulated depreciation and impairment losses	(19,864)	(240)	(12,285)	(7,168)	(27,533)	(3,506)	(70,596)
	69,746	**2,732**	**9,809**	**2,927**	**11,930**	**618**	**97,762**

Notes:

(a) All the buildings are held under medium-term leases and situated in the PRC.

(b) The leasehold property is situated in Hong Kong and held under medium-term lease.

Notes to the Financial Statements

18. PREPAID LEASE PAYMENTS

Prepaid lease payments represent cost paid for medium-term leasehold land in the PRC. The cost is amortised over the leasehold period. The amount to be amortised more than twelve months after the balance sheet date amounted to approximately HK$13,515,000 *(2010: approximately HK$13,240,000)*. The amount to be amortised within the next twelve months after the balance sheet date of approximately HK$382,000 *(2010: approximately HK$364,000)* is included in current assets.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	HK$'000
Unlisted shares, at cost	**176,000**	176,000
Amounts due from subsidiaries *(Note (a))*	**465,112**	455,667
	641,112	631,667
Amounts due to subsidiaries *(Note (b))*	**(4,872)**	(4,872)

Notes:

(a) Amount due from a subsidiary with carrying amount of HK$7,000,000 *(2010: HK$Nil)* is unsecured, interest-bearing at a rate of 5% per annum and not expected to be realised in the next twelve months from the balance sheet date. All other amounts due from subsidiaries are unsecured, interest-free and not expected to be realised in the next twelve months from the balance sheet date.

(b) The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

Details of subsidiaries which principally affected the results, assets or liabilities of the Group as at 31st December 2011 are set out in note 35.

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2011	2010
	HK$'000	HK$'000
Unlisted equity securities, at fair value – Equity interest in JI *(Note)*	**1,954,113**	3,062,027

Notes to the Financial Statements

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

Note:

Pursuant to an agreement dated 10th August 2004, the Group through its wholly-owned subsidiary Beijing Golden Yuxing Electronics and Technology Company Limited ("Golden Yuxing") acquired a 10.435% equity interest in JI, a company which holds, among others, Ping An Shares which was listed on the Shanghai Stock Exchange in the PRC on 1st March 2007, for a consideration of RMB217,000,000 (equivalent to approximately HK$204,274,000) (the "Acquisition") from Sanshui Jianlibao Health Industry Investment Company Limited ("SJHII"), a company in which Mr. Zhu Wei Sha, a Director of the Company, had an effective 8.1% equity interest. Mr. Zhu Wei Sha ceased to have any equity interest in SJHII after November 2004. The said consideration was determined with reference to the value of 51,000,000 Ping An Shares held directly by JI, a company whose principal assets were 479,117,788 Ping An Shares (subsequently reduced to 139,112,886 Ping An Shares as at 31st December 2007).

The purpose of the Acquisition was to enable the Group to acquire a 10.435% economic benefits associated with the 51,000,000 Ping An Shares through a share management agreement entered into amongst Golden Yuxing, JI and other shareholders of JI at the time, specifically to enable the Group to receive its share dividend attributable to the 51,000,000 Ping An Shares and to use shares as security to support its borrowings.

In 2006, Golden Yuxing further acquired 15.175% and 11.05% equity interest in JI for considerations of RMBNil and RMB1 respectively pursuant to a share capital reorganisation of JI and had since held a total of 36.66% equity interest in JI, representing an equivalent interest in 51,000,000 Ping An Shares. In the opinion of the Directors, Golden Yuxing has no significant influence over JI as the other 63.34% equity interest in JI is controlled by another shareholder, who also manages all significant and day-to-day operations of JI.

On 24th October 2007, a moratorium on the 36.66% equity interest in JI, and hence on its undertaking and all assets including the 51,000,000 Ping An Shares, currently held by Golden Yuxing was imposed by the People's Court of Beijing in relation to the repayment arrangement between Golden Yuxing and Sheng Bang Qiang Dian Electronics (Shenzhen) Company Limited ("Shenzhen Sheng Bang"), both of which are wholly-owned subsidiaries of the Group. The moratorium was released on 14th October 2011.

The Intermediate People's Court of Foshan, Guangdong Province (the "Intermediate Court of Foshan") imposed two standby moratoriums on 24th October 2007 and 30th October 2007 respectively on the 4.6958% and 11.8371% equity interest in JI held by Golden Yuxing. However, the Directors were not aware of the background and reasons for these two standby moratoriums, as further detailed in the Company's announcement on 6th November 2007. The Group was further notified by the Higher People's Court of the Guangdong Province in the PRC (the "Guangdong Higher Court") and handed down a judgement on 31st October 2011 ruling that the moratorium on the above 16.5329% equity interest in JI would be extended to 3rd December 2012.

