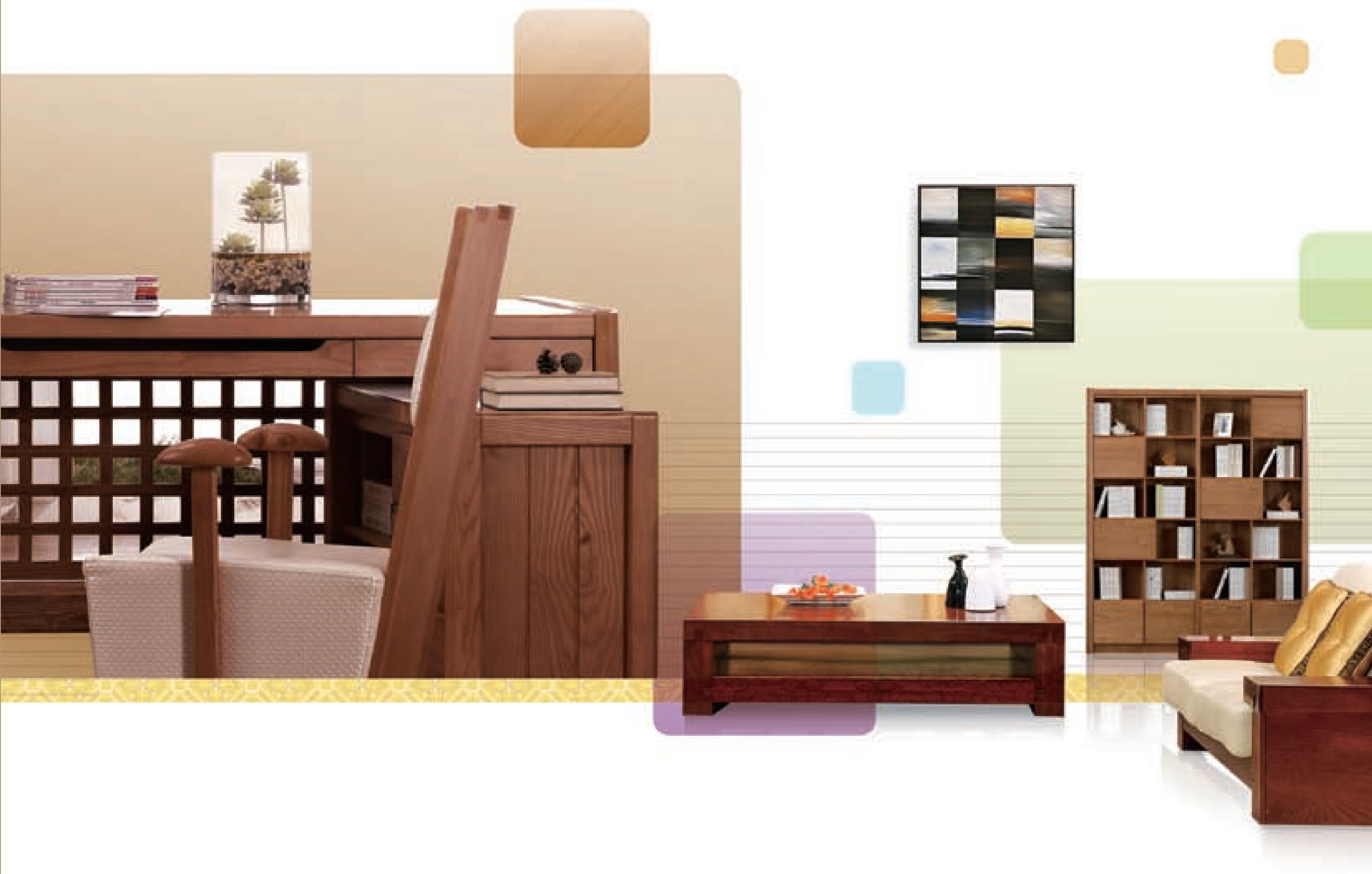
名家國際

FAVA INTERNATIONAL HOLDINGS LIMITED
名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)
Stock Code : 08108



2011 Annual Report

* For identification purpose only

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This report, for which the director(s) of the Company (the "Director(s)") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (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 report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Li Ge
Mr. Zhao Guo Wei
Mr. Sun, Miguel (appointed on 24 February 2012)
Mr. Ma Chun Fung, Horace (resigned on 31 October 2011)

NON-EXECUTIVE DIRECTORS

Mr. Ng Kwai Wah, Sunny (resigned on 16 May 2011)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Qing Chen (appointed as non-executive director on 16 May 2011 and re-designated as independent non-executive director on 18 November 2011)
Mr. Yang Dongli
Mr. Zhang Chun Qiang (appointed on 24 February 2012)
Mr. Yang Jie (resigned on 24 February 2012)
Mr. Lee Yuen Kwong (resigned on 18 November 2011)

REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1005, 10/F., C.C. Wu Building,
302-8 Hennessy Road,
Wanchai,
Hong Kong

AUDIT COMMITTEE

Mr. Liu Qing Chen *(Chairman)*
Mr. Yang Dongli
Mr. Zhang Chun Qiang (appointed on 24 February 2012)
Mr. Yang Jie (resigned on 24 February 2012)
Mr. Lee Yuen Kwong (resigned on 18 November 2011)

REMUNERATION COMMITTEE

Mr. Liu Qing Chen *(Chairman)*
Mr. Yang Dongli
Mr. Zhang Chun Qiang (appointed on 24 February 2012)
Mr. Yang Jie (resigned on 24 February 2012)
Mr. Lee Yuen Kwong (resigned on 18 November 2011)

NOMINATION COMMITTEE

(established on 1 March 2012)

Mr. Liu Qing Chen *(Chairman)*
Mr. Yang Dongli
Mr. Zhang Chun Qiang

COMPLIANCE OFFICER

Mr. Li Ge

AUTHORISED REPRESENTATIVES

Mr. Li Ge
Mr. Chan Yuk Hiu, Taylor

COMPANY SECRETARY

Mr. Chan Yuk Hiu, Taylor, *CPA, FCCA*

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited
6 Front Street,
Hamilton HM 11,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F., Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

HONG KONG LEGAL ADVISERS

Loong & Yeung
Suites 2001-2005, 20/F,
Jardine House,
1 Connaught Place,
Central,
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F, Gloucester Tower,
The Landmark,
11 Pedder Street,
Central,
Hong Kong

GEM STOCK CODE

08108

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of the directors (the "Directors") of FAVA International Holdings Limited (the "Company"), I am pleased to report the annual results of the Company together with its subsidiaries (collectively referred to as the "Group") for the fiscal year ended 31 December 2011.

BUSINESS AND FINANCIAL REVIEW

During the year ended 31 December 2011, the household products business of the Group recorded a net loss of HK$51,457,000. The net operating loss for the year was HK$52,520,000.

Considering the inadequacies in the Group's operation and management such as slow responses to market changes and over speedy expansion, the Group closed all the loss-making direct sale shops and non-operating subsidiaries located in Mainland China, leaving only the core business of the Group such as the furntiure's production and design. This can effectively reduce operation risks and enable the Group to make adjustments according to market changes when the Chinese furniture market revives.

Revenue from household products business for the Group for the year ended 31 December 2011 amounted to approximately HK$190,970,000 (2010: approximately HK$200,287,000) representing an annual decrease by 4.65%. Loss attributable to shareholders amounted to approximately HK$52,520,000 and was drastically increased by 77.44% as compared to HK$29,598,000 in 2010 because of the impairment loss provided on the plant owned by the Group amounting to approximately HK$26,869,000.

From the mid of the third quarter in 2011, the Group commenced its business in the funeral services industry. Up to 31 December 2011, the Group's total revenue generated from the provision of funeral services and sale of funeral-related products amounted to approximately HK$7,644,000. In the mid of December 2011, the Group entered into an agreement to acquire 100% equity interest of Profit Value Group Limited. The acquisition will enable the Group to be granted a sub-contracting agreement concerning the provision of all funeral-related services, products and assistance required by the operation of Huidong County Huaqiao Cemetery operated by Huidong County Huaqiao Cemetery Management Company. The transaction has been approved by the shareholders of the Company at the special general meeting held on 12 March 2012. In addition, in February 2012, the Group won a bid for the operation of a funeral parlour in Hung Hom for a term of five years beginning from 1 April 2012. It is expected that the funeral parlour will be opened at the beginning of May 2012 after the completion of the interior decoration.

PROSPECTS

The Group will continue to provide good quality services to customers based on the philosophy of "customers are of the most importance" and to raise our operational efficiency.

Looking ahead, the Group will moderately adjust its existing business lines based on the conditions of the Group and the market, and take prudent steps to strengthen its management and operation capabilities to broaden the earning base by exploring new businesses in return for the shareholders' support to the Group.

I would like to thank all shareholders and the Board for their unswerving support and confidence. I also express my sincere gratitude to our customers and business partners. I would also like to thank on behalf of the Group in recognition of the dedications by all our employees to make a valuable contribution for the Group.