Following the expiration of the above mentioned share management agreement, Golden Yuxing entered into a bilateral agreement (the "Agreement") with another shareholder of JI who holds 63.34% equity interest in JI on 15th September 2009, under which both parties agreed on rights to the interests in Ping An Shares attributed to each of Golden Yuxing and the other shareholder of JI, including rights to profit sharing, share placement rights, the rights to pledge shares and use them for guarantee, voting rights and methods for equity transfers in future, etc. According to the Agreement, Golden Yuxing holds the equity interest in 51,000,000 Ping An Shares through JI, while Golden Yuxing has no significant influence over JI's financial and operating policy decisions.

As at 31st December 2011, the equity interest in JI held by the Group was revalued by Vigers Appraisal & Consulting Limited which are independent qualified professional valuers not connected with the Group and with appropriate qualifications to approximately RMB1,584,200,000 (equivalent to approximately HK$1,954,113,000) *(2010: approximately RMB2,605,478,000 (equivalent to approximately HK$3,062,027,000))*. The valuation was arrived at by reference to the PRC financial statements of JI as at 31st December 2011 and adjusted by the market value of 51,000,000 Ping An Shares as at 31st December 2011. In determining the market value of Ping An Shares, the impact on the freezing order as detailed in note 29 has been taken into consideration by using the Discount For Lack Of Marketability Model. The Group recorded a revaluation deficit on the interests in JI of approximately RMB1,021,278,000 (equivalent to approximately HK$1,259,750,000) *(2010: revaluation surplus of approximately RMB487,647,000 (equivalent to approximately HK$573,096,000))* as at 31st December 2011.

Notes to the Financial Statements

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	HK$'000	HK$'000
Held-for-trading investments (at market value):		
Listed equity securities in Hong Kong	**8,313**	13,153
Listed equity securities outside Hong Kong	**4,108**	1,885
	12,421	15,038

The fair value of listed equity securities is based on quoted market prices in active markets at the balance sheet date.

22. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Merchandise	**1**	1
Raw materials	**37,513**	42,828
Work-in-progress	**37,847**	15,822
Finished goods	**20,392**	12,112
	95,753	70,763

23. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills receivables	**179,990**	94,727	**–**	–
Less: Impairment in respect of trade receivables	**(4,388)**	(4,771)	**–**	–
	175,602	89,956	**–**	–
Other receivables	**27,006**	16,386	**1**	1
Prepayments and deposits	**6,278**	6,154	**313**	311
	208,886	112,496	**314**	312

All trade and other receivables are expected to be recovered or recognised as expenses within one year.

Notes to the Financial Statements

23. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group grants its trade customers an average credit period of 30 to 120 days *(2010: 30 to 120 days)*. The ageing analysis of trade and bills receivables (net of impairment) by delivery date at the balance sheet date is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
0-30 days	**99,390**	48,219
31-60 days	**54,980**	29,066
61-90 days	**18,069**	8,457
Over 90 days	**3,163**	4,214
	175,602	89,956

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

The movement in the impairment in respect of trade receivables during the year is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
At 1st January	**4,771**	4,716
Impairment losses recognised	**56**	38
Reversal of impairment loss	**(68)**	(70)
Write off	**(536)**	–
Exchange realignment	**165**	87
At 31st December	**4,388**	4,771

At 31st December 2011, out of total other receivables amounting to approximately HK$30,863,000 *(2010: approximately HK$16,786,000)*, an impairment loss of approximately HK$3,857,000 *(2010: approximately HK$400,000)* was recognised to profit or loss as the management assessed that the recoverability of these receivables was in doubt.

Notes to the Financial Statements

23. TRADE AND OTHER RECEIVABLES *(Continued)*

The ageing analysis of trade and bills receivables (net of impairment) that are neither individually nor collectively considered to be impaired are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**151,585**	75,740
Less than 3 months past due	**21,307**	11,547
3 months to 6 months past due	**30**	71
6 months to 9 months past due	**132**	–
Past due over 9 months	**2,548**	2,598
Past due but not impaired	**24,017**	14,216
	175,602	89,956

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no history of default.

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

24. TRADE AND OTHER PAYABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables *(Note a)*	**165,380**	86,017	**–**	–
Other payables *(Note b)*	**16,651**	8,265	**1**	1
Accruals	**24,889**	21,368	**503**	1,307
	206,920	115,650	**504**	1,308

Note a: The ageing analysis of trade payables at the balance sheet date was as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
0-30 days	**64,839**	41,707
31-60 days	**48,134**	21,856
61-90 days	**27,618**	10,212
Over 90 days	**24,789**	12,242
	165,380	86,017

Note b: Included in other payables was margin facilities with carrying amount of approximately HK$1,228,000 *(2010: HK$Nil)* that were granted from a regulated securities broker under which financial assets at fair value through profit or loss of approximately HK$4,731,000 *(2010: HK$Nil)* were treated as collateral for the facilities granted. The facilities bear interest rate at Hong Kong Prime Rate plus 2% per annum *(2010: Nil)*.

Notes to the Financial Statements

25. BANK LOANS

Bank loans comprise:

	Group	
	As at 31st December 2011 HK$'000	As at 31st December 2010 HK$'000
Current and secured		
Short-term loans	**92,847**	46,926
Portion of term loans from banks due for repayment within one year	**1,156**	1,128
Portion of term loans from banks due for repayment after one year which contain a repayment on demand clause	**11,975**	13,131
Term loans with a repayment on demand clause	**13,131**	14,259
	105,978	61,185
Analysis of the amounts due based on scheduled payment dates set out in the loan agreements (ignoring the effect of any repayment on demand clause) is as follows:		
On demand or within one year	**94,003**	48,054
After one but within two years	**1,185**	1,156
After two but within five years	**3,736**	3,647
After five years	**7,054**	8,328
	105,978	61,185

As at 31st December 2011, interests were charged on the bank loans at rates ranging from 2.45%-7.26% *(2010: 2.45%-5.31%)* per annum. Bank loans were secured by the assets of the Group as disclosed in note 28.

Notes to the Financial Statements

26. SHARE CAPITAL

	Number of shares		Amount	
	31st December 2011 '000	31st December 2010 '000	**31st December 2011 HK$'000**	31st December 2010 HK$'000
Authorised:				
At beginning of year and at end of year				
Ordinary shares of HK$0.025 each	**8,000,000**	8,000,000	**200,000**	200,000
Issued and fully paid:				
At beginning of year				
Ordinary shares of HK$0.025 each	**1,734,200**	1,630,272	**43,355**	40,757
Exercise of share options *(Note)*	**920**	3,928	**23**	98
Issue of new shares upon a private placing	**–**	100,000	**–**	2,500
At end of year				
Ordinary shares of HK$0.025 each	**1,735,120**	1,734,200	**43,378**	43,355

Note:

For the year ended 31st December 2011, 920,000 *(2010: 3,928,000)* ordinary shares of HK$0.025 each were issued at total amount of approximately HK$273,000 *(2010: approximately HK$1,169,000)* as a result of the exercise of share options of the Company.

Notes to the Financial Statements

27. RESERVES

Group

	Share premium HK$'000 *(Note (b)(i))*	Statutory reserves HK$'000 *(Note (b)(ii))*	Contributed surplus HK$'000 *(Note (b)(iii))*	Share option reserves HK$'000 *(Note (b)(iv))*	Investment revaluation reserves HK$'000 *(Note (b)(v))*	Translation reserves HK$'000 *(Note (b)(vi))*	Retained profits HK$'000	Total HK$'000
At 1st January 2010	7,767	20,190	234,621	30,751	1,790,142	434,402	57,578	2,575,451
Profit for the year	–	–	–	–	–	–	14,809	14,809
Other comprehensive income:								
Change in fair value of available-for-sale financial assets	–	–	–	–	573,096	–	–	573,096
Exchange differences arising on translation of PRC subsidiaries	–	–	–	–	–	90,222	–	90,222
Total other comprehensive income	–	–	–	–	573,096	90,222	–	663,318
Total comprehensive income for the year	–	–	–	–	573,096	90,222	14,809	678,127
Transactions with owners:								
Issue of shares under share option scheme *(Note (a))*	1,424	–	–	(353)	–	–	–	1,071
Issue of new shares upon a private placing	27,500	–	–	–	–	–	–	27,500
Total transactions with owners	28,924	–	–	(353)	–	–	–	28,571
At 31st December 2010 and at 1st January 2011	36,691	20,190	234,621	30,398	2,363,238	524,624	72,387	3,282,149
Profit for the year	–	–	–	–	–	–	33,984	33,984
Other comprehensive loss:								
Change in fair value of available-for-sale financial assets	–	–	–	–	(1,259,750)	–	–	(1,259,750)
Exchange differences arising on translation of PRC subsidiaries	–	–	–	–	–	161,663	–	161,663
Total other comprehensive loss	–	–	–	–	(1,259,750)	161,663	–	(1,098,087)
Total comprehensive loss for the year	–	–	–	–	(1,259,750)	161,663	33,984	(1,064,103)
Transactions with owners:								
Issue of shares under share option scheme *(Note (a))*	312	–	–	(62)	–	–	–	250
Total transactions with owners	312	–	–	(62)	–	–	–	250
At 31st December 2011	**37,003**	**20,190**	**234,621**	**30,336**	**1,103,488**	**686,287**	**106,371**	**2,218,296**