Li Ge
Chairman and Chief Executive Officer

Hong Kong, 26 March 2012

BUSINESS AND FINANCIAL REVIEW

During the year 2011, the European debt crisis continued to exert pressure on the financial market. The PRC Central Government implemented policies to improve the living standard of the labours, which led to the continuous increase in labour costs. Furthermore, as land and raw material costs in China kept rising and the PRC Central Government put forth macro-control policies over housing to cool down the housing market (especially in the first-and-second tier cities), potential home buyers put off their home purchase plans and their decisions on buying furniture. All these factors exerted great pressure on the Group's profitability. Upon our disposal of all non-performing assets, the Group's performance results are still not satisfactory.

HOUSEHOLD PRODUCTS BUSINESS

For the year ended 31 December 2011, the total sales revenue of household products amounted to approximately HK$190,970,000 and was dropped by 4.65% as compared to approximately HK$200,287,000 in the corresponding period last year. Direct retail sales (household products were sold to end customers directly through self-owned direct sale shops) and indirect retail sales (household products were sold to end customers through franchises) accounted for 11.27% and 88.73% of the Group's household products sales respectively. Indirect retail sales derived from franchises amounted to approximately HK$169,439,000 and was decreased by 6.56% over the corresponding period last year. Direct retail sales derived from self-owned direct sale shop business amounted to approximately HK$21,531,000 and was increased by 13.63% over the corresponding period in 2010.

Gross profit increased by 61.44% from approximately HK$16,478,000 in the corresponding period of 2010 to approximately HK$26,602,000. Gross profit margin increased from approximately 8.23% in the corresponding period last year to 13.93% this year, mainly as a result of the continuous decrease in the various discounts offered by the Group and the sales subsidies provided to franchisees.

Operating expenses of the Group's household products business amounted to approximately HK$83,232,000 and was increased by approximately HK$5,498,000 as compared to approximately HK$77,734,000 in the corresponding period last year. The net loss arising from household products business went up from approximately HK$22,166,000 in the corresponding period last year to approximately HK$51,457,000 this year.

In 2010, the Group disposed of all the under-performed self-owned direct sale shops and indirect retail sales businesses related to the Jixiangniao brand, keeping only the business of Lang Fang Huari Furniture International Exhibition Center ("Hall A") for its self-owned direct sale shop business. Pursuant to the land transfer agreement between Huari and the government of Langfang Economic and Technology Development Zone as well as the notice from Huari requiring the Group to relocate Hall A located in the old factory area on or before 30 September

2011, the Group terminated all the businesses in Hall A on 30 September 2011 so as to minimize the operating risks of the Group. Thus, all of the Group's direct retail business were terminated.

Some of the factory buildings and offices rented from Huari in the old factory area may have to be relocated in phases in the future, thus to a certain extent exerting influence to the future production of the Group. No assessment can be made in the current stage on the impacts that may bring about by the relocation as Huari is not able to provide an exact relocation timetable. The Group will claim compensation from Huari for losses incurred in the relocation.

FUNERAL BUSINESS

From the third quarter of 2011, the Group commenced its business in the funeral services industry.

Up to 31 December 2011, the Group's total revenue generated from the provision of funeral-related services and the trading of funeral-related products amounted to approximately HK$7,644,000, thus generating a net loss of approximately HK$1,022,000.

On 15 December 2011, the Group entered into an agreement to acquire 100% equity interest of Profit Value Group Limited with a cash consideration of HK$80,000,000. The acquisition will enable the Group to be granted a sub-contracting agreement concerning the provision of all funeral-related services, products and assistance required by the operation of Huidong County Huaqiao Cemetery entered into by Ming De Tang Trading (Shenzhen) Limited Company (a subsidiary 100% indirectly owned by Profit Value Group Limited in China) and Huidong County Huaqiao Cemetery Management Company. The transaction has been formally approved by shareholders at the special general meeting of the Company held on 12 March 2012. In addition, in February 2012, the Group won a bid for the operation of a funeral parlour in Hung Hom for a term of five years dated from 1 April 2012 to 31 March 2017. It is expected that the interior decoration will be completed either at the end of April or at the beginning of May 2012, and the funeral parlour will be opened in May 2012. It is believed that the acquisition and the business activity will contribute to the diversification of the Group's business.

PROSPECTS

The management believes that the furniture industry in China still presents promising prospects with the introduction of the "12th Five-year Plan" of the PRC Central Government which focuses on expanding domestic consumption and continued urbanization policy, despite the operation of the Group in furniture products, being its main business, is encountering difficulties.

In 2012, the Group will continue to actively explore new sales channels so as to facilitate its market expansion. The Group will also adopt active measures to raise its market share and enhance its brand recognition in China. In terms of product design, the Group will strive to improve its product portfolios and introduce luxury products.

The Group is integrating the production capacities of its household products business in order to reduce the production costs and expenses. Entering the funeral services industry has also broadened the earning base of the Group. Furthermore, the Group will also strive to bring new growing points by acquiring assets similar to or related to our current businesses, which in turn will contribute to the diversification of the Group's business.

MEMORANDUM OF UNDERSTANDING

On 20 September 2010, EMAX Venture Limited (the "EMAX") as purchaser, a direct wholly-owned subsidiary of the Company, entered into the memorandum of understanding ("MOU") with an individual (the "Vendor") who is the controlling shareholder of the target company (the "Target Company") under the proposed acquisition, pursuant to which EMAX intended to acquire and the Vendor intended to sell 80% interest of the Target Company (the "Proposed Acquisition"). The Target Company and its subsidiaries are principally engaged in the retail business of fashionable products and accessories in Hong Kong and the PRC.

The consideration of the Proposed Acquisition is expected to be in the range from HK$600,000,000 to HK$800,000,000.

As no formal agreement and other legal documentation relating to the subject matter of the MOU has been entered into on or before the ending of the exclusivity period of the MOU (i.e. on or before 19 March 2011), thus the MOU shall lapse accordingly. As at the date of this report, the earnest money in the amount of HK$40,000,000 paid by EMAX to the Vendor had been refunded to EMAX by the Vendor in full.

For details, please refer to the announcements of the Company dated 21 September 2010, 18 November 2010 and 19 March 2011.

MATERIAL ACQUISITION

On 15 December 2011, EMAX and Mr. Lau Chi Yan entered into a sale and purchase agreement pursuant to which EMAX conditionally agreed to acquire and Mr. Lau Chi Yan conditionally agreed to sell the entire issued share capital of Profit Value and the entire amount of shareholder's loan owning by Profit Value to Mr. Lau Chi Yan as at the date of completion of the transaction at a consideration of HK$80 million in cash.

The principal asset of Profit Value is its holding of, through The Shrine of Nansha Limited, 100% equity interest in the Ming De Tang Trading (Shenzhen) Limited Company*（明德堂貿易（深圳）有限公司）, which is the sole subcontractor of the PRC Cemetery Company and is responsible for the provision of all funeral-related services and products and assistance necessary for the operation of the Cemetery under the Subcontracting Agreement.

The transaction has been approved by shareholders of the Company at the special general meeting of the Company held on 12 March 2012. As at the date of this report, the transaction has not completed yet.

For details, please refer to the announcements of the Company dated 15 December 2011, 10 January 2012, 20 January 2012 and 12 March 2012 respectively and the circular dated 24 February 2012.

SUBSEQUENT EVENTS

Details of the significant subsequent events of the Group are set out in note 45 to the financial statements

FINANCIAL REVIEW

The Group generated approximately HK$198,614,000 in total revenue in 2011, representing a decrease of 0.84% as compared with year 2010.

The breakdown of the turnover is set out below:

	2011		2010		
	HK$ million	**%**	HK$ million	%	Change
Manufacturing and sales of household products					
PRC indirect retail sales	**162.1**	**81.62%**	173.3	86.54%	(6.46%)
PRC direct retail sales (discontinued)	**21.5**	**10.83%**	18.9	9.46%	13.76%
Export sales	**7.4**	**3.72%**	8.1	4%	(8.64%)
Provision of funeral services and sale of funeral related products	**7.6**	**3.83%**	–	–	
Total	**198.6**	**100%**	200.3	100%	

* ***For identification purpose only***

SIGNIFICANT INVESTMENT

The Group had no significant investment held in the year ended 31 December 2011.

LIQUIDITY AND FINANCIAL RESOURCES

All the Group's funding and treasury activities are basically managed and controlled by the senior management. There was no significant change in respect of treasury and financing policies from the information disclosed in the Group's annual report of 2010.

As at 31 December 2011, cash and bank balances of the Group was approximately HK$50,416,000 (2010: HK$25,527,000), approximately 71.2% of the Group's cash was denominated in Renminbi and 19.11% of the Group's cash was denominated in Hong Kong Dollars. The Group's exposure to exchange fluctuation was minimal.

The Group has no bank borrowings throughout the year under review.

As at 31 December 2011, the total borrowings of the Group amounted to approximately HK$11,000 (2010: approximately HK$26,000), representing obligation under a finance lease contract with an interest rate of approximately 5% per annum and an average lease term of approximately five years.