Notes to the Financial Statements

27. RESERVES *(Continued)*

Company

	Share premium HK$'000 *(Note (b)(i))*	Contributed surplus HK$'000 *(Note (b)(iii))*	Share option reserves HK$'000 *(Note (b)(iv))*	Retained profits HK$'000	Total HK$'000
At 1st January 2010	7,767	380,621	30,751	131,614	550,753
Profit for the year	–	–	–	20,213	20,213
Total comprehensive income for the year	–	–	–	20,213	20,213
Transactions with owners:					
Issue of shares under share option scheme *(Note (a))*	1,424	–	(353)	–	1,071
Issue of new shares upon a private placing	27,500	–	–	–	27,500
Total transactions with owners	28,924	–	(353)	–	28,571
At 31st December 2010 and at 1st January 2011	36,691	380,621	30,398	151,827	599,537
Loss for the year	–	–	–	(3,377)	(3,377)
Total comprehensive loss for the year	–	–	–	(3,377)	(3,377)
Transactions with owners:					
Issue of shares under share option scheme *(Note (a))*	312	–	(62)	–	250
Total transactions with owners	312	–	(62)	–	250
At 31st December 2011	**37,003**	**380,621**	**30,336**	**148,450**	**596,410**

Notes to the Financial Statements

27. RESERVES *(Continued)*

Notes:

(a) *Issue of shares under share option scheme*

During the year ended 31st December 2011, options were exercised to subscribe for 920,000 *(2010: 3,928,000)* ordinary shares in the Company at a consideration of approximately HK$273,000 *(2010: approximately HK$1,169,000)* of which approximately HK$23,000 *(2010: approximately HK$98,000)* was credited to share capital and the balance of approximately HK$250,000 *(2010: approximately HK$1,071,000)* was credited to the share premium account. Approximately HK$62,000 *(2010: approximately HK$353,000)* has been transferred from the share option reserves to the share premium account in accordance with policy set out in note 2(s).

(b) *Nature and purpose of reserves*

(i) Share premium

The application of the share premium account is governed by Section 46(2) of the Companies Act 1981 of Bermuda (as amended).

(ii) Statutory reserves

Statutory reserves comprise statutory surplus reserves fund of the subsidiaries in the PRC and form part of shareholders' fund. According to the Articles of Association of certain subsidiaries, the subsidiaries are required to transfer 10% of the profit after tax to the statutory surplus reserves fund until the fund balance reaches 50% of the registered capital. The transfer to the funds must be made before distributing dividends to shareholders.

No transfer of statutory reserves has been made for the year *(2010: HK$Nil)*.

(iii) Contributed surplus

The contributed surplus represents the difference between the underlying net assets of the subsidiaries which were acquired by the Company and the nominal amount of shares issued by the Company for each acquisition at the time of the Group reorganisation.

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:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Notes to the Financial Statements

27. RESERVES *(Continued)*

Notes: (Continued)

(b) *Nature and purpose of reserves (Continued)*

(iv) Share option reserves

The share option reserves comprise the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments.

(v) Investment revaluation reserves

The investment revaluation reserves comprise the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date.

(vi) Translation reserves

The translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations.

At 31st December 2011, the total contributed surplus and retained profits of approximately HK$529,071,000 *(2010: approximately HK$532,448,000)* is available for distribution to owners of the parent.

28. PLEDGE OF ASSETS

At 31st December 2011, the Group had pledged the following assets to secure the banking facilities:

(a) Investment properties of the Group with carrying value of HK$36,300,000 *(2010: HK$33,120,000)*;

(b) Prepaid lease payments, buildings and leasehold improvements of the Group with carrying values of approximately HK$13,897,000 *(2010: approximately HK$13,604,000),* approximately HK$69,746,000 *(2010: approximately HK$69,155,000)* and approximately HK$330,000 *(2010: approximately HK$336,000)*;

(c) The trade receivables from third parties of the Group with carrying value of approximately HK$45,885,000 *(2010: HK$Nil)*;

(d) A leasehold property of the Group with carrying value of approximately HK$2,732,000 *(2010: approximately HK$2,831,000)*; and

(e) Bank deposit of the Group with carrying value of approximately HK$13,607,000 *(2010: approximately HK$8,680,000).*

Notes to the Financial Statements

29. CONTINGENT LIABILITIES

In December 2008, Guangdong Jianlibao Group Company Limited ("JLB Group") initiated proceedings against (1) Mr. Zhang Hai, former chairman and chief executive officer of JLB Group, an independent third party of the Group, and the controlling shareholders, actual controller, directors, supervisors, senior management of Foshan Zhixing Technology Company Limited ("Foshan Zhixing") for infringing the interest of JLB Group; (2) Mr. Zhang Hai and the controlling shareholders, actual controller, directors, supervisors, senior management of Shenzhen Sheng Bang for infringing the interest of JLB Group; and (3) Mr. Zhang Hai and the controlling shareholders, actual controller, directors, supervisors, senior management of Golden Yuxing for infringing the interest of JLB Group (collectively the "Actions"). Foshan Zhixing, Shenzhen Sheng Bang and Golden Yuxing are wholly-owned subsidiaries of the Group.

The People's Court of Sanshui District, Foshan City, Guangdong Province (the "Court of Sanshui") issued judgments ((2009) San Fa Min Er Chu Zi No. 38-1), ((2009) San Fa Min Er Chu Zi No. 39-1) and ((2009) San Fa Min Er Chu Zi No. 40-1) and summons dated 9th December 2008, which stated that, on application by JLB Group, the Court of Sanshui made orders of (1) freezing the bank deposits of Mr. Zhang Hai and Foshan Zhixing totaling RMB10,100,000 or sealing up and distraining its assets of such equivalent amount; (2) freezing the bank deposits of Mr. Zhang Hai and Shenzhen Sheng Bang totaling RMB40,620,000 or sealing up and distraining its assets of such equivalent amount; and (3) freezing the bank deposits of Mr. Zhang Hai and Golden Yuxing totaling RMB46,000,000 or sealing up and distraining its assets of an equivalent amount, together with a standby moratorium dated 13th January 2009 referring to Golden Yuxing's 36.66% equity interest in JI from the Court of Sanshui. The Group was notified in August of 2009 that the Actions have been transferred from the Court of Sanshui to the Intermediate Court of Foshan.

On 20th October 2009, the Group was notified by JI that the Intermediate Court of Foshan has issued a notice of enforcement to JI on 4th September 2009, ordering JI to assist in freezing Golden Yuxing's 36.66% equity interest in JI and suspending the payment of dividends attributable to Golden Yuxing in respect of its equity interest in JI for a period from 7th September 2009 to 6th September 2011. In October 2011, the Group was further notified by JI that the freezing period would be extended to September 2012 (see note 20). According to the legal opinion dated 12th March 2012 from the Group's PRC lawyers, Golden Yuxing is entitled to receive the dividends from JI but the suspension of the dividends payment is still in force. As the above freezing order will expire in September 2012, the dividend receivable from JI amounting to approximately HK$72,300,000 was classified as current asset as at 31st December 2011 *(2010: approximately HK$36,000,000).*

On 11th January 2011, the Group received five civil judgments all dated 30th December 2010 from the Intermediate Court of Foshan which ruled that JLB Group was awarded damages of total amount of approximately RMB96.2 million together with interests and costs to be borne by defendants including Mr. Zhang Hai, Beijing Yuxing Software Company Limited ("Yuxing Software"), Golden Yuxing, Foshan Zhixing and Shenzhen Sheng Bang. The Company filed an appeal to the Guangdong Higher Court against the said judgements in January 2011, and now such judgements have no legal effect and will be superseded by the final judgement from the appeal. On 28th July 2011, the Company received summons dated 21st July 2011 from the Guangdong Higher Court, requiring Golden Yuxing, Yuxing Software, Foshan Zhixing and Shenzhen Sheng Bang, all being wholly-owned subsidiaries of the Company, to attend the court hearing of the appeals. The PRC lawyers of the Company attended the court hearing on 2nd August 2011. As at the date of this report, no judgement for the appeal has been received from the Guangdong Higher Court. In the circumstance, none of the wholly-owned subsidiaries of the Group which are named as defendants in the judgements stated above will be required to satisfy the judgements and pay the damages together with interests and costs awarded by the Intermediate Court of Foshan.

As at 31st December 2011, certain cash and bank balances of the Group with carrying value of approximately HK$1,100,000 *(2010: approximately HK$1,100,000)* were frozen by the Intermediate Court of Foshan.

The Board has sought legal advice from its PRC lawyers and is of the view that the Actions are based on unsubstantiated and invalid grounds. Therefore, no provision for damages and the related interests and costs is considered necessary.