CAPITAL STRUCTURE

The total number of issued shares of the Company was 1,758,355,970 as at 31 December 2011.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2011, the Group had employed 10 staffs in Hong Kong and 1,082 staffs in PRC (as at 31 December 2010: 6 staffs in Hong Kong and 922 staffs in PRC), they were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes. Total staff costs for the year 2011 amounted to approximately HK$31,936,000 (2010: approximately HK$27,807,000).

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of normal business operations. The Directors consider the Group's relationship with its employees to be good.

CHARGE ON GROUP'S ASSETS

Save as the finance lease contract for the Group's office equipment, the Group did not have any other charge on its assets as at 31 December 2011 and 31 December 2010 respectively.

GEARING RATIO

As at 31 December 2011, the Group's gearing ratio was approximately 0.01% representing a percentage of obligations under finance lease over shareholders' equity (2010: 0.01%), and the net current assets was approximately HK$232,381,000 (2010: approximately HK$212,113,000).

FOREIGN CURRENCY EXPOSURE

As most of the Group's transactions are denominated in Renminbi and Hong Kong dollars, the Directors believe that the Group's exposure to exchange fluctuation was not material and the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities as at 31 December 2011 (2010: nil).

Biographical Details Of Directors And Company Secretary

EXECUTIVE DIRECTORS

Mr. Li Ge, aged 44, was appointed as an executive Director on 31 August 2006. He obtained a diploma in financial accountancy and a diploma in law from Hebei University, after that, he obtained a master of science in engineering from Wuhan Industry University (currently known as Wuhan University of Technology). Past experience includes being the executive director and senior consultant of Lang Fang Huari Furniture Joint Stock Co. Limited ("Huari Furniture"). Mr. Li has experience in the management of PRC listed company and Hong Kong listed company, and in the management of production and sales of household products in China. Mr. Li became a member of Chinese Institute of Certified Public Accountants in 1994, and is now a senior consultant of Beijing China Regal United Certified Public Accountants. Mr. Li has joined our Group since March 2006, he now holds directorships in Alwin Asia Investment Limited, Tedwood International Limited, Ming Ting Rui He (Beijing) Trading Limited, General Asia Holdings Limited, EMAX Venture Limited, Able Profit (Hong Kong) Limited and Most Fame (China) Limited which are all wholly-owned subsidiary of the Company, he is also a director of South China Memorial Park & Funeral Service Limited, an indirect non-wholly-owned subsidiary of the Company where Able Profit (Hong Kong) Limited holds 60% of its total issued shares.

Mr. Zhao Guo Wei, aged 49, was appointed as an executive Director on 6 July 2006. He obtained a diploma in accountancy from Shandong China Accounting Postal Tuition School, and has over twenty-five years of experience in management of household products manufacturing including production flow path control and production cost control. Mr. Zhao's past experience includes his appointments as the General Manager of Quality Control Department of Huari Furniture.

Mr. Sun, Miguel, aged 39, was appointed as an executive Director on 24 February 2012. He graduated from International Hotel Management Institute, Switzerland in 1994. Mr. Sun has served as a management trainee for the Crux Global Hotel Reservation Limited. He has also served as the business development manager for the Chant An Group in Taiwan, which designs and builds hotels, hospitals, and semi-conductor plants. Mr. Sun is the founder and director of Netica Venture Limited, a venture capital company that focuses on wireless communications and the internet. Mr. Sun is now acting as director of Most Fame (China) Limited (a directly wholly-owned subsidiary of the Company), Able Profit (Hong Kong) Limited (an indirectly wholly-owned subsidiary of the Company) and South China Memorial Park & Funeral Service Limited (an indirect non-wholly-owned subsidiary of the Company).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Qing Chen, aged 43, was appointed as a non-executive Director on 16 May 2011 and re-designated as an independent non-executive Director on 18 November 2011. He holds a Bachelor of Economics in Accounting from the Central University of Finance and Economics (formerly known as Central Institute of Finance and Banking). He also holds a Master of Economics from the Capital University of Economics and Business majoring in Banking. Mr. Liu is a member of The Chinese Institute of Certified Public Accountants, and is currently a CPA in Xingtai Jinzheng Certified Public Accounts Co., Limited. He has over 21 years of experience in auditing, accounting and financial management. Mr. Liu is also the chairman of the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

Mr. Yang Dongli, aged 39, was appointed as an independent non-executive Director on 1 September 2005. He is formerly a Production Department Manager and Senior Engineer in Beijing D&G Machinery Co., Limited. Mr. Yang graduated in Air Industrial University North of China majoring in Management Engineering. Mr. Yang has over fifteen years working experience. Mr. Yang Dongli is also a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

Biographical Details Of Directors And Company Secretary

Mr. Zhang Chun Qiang, aged 40, was appointed as an independent non-executive Director on 24 February 2012. He holds a Bachelor's Degree of Management from Hebei University, major in Business Management. Mr. Zhang is a member of The Chinese Institute of Certified Public Accountants, he has engaged in various auditing works in several PRC certified public accountants firms like Beijing Lianda Xinlong Certified Public Accounts Co., Ltd.. Mr. Zhang currently served as a deputy director of the Accounting Information Department of Metallurgical Corporation of China Limited, he has over 22 years of experience in accounting and auditing. Mr. Zhang is also a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

COMPANY SECRETARY

Mr. Chan Yuk Hiu, Taylor, aged 34, is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants, he has worked in certified public accountants firms and participated in various audit and accounting works. He has over eleven years experiences in professional accounting practices.

Report Of The Directors

The Directors are pleased to present their report and the audited financial statements of FAVA International Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter referred to as the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution by principal business segments during the year are set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2011 and the state of affairs of the Company and the Group at the balance sheet date are set out in the financial statements on pages 26 to 28.

No dividend has been declared or proposed by the Directors of the Company in respect of the year ended 31 December 2011 (2010: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 95. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

ASSETS CLASSIFIED AS HELD FOR SALE

Details of movements in the assets classified as held for sale of the Group during the year are set out in note 29 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 36, 37 and 41 to the financial statements respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company or any of its subsidiaries has not purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company has no reserves available for distribution, calculated in accordance with the provisions of the Bermuda Companies Act 1981 and the Company's bye-laws.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 36.6% of the total sales for the year and sales to the largest customer included therein amounted to 14.15%. Purchases from the Group's five largest suppliers accounted for 27.46% of the total purchases for the year and purchases from the largest supplier included therein amounted to 10.43%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DONATION

No donation was made by the Group during the year (2010: Nil).

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 3 to the financial statements.

DIRECTORS

The Directors of the Company during the year and as at the date of this report were:

Executive Directors:

Mr. Li Ge
Mr. Zhao Guo Wei
Mr. Sun, Miguel (appointed on 24 February 2012)
Mr. Ma Chun Fung, Horace (resigned on 31 October 2011)

Non-executive Directors:

Mr. Liu Qing Chen (appointed on 16 May 2011 and re-designated as independent non-executive Director on 18 November 2011)
Mr. Ng Kwai Wah, Sunny (resigned on 16 May 2011)

Independent non-executive Directors:

Mr. Liu Qing Chen (re-designated as independent non-executive Director on 18 November 2011)
Mr. Yang Dongli
Mr. Zhang Chun Qiang (appointed on 24 February 2012)
Mr. Yang Jie (resigned on 24 February 2012)
Mr. Lee Yuen Kwong (resigned on 18 November 2011)

In accordance with bye-laws 86(2) and 87(1) of the Company's bye-laws, Messrs. Mr. Li Ge, Mr. Zhao Guo Wei, Mr. Sun, Miguel, Mr. Liu Qing Chen, Mr. Yang Dongli and Mr. Zhang Chun Qiang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Liu Qing Chen, Mr. Yang Dongli and Mr. Zhang Chun Qiang, and as at the date of this report considers all of the indpendent non-executive Directors are independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Biographical details of the Directors and the company secretary of the Company are set out on pages 10 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The independent non-executive Directors, Mr. Liu Qing Chen, Mr. Yang Dongli and Mr. Zhang Chun Qiang, were appointed for an initial term of one year renewable by mutual agreement in writing two months in advance to the expiry of the initial term of appointment for successive terms of one year.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Group.

Details of the Directors' remunerations are set out in note 11 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party subsisting during the year.

As at 31 December 2011, none of the Directors had any direct or indirect interest in any assets which were acquired or disposed of by, or leased to, the Company or any of its subsidiaries, or are proposed to acquired or disposed of by, or lease to, the Company or any of its subsidiaries.

OLD SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Old Share Option Scheme"), the Board could for a consideration of HK$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 6 May 2002) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The Old Share Option Scheme became effective on 24 May 2002 (the date on which the Share Option Scheme was adopted) and was terminated on 9 December 2010. The subscription price under the Old Share Option Scheme was determined by the Board in its absolute discretion, in any event, not less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option was granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option was granted.

The maximum number of shares in respect of which options may be granted under the Old Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of the Company dated 6 May 2002).

The details and major provisions of the Old Share Option Scheme were set out in the circular of the Company dated 6 May 2002. The details of the termination of the Old Share Option Scheme were set out in the circular of the Company dated 24 November 2010.