Notes to the Financial Statements

30. PENDING LITIGATION

In 2007, the JLB Group lodged a petition with the Guangdong Higher Court to institute a civil action against Golden Yuxing and SJHII, claiming, among other matters, that the Acquisition as detailed in note 20 was invalid.

On 18th February 2008, Golden Yuxing received a notification from Guangdong Higher Court, which said that JLB Group claimed that SJHII was actually a trustee holding the shares of JI on their behalf and had entered into the share sale agreement with Golden Yuxing without JLB Group's approval or authorisation. In addition, the fact that the aggregate investment cost exceeded 50% of Golden Yuxing's net assets also violated Rule 12 of the Company Law then in force in the PRC. The share sale transaction was therefore invalid and SJHII did not have the right to transfer the legal title of the JI's shares to Golden Yuxing. JLB Group thereby demanded the reversion and return of the JI's shares from Golden Yuxing to SJHII.

On 7th January 2009, the Group received a judgment dated 23rd December 2008 from the Guangdong Higher Court which ruled that (1) the Acquisition and the registration of the transfer of the related equity interest in JI were legally valid; (2) the claim submitted by the JLB Group to invalidate the Acquisition was rejected; and (3) the counter-claim filed by Golden Yuxing with the Guangdong Higher Court in May 2008 as a result of JLB Group's claim was also rejected.

On 25th June 2009, Golden Yuxing was notified by the Supreme Court of the People's Republic of China (the "Supreme Court") that an appeal has been lodged by the JLB Group, and which was accepted by the Supreme Court.

In December 2009, the Group received the (2009) Min Er Zhong Zi No. 53 civil ruling made on 20th November 2009 from the Supreme Court which ruled that upon the hearing, with regard to the litigation, the Supreme Court was of the view that the trial judgement of the Guangdong Higher Court misapprehended the facts; and therefore ruled (1) to revoke the civil ruling issued by the Guangdong Higher Court on 23rd December 2008; and (2) to return the case to the Guangdong Higher Court for rehearing.

On 22nd June 2010, the Group received summons dated 10th June 2010 from the Guangdong Higher Court which summoned Golden Yuxing to the court to respond to hearings scheduled on 25th June 2010. The Company has instructed its PRC lawyers to respond to the hearings. As at the date of this report, no judgement for the rehearing has been received from the Guangdong Higher Court. The Board has sought legal advice from its PRC lawyers and is still of the view that the claim submitted by JLB Group is based on invalid grounds. The Group has valid evidence which sufficiently ascertain their 36.66% ownership on the equity interest in JI and therefore no provision is considered necessary.

Notes to the Financial Statements

31. OPERATING LEASE COMMITMENTS

(a) The Group as lessee

At 31st December 2011, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**2,289**	2,362
In the second to fifth year inclusive	**1,437**	304
	3,726	2,666

Leases are negotiated for term ranging from one to three years with fixed rentals.

(b) The Group as lessor

The properties are expected to generate rental yields of 3.8% *(2010: 3.6%)* on an ongoing basis.

At 31st December 2011, the Group had contracted with tenants for the following future minimum lease payments:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**5,574**	1,915
In the second to fifth year inclusive	**10,429**	1,358
Later than fifth year	**97**	46
	16,100	3,319

Notes to the Financial Statements

32. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), which was adopted pursuant to the ordinary resolutions passed by the shareholders of the Company on 18th May 2003 for the purpose of providing incentives to certain eligible participants and unless otherwise cancelled or amended, will expire on 17th May 2013. Under the Scheme, the Board may grant share options to eligible employees, including Executive Directors, or any persons or entities who have contributed or will contribute to the growth and development of the Group, to subscribe for shares in the Company.

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants (the "Eligible Participants") to take up share options to subscribe for the shares of the Company:

(i) any employee or officer (whether full time or part time, and including any Executive Director) of any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity");

(ii) any Non-executive Director (including Independent Non-executive Director) of any member of the Group or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of any member of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; and

(vi) any holder of any securities or securities convertible into any securities issued by any member of the Group or any Invested Entity,

and, for the purposes of the Scheme, the share options may be granted to any company wholly-owned by one or more such Eligible Participants.

Notes to the Financial Statements

32. SHARE OPTION SCHEME *(Continued)*

The total number of shares in respect of which share options may be granted under the Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of outstanding options granted and yet to be exercised under the Scheme and any other share option schemes must not exceed 30% of the total number of shares of the Company in issue from time to time. At the annual general meeting which was held on 26th June 2008, the Scheme Mandate Limit was refreshed and approved by the shareholders, so that the maximum number of shares which fall to be issued upon exercise of all options that may be granted by the Company would be 162,794,000 shares, representing 10% of the shares in issue as at the date of approval of the refreshment of the Scheme Mandate Limit at the annual general meeting. The number of shares in respect of which options may be granted to any Eligible Participant in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of share options to any Director, chief executive or substantial shareholder must be approved by Independent Non-executive Directors. Where any grant of share options to a substantial shareholder or an Independent Non-executive Director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK$5,000,000 in the 12 months period up to the date of grant, then the grant must be approved in advance by the Company's shareholders.

An offer of the share options shall be deemed to have been accepted by way of payment of a consideration of HK$1.00 by the Eligible Participants per each share option within 21 days from the date of offer of the share options. A share option may be exercised in accordance with the terms of the Scheme at any time during the effective period of the Scheme to be notified by the Directors which shall not be later than 10 years from the date of grant. There is no general requirement regarding any minimum period of time a grantee must hold a share option granted to him before exercising such share option. However, the Directors may determine from time to time to impose such a requirement of such a minimum period provided that the date at the end of such minimum period of time must be earlier than (a) the date on which such share option forfeits; and (b) 10 years from the date of grant of that share option. The exercise price is determined by the Directors, and will not be less than the highest of the closing price of the Company's shares on the date of grant, the average closing price of the Company's shares for the five business days immediately preceding the date of grant and the nominal value of the shares of the Company.

At 31st December 2011, the total number of shares in respect of which share options had been granted and remained outstanding under the Scheme was 118,328,000 *(2010: 119,248,000)* representing 6.82% *(2010: 6.88%)* of the shares of the Company in issue at that date.

Notes to the Financial Statements

32. SHARE OPTION SCHEME *(Continued)*

(a) Movements in share options:

	Number of options 2011	2010
At 1st January	**119,248,000**	123,208,000
Exercised during the year	**(920,000)**	(3,928,000)
Forfeited during the year	**–**	(32,000)
At 31st December	**118,328,000**	119,248,000
Options vested at 31st December	**118,328,000**	119,248,000

(b) Terms of unexpired and unexercised share options at balance sheet date:

Date of grant	Exercise period	Exercise price HK$	Number of options 2011	2010
26th December 2006	26th December 2006 – 17th May 2013	0.2975	**63,128,000**	64,048,000
4th September 2007	4th September 2007 – 17th May 2013	1.265	**55,200,000**	55,200,000
			118,328,000	119,248,000

Notes to the Financial Statements

32. SHARE OPTION SCHEME *(Continued)*

(c) Details of the movement of share options granted during the years ended 31st December 2011 and 2010 to subscribe for the shares in the Company are as follows:

For the year ended 31st December 2011

	Date of grant	Exercisable period	Exercise price HK$	At 1st January 2011	Exercised during the year	Granted during the year	Forfeited during the year	At 31st December 2011
Director								
– Mr. Wang An Zhong	26th December 2006	26th December 2006 – 17th May 2013	0.2975	1,600,000	–	–	–	**1,600,000**
– Mr. Wu Jia Jun	26th December 2006	26th December 2006 – 17th May 2013	0.2975	960,000	–	–	–	**960,000**
– Mr. Zhong Peng Rong	26th December 2006	26th December 2006 – 17th May 2013	0.2975	1,600,000	–	–	–	**1,600,000**
– Ms. Shen Yan	26th December 2006	26th December 2006 – 17th May 2013	0.2975	960,000	–	–	–	**960,000**
Continuous contract employees	26th December 2006	26th December 2006 – 17th May 2013	0.2975	58,928,000	(920,000)	–	–	**58,008,000**
	4th September 2007	4th September 2007 – 17th May 2013	1.265	55,200,000	–	–	–	**55,200,000**
				119,248,000	(920,000)	–	–	**118,328,000**
Exercisable at 31st December 2011								**118,328,000**
Weighted average exercise price (HK$)				0.7454	0.2975	–	–	**0.7488**