On 22 January 2010 and 28 September 2010 (the "Date of Grant"), the Company has granted 110,400,000 and 27,600,000 share options to certain Eligible Persons (as defined in the Old Share Option Scheme) (the "Offerees") respectively, pursuant to the Old Share Option Scheme, representing approximately 7.972% and 1.9166% of the issued share capital of the Company as at 22 January 2010 and 28 September 2010 respectively. The share options entitle the offerees to subscribe for a total of 138,000,000 ordinary shares of HK$0.002 each in the capital of the Company upon exercise in full. The exercise prices of the share options granted were HK$0.1374 and HK$0.157 respectively, and the validity and exercise periods were two years and one year respectively, both commencing from the date of grant.

For the twelve months ended 31 December 2011, the details of the share option being granted, exercised, outstanding and lapsed under the Old Share Option Scheme are as follow:

Name and category of participants	Position held with the Group and the Company	Date of grant of share options*	Exercise period of share options	Number of unlisted share options: Outstanding at 1 January 2011	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2011	Share price of the Company: Exercise price of share options	As at the date of grant of share options	As at the date of exercise of share options
Other Participants										
Fung Chan Man	Financial Advisor	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	(13,800,000)	–	–	0.1374 per share	0.1310 per share	0.1240 per share
Libon Fung	Accounting Advisor	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	–	–	13,800,000	0.1374 per share	0.1310 per share	N/A
Zhou Xu En	Sales Consultant	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	–	–	13,800,000	0.1374 per share	0.1310 per share	N/A
Zhao Hua Jie	Finance Consultant	28 September 2010	28 September 2010 to 27 September 2011	13,800,000	–	(13,800,000)	–	0.1570 per share	0.1550 per share	N/A
				55,200,000	(13,800,000)	(13,800,000)	27,600,000			

* There is no vesting period of the share options.

Up to the date of this report, all the options being granted under the Old Share Option Scheme have been exercised or lapsed.

NEW SHARE OPTION SCHEME

On 9 December 2010, the Company adopted the new share option scheme (the "New Share Option Scheme"). Pursuant to the New Share Option Scheme, the Board may for a consideration of HK$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 23 November 2010) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. If any further grant of options to such eligible person which would result in the shares issued or to be issued upon exercise of all options granted or to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of further grant would exceed 1% of the shares in issue, such grant must be separately approved by shareholders in general meeting, with such eligible person and its associates abstaining from voting. A shareholders' circular containing the information required by the GEM Listing Rules shall be despatched to the shareholders. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of the Company dated 23 November 2010).

The total number of securities available for issue under the New Share Option Scheme is 527,506,791, representing 30% of the issued shares of the Company as at the date of this report.

The New Share Option Scheme became effective for a period of 10 years commencing on 9 December 2010 (the date on which the New Share Option Scheme was adopted).

The details and major provisions of the New Share Option Scheme were set out in the circular of the Company dated 23 November 2010.

Up to the date of this report, no options had been granted under the New Share Option Scheme.

As at the date of this report, none of the Directors or chief executives of the Company held any share options.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" below and the old share option scheme and the new share option scheme as disclosed above, at no time during the year there were any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

DISCLOSURE OF INTEREST AS PER REGISTERS KEPT PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE ("THE SFO")

(a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.46 of the GEM Listing Rules were as follows:

Long positions in ordinary shares of HK$0.002 each of the Company

	Number of shares held, capacity and nature of interest					
Name of director	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled corporation** *(Note 2)*	**Beneficiary of a trust**	**Total**	**Approximate percentage of the Company's total issued capital** *(Note 1)*
Mr. Li Ge	64,548,000	–	351,598,000	–	416,146,000	23.66%

Note:

(1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,758,355,970 issued shares as at 31 December 2011.

(2) Mr. Li Ge beneficially owns the entire issued share capital of True Allied Assets Limited. Therefore, Mr. Li Ge is deemed, or taken to be, interested in all the shares held by True Allied Assets Limited for the purpose of SFO.

Save as disclosed above, as at 31 December 2011, none of the Directors and chief executive of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

(b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

So far as were known to the Directors or chief executive of the Company, as at 31 December 2011, the following persons (other than the Directors and chief executive of the Company as disclosed above) had interests and/or short positions of 5% or more of the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the ordinary shares of HK$0.002 each of the Company

Name	Nature and capacity of interest	Number of shares held	Approximate percentage of interest *(Note 1)*
Substantial Shareholders			
True Allied Assets Limited	Beneficial owner	351,598,000	19.99%

Note:

(1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,758,355,970 issued shares as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, the Directors are not aware of any other persons, other than the Directors and chief executives of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

COMPETING INTEREST

None of the Directors or the substantial shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates has any interest in any business which competed or might compete with the business of the Group during the year and as at the date of this report.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in rule 5.34 of the GEM Listing Rules during the year under review.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 45 to the financial statements.

AUDIT COMMITTEE

The Company has established an Audit Committee on 7 July 2000, and on a Board meeting held on 1 March 2012, a new terms of reference for the Audit Committee of the Company has been adopted. As at the date of this report, the Audit Committee comprised three members, namely Mr. Liu Qing Chen, Mr. Yang Dongli and Mr. Zhang Chun Qiang, being independent non-executive Directors of the Company.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board, and had held meeting for 4 times during the year. The Audit Committee has reviewed the Group's financial statements for the year ended 31 December 2011 and provided advice and recommendations to the Board. After the review of the financial statements, the members of the Audit Committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosures had been made.

AUDITORS

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganized as HLB Hodgson Impey Cheng Limited. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

There have been no changes of auditors in the past three years.

On behalf of the Board
Mr. Li Ge
Chairman

Hong Kong
26 March 2012

The Company is committed to achieving high standards of corporate governance and following the principles set out in the Code on Corporate Governance Practices for GEM listed companies as set out in Appendix 15 of the GEM Listing Rules (the "CG Code"). During the year, save as disclosed in the paragraphs headed "Chairman and the Chief Executive Officer" (Code Provision A.2.1) below, the Company complied with and did not deviate from the code provisions as set out in the CG Code.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2011, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

BOARD OF DIRECTORS

The Board comprises five Directors, of whom two are executive Directors (one is the chairman and chief executive officer of the Company), and three are independent non-executive Directors. The participation of independent non-executive Directors in the Board brings independent judgement on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The Board members during the year ended 31 December 2011 were:

Executive Directors

Mr. Li Ge *(Chairman and Chief Executive Officer)*
Mr. Zhao Guo Wei
Mr. Ma Chun Fung, Horace (resigned on 31 October 2011)

Non-executive Directors

Mr. Liu Qing Chen (appointed on 16 May 2011 and re-designated as independent non-executive Director on 18 November 2011)
Mr. Ng Kwai Wah, Sunny (resigned on 16 May 2011)

Independent non-executive Directors

Mr. Liu Qing Chen (re-designated as independent non-executive Director on 18 November 2011)
Mr. Yang Dongli
Mr. Yang Jie (resigned on 24 February 2012)
Mr. Lee Yuen Kwong (resigned on 18 November 2011)

The independent non-executive Directors should be responsible for making independent decisions in relation to the matters such as strategy, performance, conflict of interest and management process of the Group, in order to ensure the interest of the shareholders as a whole has been considered properly. Furthermore, in accordance with the requirement of the GEM Listing Rules, the audit committee was chaired by an independent non-executive Director with appropriate accounting qualifications and professional experiences.

The Board considers that all of the independent non-executive Directors are independent and has received from each of them the annual confirmation of independence required by Rule 5.09 of the GEM Listing Rules.

The Board is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of business plans; evaluating the performance of the Group and oversight of the management. It is also responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive Directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through the executive Directors who attend Board meetings.

There is no relationship (whether financial, business, family or other material/relevant relationships) among the members of the Board.

CHANGE OF DIRECTORS

Mr. Yang Jie resigned as an independent non-executive Director on 24 February 2012 and Mr. Zhang Chun Qiang has been appointed as an independent non-executive Director, a member of the audit committee of the Company and a member of the remuneration committee of the Company to replace Mr. Yang Jie on 24 February 2012.

ESTABLISHMENT OF NOMINATION COMMITTEE

On 1 March 2012, the Board has established a nomination committee comprising Mr. Liu Qing Chen (an independent non-executive Director) as chairman of the nomination committee, and its members including Mr. Yang Dongli (an independent non-executive Director) and Mr. Zhang Chun Qiang (an independent non-executive Director).

The Board held 11 meetings in 2011. Details of the attendance of the Board are as follows:

Name of Directors	*Notes*	**Meetings attended/held**	**Attendance rate**
Executive Directors			
Mr. Li Ge *(chairman and chief executive officer)*		11/11	100%
Mr. Zhao Guo Wei		11/11	100%
Mr. Ma Chun Fung, Horace	*1*	6/6	100%
Non-executive Directors			
Mr. Ng Kwai Wah, Sunny	*2*	3/3	100%
Mr. Liu Qing Chen	*3*	5/5	100%
Independent non-executive Directors			
Mr. Liu Qing Chen	*3*	3/3	100%
Mr. Yang Dongli		11/11	100%
Mr. Yang Jie		11/11	100%
Mr. Lee Yuen Kwong	*4*	8/8	100%

The following matters were discussed in the board meetings held in 2011:

(1) to approve the resignation of Mr. Ng Kwai Wah, Sunny as non-executive Director;

(2) to approve the appointment of Mr. Liu Qing Chen as non-executive Director;

(3) to consider and approve the establishment of Ming Ting Rui He (Beijing) Trading Co., Ltd;

(4) to approve the resignation of Mr. Ma Chun Fung, Horace as executive Director;

(5) to approve the resignation of Mr. Lee Yuen Kwong as independent non-executive Director and to approve re-designated of Mr. Liu Qing Chen as independent non-executive Director;

(6) to consider and approve the acquisition of 60% the issued shares in South China Memorial Park & Funeral Service Limited;

(7) to consider and approve a major transaction regarding a proposed share purchase agreement;

(8) to consider and approve the quarterly, interim and annual results of the Group.

Notes:

(1) was resigned on 31 October 2011

(2) was resigned on 16 May 2011

(3) was appointed as an non-executive Director on 16 May 2011 and was re-designated as independent non-executive Director on 18 November 2011

(4) was resigned on 18 November 2011

All Directors were given at least 14 days notice for a regular board meeting, for all other board meetings, the Directors were given reasonable notice. Agenda and relevant documents of the meeting was given to all the Directors before the date of the board meeting; the initial draft of the minutes of the board meeting was sent to the Directors for reviewing and providing comments; and the final draft of the minutes will be sent to the Directors for signature and records.

Directors can access to the company secretary or the intermediary for advices with a view to ensuring that board procedures and all applicable rules and regulations are followed. The minutes of board meeting were kept by the company secretary, and such minutes were opened for inspection at any reasonable time on reasonable notice by any Director.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER (CODE PROVISION A.2.1)

Mr. Li Ge ("Mr. Li") assumes the roles of both the chairman and the chief executive officer of the Company. While serving as the chairman of the Group, Mr. Li leads the Board and is responsible for the proceedings and workings of the Board. He ensures that:

– the Board acts in the best interests of the Group; and

– the Board functions effectively, and that all key and appropriate issues are properly briefed to and discussed by the Board.

The Group deviates from Code Provision A.2.1 in the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 15 to the GEM Listing Rules. The roles of chairman and chief executive officer of the Group rests on the same individual without having a clear division of responsibilities. However, the Board is of the view that, such non-compliance does not compromise accountability and independent decision making for the following reasons:

– three independent non-executive Directors form the majority of the five-member Board for the year ended 31 December 2011 and form half of the six-member Board as at the date of this report;

– the Audit Committee and the Remuneration Committee are composed exclusively of independent non-executive Directors; and

– the independent non-executive Directors could have free and direct access to the Company's external auditors and independent professional advice whenever necessary.

Mr. Li has considerable experience in the industry. He is dedicated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman, so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and their progress, for the purpose of facilitating open dialogue between the Board and the management.

APPOINTMENTS, RE-ELECTION AND REMOVAL

Each of the independent non-executive Directors was appointed of an initial term of one year renewable by mutual agreement in writing two months in advance prior to the expiry of the initial term appointment for successive terms of one year. Each of the Directors is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

REMUNERATION COMMITTEE

The remuneration committee comprises the three independent non-executive Directors as at 31 December 2011, namely Mr. Liu Qing Chen (chairman), Mr. Yang Dongli and Mr. Yang Jie.

The principal functions include:

– to recommend to the Board on the Company's policies and structure for the remuneration of the Directors and senior management of the Group;

– to determine the remuneration packages of all executive Directors and senior management of the Group;

– to review and approve their performance-based remuneration.

The principal elements of remuneration package of the executive Directors include basic salary, discretionary bonus and share option. The emoluments of executive Directors are based on skill, knowledge and involvement in the Company's affairs of each director and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

The remuneration committee consults the chairman and chief executive officer about its proposals relating to the remuneration of other executive Directors. The remuneration committee decisions were approved by way of written resolutions passed by all the committee members. A resolution in writing signed by all the committee members shall be as valid and effectual as if it had been passed at a meeting of the remuneration committee duly convened and held.

During the year 2011, the remuneration committee has held 2 meetings, one was to recommend the remuneration packages for a newly appointed non-executive Director (Mr. Liu Qing Chen) of the Company, the other was to recommend the remuneration packages for a independent non-executive Director (Mr. Liu Qing Chen) who is designated from the position of a non-executive Director of the Company. All the three committee members namely, Mr. Lee Yuen Kwong, Mr. Yang Jie and Mr. Yang Dongli have attended all the meetings.

NOMINATION OF DIRECTORS

The Company has established a nomination committee on 1 March 2012.

The primary function of the nomination committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board annually and make recommendations on any proposed changes to the Board. Proposals for the appointment of a new director (if any) will be considered and reviewed by the nomination committee. The nomination committee shall assess the independence of the independent non-executive directors.

As at the date of this report, the nomination committee comprises the three independent non-executive Directors, namely Mr. Liu Qing Chen (chairman), Mr. Yang Dongli and Mr. Zhang Chun Qiang.

Before the establishment of the nomination committee, the Board is empowered under the Company's bye-laws to appoint any person as a director either to fill a casual vacancy on or, subject to authorization by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

During the year ended 31 December 2011, the Board has held 1 meeting for the nomination of director. All the Board members, namely Mr. Li Ge, Mr. Zhao Guo Wei, Mr. Ma Chun Fung, Horace, Mr. Ng Kwai Wah, Sunny, Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie have attended the meeting.

AUDITORS' REMUNERATION

An amount of approximately HK$650,000 (2010: HK$500,000) was charged to the Group's income statement for the year ended 31 December 2011 as auditors' fee.

The nature of audit and non-audit services provided by HLB Hodgson Impey Cheng ("HLB") and fees paid to HLB set out below:

	HK$'000
Audit services	650

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganized as HLB Hodgson Impey Cheng Limited. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditors of the Company at the forthcoming annual general meeting.

AUDIT COMMITTEE

The Audit Committee was established on 7 July 2000 mainly to review the Group's financial reporting, internal controls and make relevant recommendations to the Board.

The Audit Committee comprises the three independent non-executive Directors as at the date of this report, namely Mr. Liu Qing Chen, Mr. Yang Dongli and Mr. Zhang Chun Qiang. The chairman of the Audit Committee is Mr. Liu Qing Chen.

The Audit Committee held 4 meetings in 2011, which were attended by all the then three members namely, Mr. Yang Dongli, Mr. Lee Yuen Kwong and Mr. Yang Jie. The Group's 2011 quarterly reports, 2011 half-yearly report, 2010 and 2011 annual results and 2010 and 2011 annual reports have been reviewed by the then members of the Audit Committee, which was of the opinion that such reports and results were prepared in accordance with the applicable accounting standards and requirements. The committee also monitored the Company's progress in implementing the code provisions of corporate governance practices as required under the GEM Listing Rules.

ACCOUNTABILITY AND INTERNAL CONTROLS

The Directors acknowledge their responsibility for preparing all information and representations contained in the consolidated financial statements of the Company for the year under review. As at 31 December 2011, the Directors have conducted a review of the effectiveness of the system of internal control of the Group and are not aware of any material uncertainties relating to events or conditions which may cost significant doubt upon the ability of the Company to continue as a going concern basis.

The statement of the external auditors of the Company about their reporting responsibilities on the Consolidated financial statements is set out in the auditors' report of the annual report of the Company for the year ended 31 December 2011.

COMMUNICATIONS WITH SHAREHOLDERS

The Board communicates with the shareholders through the annual general meetings and special general meetings. In compliance with the requirements of GEM Listing Rules, the Company issued regular reports, announcements, circulars, notice of general meetings. Shareholders can get the latest information of the Company through these publications of the Company.