Notes to the Financial Statements

32. SHARE OPTION SCHEME *(Continued)*

(c) *(Continued)*

For the year ended 31st December 2010

	Date of grant	Exercisable period	Exercise price HK$	At 1st January 2010	Exercised during the year	Granted during the year	Forfeited during the year	At 31st December 2010
Director								
– Mr. Wang An Zhong	26th December 2006	26th December 2006 – 17th May 2013	0.2975	1,600,000	–	–	–	1,600,000
– Mr. Shi Guang Rong	26th December 2006	26th December 2006 – 17th May 2013	0.2975	600,000	(600,000)	–	–	–
– Mr. Wu Jia Jun	26th December 2006	26th December 2006 – 17th May 2013	0.2975	960,000	–	–	–	960,000
– Mr. Zhong Peng Rong	26th December 2006	26th December 2006 – 17th May 2013	0.2975	1,600,000	–	–	–	1,600,000
– Ms. Shen Yan	26th December 2006	26th December 2006 – 17th May 2013	0.2975	960,000	–	–	–	960,000
Continuous contract employees	26th December 2006	26th December 2006 – 17th May 2013	0.2975	62,288,000	(3,328,000)	–	(32,000)	58,928,000
	4th September 2007	4th September 2007 – 17th May 2013	1.265	55,200,000	–	–	–	55,200,000
				123,208,000	(3,928,000)	–	(32,000)	119,248,000
Exercisable at 31st December 2010								119,248,000
Weighted average exercise price (HK$)				0.7310	0.2975	–	0.2975	0.7454

The weighted average share price of the share options exercised during the year at the dates of exercise is HK$0.55 *(2010: HK$0.40)*.

Notes to the Financial Statements

32. SHARE OPTION SCHEME *(Continued)*

(d) The cost of the options granted on 26th December 2006 and 4th September 2007 for the year ended 31st December 2011 were HK$Nil *(2010: HK$Nil)* and HK$Nil *(2010: HK$Nil)* respectively. The cost of share options granted is estimated on the date of the grant using the Black-Scholes Option Model with the following parameters:

Date of grant	26th December 2006	4th September 2007
Number of shares issuable under options granted	104,800,000	55,200,000
Exercise price	HK$0.2975	HK$1.265
5 years and 7 years Exchange Fund Notes, risk-free rate interest	3.71%	4.26%
Volatility#	80%	80%
Expected dividend yield	2%	2%
Expected life	2.8 years to 5.8 years	3 years to 5 years

The volatility measured of the standard deviation of expected share price returns is based on statistical analysis of daily share prices annualised for one year immediately preceding the grant date.

33. RETIREMENT BENEFITS SCHEME

The Group operates the MPF for all qualifying employees in Hong Kong. The assets of the MPF are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF, which contribution is matched by employees.

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

The total cost charged to profit or loss of approximately HK$6,287,000 *(2010: approximately HK$3,968,000)* represents contributions paid and payable to these schemes by the Group in respect of the current year.

Notes to the Financial Statements

34. RELATED PARTY TRANSACTIONS

Key management compensation

The remuneration of Directors and other members of key management during the year are as follows:

	2011 HK$'000	2010 HK$'000
Salaries	**2,947**	2,769
Housing allowances	**222**	222
Retirement benefits scheme contributions	**267**	116
	3,436	3,107

35. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ kind of legal entity	Principal activities/ place of operation	Particulars of issued share capital/ registered capital	Interest held
Direct subsidiaries:				
Yuxing Group (International) Limited	British Virgin Islands ("BVI")/limited liability company	Investment holding/ the PRC and Hong Kong ("HK")	2,000 ordinary shares of US$1 each	100%
HyBroad Vision Holdings Limited	HK/limited liability company	Investment holding/HK	1 ordinary share of HK$1	100%
Indirect subsidiaries:				
Yuxing Software	The PRC/foreign wholly owned enterprise	Research and development and software design/ the PRC	RMB10,610,850	100%

Notes to the Financial Statements

35. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ kind of legal entity	Principal activities/ place of operation	Particulars of issued share capital/ registered capital	Interest held
Golden Yuxing	The PRC/sino-foreign co-operative joint venture	Research and development, design, marketing, distribution and sales of information home appliances/ the PRC	US$4,582,000	100%
Sheng Bang Qiang Dian Electronics (Zhongshan) Company Limited	The PRC/foreign wholly owned enterprise	Manufacturing, distribution and sales of information home appliances, electronic components, plastic and miscellaneous products/the PRC	RMB123,000,000	100%
Yield Lasting Investments Limited	BVI/limited liability company	Property holding/HK	1 ordinary share of US$1	100%
Yuxing Technology Company Limited	HK/limited liability company	Trading and distribution of information home appliances and electronic components and investment holding/HK	2 ordinary shares of HK$1 each	100%
Guangdong HyBroad Vision Electronics Technology Company Limited	The PRC/domestic equity joint venture	Manufacturing, distribution and sales of information home appliances/the PRC	RMB50,000,000	100%
HyBroad Vision (Hong Kong) Technology Company Limited	HK/limited liability company	Trading and distribution of information home appliances and electronic components/HK	10,000,000 ordinary shares of HK$1 each	100%

The above table contains only the particulars of subsidiaries of the Group which principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would result in particulars of excessive length.

None of the subsidiaries had any debt securities at the end of the year or at any time during the year.