HLB 國衛會計師事務所
Hodgson Impey Cheng

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

Chartered Accountants
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
FAVA INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of FAVA International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 94, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 Standard on Auditing issued by the Hong Kong 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

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

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 26 March 2012

Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Continuing operations			
Turnover	7	**177,083**	181,338
Cost of sales		**(156,923)**	(171,930)
Gross profit		**20,160**	9,408
Other revenue	7	**310**	969
Other income	8	**5,275**	22,253
Equity-settled share-based payments		**–**	(8,004)
Selling and distribution costs		**(20,942)**	(15,981)
Administrative expenses		**(28,442)**	(24,918)
Other operating expenses	9	**(37,784)**	(8,129)
Loss from operations	8	**(61,423)**	(24,402)
Finance costs	10	**(4)**	(4)
Loss before taxation		**(61,427)**	(24,406)
Taxation	13	**6,657**	(6,574)
Loss for the year from continuing operations		**(54,770)**	(30,980)
Discontinued operation			
Profit for the year from discontinued operation	14	**2,250**	1,382
Loss for the year		**(52,520)**	(29,598)
Other comprehensive income for the year, net of tax			
Exchange differences on translating foreign operations		**8,956**	10,066
Total comprehensive loss for the year		**(43,564)**	(19,532)
Loss attributable to owners of the Company		**(52,520)**	(29,598)
Total comprehensive loss attributable to owners of the Company		**(43,564)**	(19,532)
Loss per share			
From continuing and discontinued operations			
– Basic and diluted (HK cents per share)	17	**(2.99)**	(2.01)
From continuing operations			
– Basic and diluted (HK cents per share)	17	**(3.12)**	(2.11)

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

Consolidated Statement Of Financial Position

As 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	*18*	**26,118**	91,609
Intangible assets	*20*	**1,013**	2,359
Long-term prepayments	*21*	**4,882**	–
		32,013	93,968
Current assets			
Inventories	*23*	**137,934**	87,477
Financial assets at fair value through profit or loss	*24*	**3,723**	–
Trade receivables	*25*	**42,216**	44,985
Prepayments, deposits and other receivables	*26*	**86,721**	138,273
Cash and bank balances	*27*	**50,416**	25,527
Pledged bank deposits	*28*	**1,390**	–
		322,400	296,262
Assets classified as held for sale	*29*	**23,924**	–
		346,324	296,262
Less: Current liabilities			
Trade payables	*30*	**46,009**	32,754
Other payables and accruals	*31*	**8,632**	5,639
Receipts in advance	*32*	**54,241**	29,210
Amount due to a director	*33*	**50**	2
Amount due to a shareholder	*34*	**5,000**	10,000
Obligations under finance lease – due within one year	*35*	**11**	15
Income tax payable		**–**	6,529
		113,943	84,149
Net current assets		**232,381**	212,113
Total assets less current liabilities		**264,394**	306,081
Less: Non-current liability			
Obligations under finance lease – due after one year	*35*	**–**	11
Net assets		**264,394**	306,070
Capital and reserves			
Share capital	*36*	**3,517**	3,489
Reserves	*38(a)*	**260,885**	302,581
Total equity attributable to owners of the Company		**264,402**	306,070
Non-controlling interests		**(8)**	–
Total equity		**264,394**	306,070

Approved by the Board of Directors on 26 March 2012 and signed on its behalf by:

Mr. Li Ge
Director

Mr. Zhao Guo Wei
Director

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

Statement Of Financial Position

As 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current asset			
Interests in subsidiaries	22	**–**	–
Current assets			
Amounts due from subsidiaries	22	**112,720**	111,989
Prepayments, deposits and other receivables	26	**881**	592
Cash and bank balances	27	**1,991**	803
		115,592	113,384
Less: Current liabilities			
Other payables and accruals	31	**1,421**	998
Net current assets		**114,171**	112,386
Net assets		**114,171**	112,386
Capital and reserves			
Share capital	36	**3,517**	3,489
Reserves	38(b)	**110,654**	108,897
Total equity		**114,171**	112,386

Approved by the Board of Directors on 26 March 2012 and signed on its behalf by:

Mr. Li Ge
Director

Mr. Zhao Guo Wei
Director

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

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2011

	Attributable to owners of the Company									
	Share capital	Share premium	Contributed surplus	Accumulated losses	Share options reserve	Exchange reserve	Statutory reserves	Subtotal	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	2,769	169,277	36,000	(945)	–	36,560	41,481	285,142	–	285,142
Loss for the year	–	–	–	(29,598)	–	–	–	(29,598)	–	(29,598)
Other comprehensive income for the year	–	–	–	–	–	10,066	–	10,066	–	10,066
Total comprehensive (loss)/income for the year	–	–	–	(29,598)	–	10,066	–	(19,532)	–	(19,532)
Release upon disposal of a subsidiary	–	–	–	–	–	(10,995)	–	(10,995)	–	(10,995)
Recognition of equity-settled share-based payment	–	–	–	–	8,004	–	–	8,004	–	8,004
Current year appropriation	–	–	–	(2,019)	–	–	2,019	–	–	–
Issue of shares	554	–	–	–	–	–	–	554	–	554
Issue of shares upon exercise of share options	166	16,312	–	–	(4,830)	–	–	11,648	–	11,648
Premium arising from issue of new shares, net of expenses	–	31,249	–	–	–	–	–	31,249	–	31,249
At 31 December 2010 and 1 January 2011	3,489	216,838	36,000	(32,562)	3,174	35,631	43,500	306,070	–	306,070
Loss for the year	–	–	–	(52,520)	–	–	–	(52,520)	–	(52,520)
Other comprehensive income for the year	–	–	–	–	–	8,956	–	8,956	–	8,956
Total comprehensive (loss)/income for the year	–	–	–	(52,520)	–	8,956	–	(43,564)	–	(43,564)
Acquisition of a a subsidiary	–	–	–	–	–	–	–	–	(8)	(8)
Expiry of share options	–	–	–	690	(690)	–	–	–	–	–
Issue of shares upon exercise of share options	28	2,696	–	–	(828)	–	–	1,896	–	1,896
At 31 December 2011	**3,517**	**219,534**	**36,000**	**(84,392)**	**1,656**	**44,587**	**43,500**	**264,402**	**(8)**	**264,394**

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

Consolidated Statement Of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Loss before taxation			
– Continuing operations		**(61,427)**	(24,406)
– Discontinued operation		**2,250**	1,382
		(59,177)	(23,024)
Adjustments for:			
Interest income	*7*	**(37)**	(49)
Depreciation	*18*	**18,377**	17,624
Amortisation of intangible assets	*20*	**2,405**	3,151
Amortisation of long-term prepayments	*21*	**7,524**	7,587
Impairment loss of property, plant and equipment	*18*	**26,869**	–
Impairment loss of trade receivables	*25*	**2,187**	4,050
Impairment loss of prepayments and other receivables	*26*	**8,728**	4,069
Impairment loss of goodwill	*19*	**–**	2,424
Reversal of impairment loss of trade receivables	*25*	**(1,222)**	(7,985)
Reversal of impairment loss of prepayments and other receivables	*26*	**(3,786)**	(1,800)
Write down of obsolete inventories		**–**	2,367
Equity-settled share-based payments expenses		**–**	8,004
Gain on disposal of a subsidiary	*40*	**–**	(11,053)
Finance costs	*10*	**4**	4
Operating cash flow before working capital changes		**1,872**	5,369
(Increase)/decrease in inventories		**(47,409)**	56,404
Decrease/(increase) in trade receivables		**3,372**	(15,757)
Decrease/(increase) in prepayments, deposits and other receivables		**37,629**	(44,134)
Increase in pledged bank deposits		**(1,390)**	–
Increase/(decrease) in trade payables		**12,114**	(8,044)
Increase/(decrease) in other payables and accruals		**2,812**	(58,516)
Increase in receipts in advance		**24,014**	1,393
Increase/(decrease) in amount due to a director		**48**	(648)
(Decrease)/increase in amount due to a shareholder		**(5,000)**	10,000
Cash generated from/(used in) operations		**28,062**	(53,933)
Interest element on finance lease rental payments		**(4)**	(4)
Net cash inflow/(outflow) from operating activities		**28,058**	(53,937)

Consolidated Statement Of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Cash flows from investing activities			
Interest received		**37**	49
Purchase of property, plant and equipment		**(1,166)**	(848)
Purchase of financial assets at fair value through profit or loss		**(3,723)**	–
Proceeds from disposal of property, plant and equipment		**–**	1,573
Proceeds from disposal of intangible asset		**–**	4,011
Net cash inflow from disposal of a subsidiary	*40*	**–**	5,950
Net cash outflow from acquisition of a subsidiary	*39*	**(1,000)**	–
Net cash (outflow)/inflow from investing activities		**(5,852)**	10,735
Cash flows from financing activities			
Issue of shares		**1,896**	43,451
Capital element of finance lease rental payments		**(15)**	(17)
Net cash inflow from financing activities		**1,881**	43,434
Net increase in cash and cash equivalents		**24,087**	232
Cash and cash equivalents at the beginning of the year		**25,527**	23,531
Effects of exchange rate changes on the balance of cash held in foreign currencies		**802**	1,764
Cash and cash equivalents at the end of the year		**50,416**	25,527
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**50,416**	25,527

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

1. CORPORATE INFORMATION

FAVA International Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office and the principal place of business of the Company are disclosed in "Corporate Information" section of the annual report.

The principal activity of the Company is investment holding. During the year, the principal activities of the Group are the manufacturing and sales of household products and the Group commenced provision of funeral services and sale of funeral related products during the year.

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

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued certain new and revised standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1 January 2011. The new and revised standards, amendments and interpretations adopted in the current year are referred to as "new and revised HKFRSs". A summary of the effect on initial adoption of these new and revised HKFRSs is set out below.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Financial Instruments: Presentation – Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The impact of the application of the above new HKFRSs is discussed below:

HKAS 24 (as revised in 2009) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard.

HKFRSs (Amendments) – Improvements to HKFRSs issued in 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments applicable to the Group are as follows:

a) HKFRS 1 (Amendments) addresses the presentation and disclosure requirements for an entity which changes its accounting policies or its uses of the exemptions contained in this HKFRS. It also introduces the use of the revaluation basis as deemed cost and extends the use of the deemed cost exemption to entities with operations subject to rate regulation.

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

b) HKFRS 3 (Amendments) clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date at fair value, unless another measurement basis is required by another HKFRS.

The amendment also adds explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

c) HKAS 1 (Amendments) clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

d) HKAS 27 (Amendments) clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

e) HKAS 34 (Amendments) requires the update of relevant information related to significant events and transactions in the most recent annual financial report. HKAS 34 now specifies events and transactions for which disclosures are required, and guidance has been added covering the application of the requirements for financial instruments.

Except for those as disclosed above, the directors anticipate that the application of these new and revised HKFRSs has no material impact on the results and the financial position of the Group.

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

The Group has not applied in advance the following new and revised HKFRSs that have been issued but are not yet effective.

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[5]
HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Financial Instruments: Disclosure – Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statement[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

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

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39. The application of the standard is unlikely to have any material financial impact on the Group.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgment to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC) – Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC) – Int 12. The application of this new standard is unlikely to have any material financial impact on the Group.

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

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC) – Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e. joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use has already been required or permitted under other HKFRSs. The Group expects to adopt the standard from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

HKAS 1 (Amendments) change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013. The amendments affect presentation only and have no impact on the Group's financial position or performance.

For other new and revised HKFRSs which are issued but not yet effective, the Group is in the process of making an assessment of the impact upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Judgments made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the consolidated financial statements.

A summary of significant accounting policies adopted by the Group in the preparation of the consolidated financial statements is set out below:

Basis of preparation

The measurement basis used in the preparation of the consolidated financial statements is historical cost convention except for certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

Basis of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsdiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interest in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary in an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Business combinations

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The policy described above is applied to all business combinations that take place on or after 1 January 2010.

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

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

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

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

Impairment of tangible and intangible assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible and intangible assets *(Continued)*

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Related party transactions

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

(a) A person or entity that is preparing the financial statements of the Group;

(b) 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 a parent of the Group.

(c) 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).

  (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 (b).

  (vii) A person identified in (b)(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).

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchases price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Plant and machinery	18%
Leasehold improvements	Over the lease terms
Motor vehicles	18%
Building	Over the lease terms
Furniture and fixtures	20%
Office and computer equipment	30%

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

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

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rental payable under the operating leases net of any incentives received from the lessor are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

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

Financial assets

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL *(Continued)*

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the consolidated statement of comprehensive income.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Available-for-sale financial assets (AFS financial assets)

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

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

For AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments that are measured at cost less any identified impairment losses at the end of the reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, pledged bank deposits, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90-180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

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

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities at FVTPL *(Continued)*

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the consolidated statement of comprehensive income.

Other financial liabilities

Other financial liabilities (including trade payables, other payables and accruals, amount due to a director, amount due to a shareholder and obligations under finance lease) are subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out or weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions and contingent liabilities *(Continued)*

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

Income tax

Income tax comprises the tax currently payable and deferred tax. Income tax is recognised in the consolidated statement of comprehensive income, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arise from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when services are provided; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. At the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period, and their statement of comprehensive incomes are translated into Hong Kong dollars at the weighted average exchange rates for the year. Exchange differences arising are recognised in the exchange reserve.

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

Borrowing costs

Borrowing costs are recognised as expenses in the statement of comprehensive income in the period in which they are incurred.

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 top management for the purposes of allocating resources to and assessing the performance of the Group's various lines of business.

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 business activities.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, but exclude exceptional items. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate portions of expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

(a) Income tax

The Group is subject to income taxes in Hong Kong and the People's Republic of China (the "PRC"). Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

(b) Impairment of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also perform annual reviews on whether the assumptions made on useful lives continue to be valid. The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value in use calculations which require the use of assumptions and estimates.

(c) Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the statement of comprehensive income. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates (Note 19).

(e) Impairment of intangible assets

The Group tests annually whether intangible assets have suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of intangible assets have been determined based on discounted cash flow method (Note 20).

(f) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significant as a result of change in market condition. Management reassess the estimations at the end of the reporting period.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**92,632**	76,862
Financial assets at fair value through profit or loss	**3,723**	–
	96,355	76,862
Financial liabilities		
Measured at amortised cost	**59,702**	48,421

(b) Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. The directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

Market risk exposures are measured by sensitivity analysis.

There has been no change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

Interest rate risk management

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group considers that there is no significant cash flow interest rate risk as the Group does not have any significant interest-bearing liabilities.

The Group's exposures to interest rates on financial liabilities are detailed in liquidity risk management section of this note.

Foreign currency risk management

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group's markets mainly located in Hong Kong, the United States of America ("USA"), European Union and the PRC and its sales are denominated in Hong Kong dollars ("HK$"), United States dollars ("USD"), Euro dollars ("Euro") and Renminbi ("RMB") respectively whilst almost all of costs are denominated in the units' respective functional currency.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

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

Market risk *(Continued)*

Foreign currency risk management *(Continued)*

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

	Liabilities		Assets	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**1,121**	1,477	**7,493**	2,157
Euro	**–**	723	**206**	379

Sensitivity analysis on foreign currency risk management

The Group is mainly exposed to the effects of fluctuation in USD and EURO.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number below indicates a decrease in profit where the Hong Kong dollars strengthen 5% against the relevant currency. For a 5% weakening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit, and the balance below would be positive.

	2011	2010
	HK$'000	HK$'000
Impact of USD		
Profit or loss *(Note (i))*	**(319)**	(34)
Impact of Euro		
Profit or loss *(Note (ii))*	**(10)**	17

Notes:

(i) This is mainly attributable to the exposure outstanding on receivables, prepayments, cash and bank balances, trade payables and receipts in advance denominated in USD not subject to cash flow hedge at year end.

(ii) This is mainly attributable to the exposure outstanding on receivables, cash and bank balances and receipts in advance denominated in Euro not subject to cash flow hedge at year end.

The Group's sensitivity to foreign currency has increased during the current year mainly due to increase in foreign currency denominated receipts in advance.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

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

Other price risk

The Group is exposed to equity price risk mainly through its investment. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. In addition, the management of the Group would monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis on change in fair value of financial assets at fair value through profit or loss

The sensitivity analysis below has been determined based on the exposure to price risk at the end of the reporting period.

If prices had been 10% higher/lower, post-tax profit for the year ended 31 December 2011 would increase/decrease by approximately HK$372,300 (2010: Nil). This is mainly due to the changes in fair value of financial assets designated as financial assets at fair value through profit or loss investments.

Credit risk

As at 31 December 2010 and 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has put in place policies to ensure that sales of products are made to recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are required to pay deposits which amounts are varied from customers to customers. In addition, receivable balances are monitored on an ongoing basis. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Company does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across geographical areas.

Liquidity risk

The Group's liquidity risk management includes diversifying the funding sources. Internally generated cash flow and issuance of shares are the general source of funds to finance the operation of the Group. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

The amounts included below for variable interest rate instruments for both non-derivative financial liabilities are subject to change if changes in variable interest rates different to those estimates of interest rates determined at the end of the reporting period.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

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

Liquidity risk *(Continued)*

	Weighted average effective interest rate	On demand or within 1 year	Over 1 year	Total undiscounted cash flows	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
2011					
Non-derivative financial liabilities					
Trade payables	–	**46,009**	**–**	**46,009**	**46,009**
Other payables and accruals	–	**8,632**	**–**	**8,632**	**8,632**
Amount due to a director	–	**50**	**–**	**50**	**50**
Amount due to a shareholder	–	**5,000**	**–**	**5,000**	**5,000**
Obligations under finance lease	5	**11**	**–**	**11**	**11**
		59,702	**–**	**59,702**	**59,702**
2010					
Non-derivative financial liabilities					
Trade payables	–	32,754	–	32,754	32,754
Other payables and accruals	–	5,639	–	5,639	5,639
Amount due to a director	–	2	–	2	2
Amount due to a shareholder	–	10,000	–	10,000	10,000
Obligations under finance lease	5	15	11	26	26
		48,410	11	48,421	48,421

Fair value estimation

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

(i) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.

(ii) The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

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

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

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

Fair value estimation *(Continued)*

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quote prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets				
Financial assets designated as financial assets at fair value through profit or loss	–	3,723	–	3,723

There are no transfer between Level 1 and 2 in both years.

(c) Capital risk management

The Group's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt (which only includes obligations under finance lease) and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

Gearing ratio

The directors review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. During the year ended 31 December 2011, the Group's strategy, which was unchanged from previous years, was to reduce the gearing ratio. This ratio is calculated based on total debt and owners' equity.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(c) Capital risk management *(Continued)*

Gearing ratio *(Continued)*

The gearing ratio as at the year end is as follows:

	2011	2010
	HK$'000	HK$'000
Debt #	**11**	26
Shareholders' equity	**264,402**	306,070
Gearing ratio	**0.00416%**	0.0085%

\# Total debt comprises obligations under finance lease as detailed in Note 35.

6. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The total net segment income is equivalent to total comprehensive income for the year as shown in the consolidated statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables and cash and bank balances.

Segment liabilities comprise operating liabilities.

Unallocated items mainly comprise corporate assets and liabilities and tax balances.

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

- Direct retail of household products
- Indirect retail of household products and others
- Provision of funeral services and sale of funeral related products

6. SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results

An analysis of the Group's revenue and results and certain assets, liabilities and expenditure information for the Group's reportable segments is as follows:

	Continuing operations					
	Indirect retail of household products and others		Provision of funeral services and sale of funeral related products		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**169,439**	181,338	**7,644**	–	**177,083**	181,338
Segment results	**(53,707)**	(23,548)	**(1,022)**	–	**(54,729)**	(23,548)
Interest income					**37**	49
Unallocated gains					**540**	13,388
Corporate and other unallocated expenses					**(7,271)**	(14,291)
Finance costs					**(4)**	(4)
Loss before taxation					**(61,427)**	(24,406)
Taxation					**6,657**	(6,574)
Loss for the year					**(54,770)**	(30,980)

There were no inter-segment sales in the year (2010: Nil). Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' salaries, salaries for administration staffs, investment and other income, rental of office, finance costs and income tax expense. This is the measure reported to chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

6. SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results *(Continued)*

	Discontinued operation		Continuing operations					
	Direct retail of household products		Indirect retail of household products and others		Provision of funeral services and sale of funeral related products		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets and liabilties								
Segment assets	**–**	2,595	**346,244**	345,124	**1,717**	–	**347,961**	347,719
Corporate and other unallocated assets							**30,376**	42,511
Total assets							**378,337**	390,230
Segment liabilities	**–**	16,532	**107,171**	50,063	**4**	–	**107,175**	66,595
Corporate and other unallocated liabilities							**6,768**	17,565
Total liabilities							**113,943**	84,160

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

- all assets are allocated to operating segments other than corporate assets mainly included prepayments, deposits and other receivables, cash and cash equivalents, financial assets at fair value through profit or loss and other financial assets of the central administration companies.

- All liabilities are allocated to operating segments other than corporate liabilities mainly included other payables and accruals, amount due to a shareholder, amount due to a director, income tax payable and other financial liabilities borne by the central administration companies.

6. SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results *(Continued)*

	Discontinued operation		Continuing operations							
	Direct retail of household products		Indirect retail of household products and others		Provision of funeral services and sale of funeral related products		Unallocated		Total	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Other segment information										
Depreciation	**–**	–	**18,369**	17,599	**–**	–	**8**	25	**18,377**	17,624
Amortisation of intangible assets	**–**	–	**2,405**	3,151	**–**	–	**–**	–	**2,405**	3,151
Amortisation of long-term prepayments	**1,307**	1,661	**6,217**	5,926	**–**	–	**–**	–	**7,524**	7,587
Capital expenditure	**–**	–	**1,157**	843	**–**	–	**9**	5	**1,166**	848
Impairment loss of goodwill	**–**	2,424	**–**	–	**–**	–	**–**	–	**–**	2,424
Impairment of property, plant and equipment	**–**	–	**26,869**	–	**–**	–	**–**	–	**26,869**	–
Provision for impairment loss of trade receivables	**–**	–	**2,187**	4,050	**–**	–	**–**	–	**2,187**	4,050
Provision for impairment loss of prepayments and other receivables	**–**	–	**8,728**	4,069	**–**	–	**–**	–	**8,728**	4,069

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

During the year, the Group's turnover was mainly made to customers located at Hong Kong, the PRC, USA and European Union. The Group's revenue from external customers and information about its non-current assets by geographical location are detailed bellows.

	Discontinued operation		Continuing operations							
	Direct retail of household products		Indirect retail of household products and others		Provision of funeral services and sale of funeral related products		Unallocated		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Sales										
The PRC	**21,531**	18,949	**162,025**	173,336	**–**	–	**–**	–	**183,556**	192,285
USA	**–**	–	**294**	3,336	**–**	–	**–**	–	**294**	3,336
European Union	**–**	–	**–**	4,520	**–**	–	**–**	–	**–**	4,520
Hong Kong	**–**	–	**–**	–	**7,644**	–	**–**	–	**7,644**	–
Others	**–**	–	**7,120**	146	**–**	–	**–**	–	**7,120**	146
	21,531	18,949	**169,439**	181,338	**7,644**	–	**–**	–	**198,614**	200,287
Non-current assets										
The PRC	**–**	–	**30,991**	93,960	**–**	–	**–**	–	**30,991**	93,960
Hong Kong	**–**	–	**–**	–	**1,013**	–	**9**	8	**1,022**	8
	–	–	**30,991**	93,960	**1,013**	–	**9**	8	**32,013**	93,968

(c) Other information

Revenue from major products

The Group's revenue from its major products are as follows:

	2011	2010
	HK$'000	HK$'000
Indirect retail of household products and others	**169,439**	181,338
Direct retail of household products	**21,531**	18,949
Provision of funeral services and sale of funeral related products	**7,644**	–
	198,614	200,287

6. SEGMENT INFORMATION *(Continued)*

(c) Other information *(Continued)*

Information about major customers

Included in revenues arising from manufacturing and sales of household products of approximately HK$190,970,000 (2010: HK$200,287,000) are revenues of approximately HK$25,058,000 (2010: HK$36,679,000) which arose from sales to the Group's largest customer (the indirect retail of household products and others segment). No other single customers contributed 10% or more to the Group's revenue for both 2011 and 2010.

7. TURNOVER AND OTHER REVENUE

The Group's turnover represents the net invoiced value of household products sold, funeral services performed and funeral related products sold after allowances for returns and trade discounts, during the year.

An analysis of the Group's turnover and other revenue is as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
Turnover:		
Continuing operations		
Indirect retail of household products and others	**169,439**	181,338
Provision of funeral services and sale of funeral related products	**7,644**	–
	177,083	181,338
Discontinued operation		
Direct retail of household products	**21,531**	18,949
	198,614	200,287
Other revenue:		
Continuing operations		
Bank interest income	**37**	49
Sundry income	**273**	920
	310	969
Discontinued operation		
Sundry income	**166**	576
	476	1,545

8. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

The Group's loss for the year from continuing operations is arrived at after charging:

	The Group	
	2011	2010
	HK$'000	HK$'000
Cost of inventories sold	**156,923**	171,930
Auditors' remuneration	**650**	500
Depreciation on owned property, plant and equipment	**18,377**	17,599
Depreciation on property, plant and equipment held under finance lease	**–**	25
	18,377	17,624
Minimum lease payments under operating leases:		
Plant and machinery	**4,474**	4,264
Land and buildings	**1,958**	1,854
	6,432	6,118
Employee benefits expense (excluding directors' remuneration *(Note 11)*:		
Wages, salaries and other allowances	**18,667**	16,866
Pension scheme contributions	**9,701**	6,447
Equity-settled share-based payments	**–**	1,656
	28,368	24,969
Amortisation of intangible assets *(Note 20)*	**2,405**	3,151
Amortisation of long term prepayments *(Note 21)*	**6,217**	5,926
Impairment loss of property, plant and equipment *(Note 18)*	**26,869**	–
Provision for impairment loss of trade receivables *(Note 25)*	**2,187**	4,050
Provision for impairment loss of prepayments and other receivables *(Note 26)*	**8,728**	4,069

In respect of the depreciation on property, plant and equipment for the year ended 31 December 2011 of approximately HK$18,377,000 (2010: HK$17,624,000), approximately HK$16,497,000 (2010: HK$16,107,000) was included in the cost of sales.

In respect of the amortisation of long term prepayment for the year ended 31 December 2011 of approximately HK$6,217,000 (2010: HK$5,926,000), approximately HK$4,474,000 (2010: HK$4,264,000) was included in the cost of sales.

8. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS *(Continued)*

	The Group	
	2011	2010
	HK$'000	HK$'000
and after crediting:		
Other income:		
Reversal of provision for impairment loss of trade receivables *(Note 25)*	**1,222**	7,985
Reversal of provision for impairment loss of prepayments and other receivables *(Note 26)*	**3,786**	1,800
Gain on disposal of a subsidiary *(Note 40)*	**–**	11,053
Sundry income	**267**	1,415
	5,275	22,253

9. OTHER OPERATING EXPENSES

	The Group	
	2011	2010
	HK$'000	HK$'000
Continuing operations		
Provision for impairment loss of trade receivables *(Note 25)*	**2,187**	4,050
Provision for impairment loss of prepayments and other receivables *(Note 26)*	**8,728**	4,069
Impairment loss of property, plant and equipment *(Note 18)*	**26,869**	–
Loss on disposal of raw materials	**–**	10
	37,784	8,129

10. FINANCE COSTS

	The Group	
	2011	2010
	HK$'000	HK$'000
Continuing operations		
Interests on obligations under finance lease	**4**	4

11. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
Fees	**1,898**	1,510
Other emoluments:		
Salaries, allowances and benefits in kind	**211**	67
Pension scheme contributions	**12**	3
	2,121	1,580

During the years ended 31 December 2010 and 2011, none of the directors were granted share options under the share option schemes operated by the Company.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2011	2010
	HK$'000	HK$'000
Mr. Yang Dongli	**24**	24
Mr. Lee Yuen Kwong (resigned on 18 November 2011)	**99**	108
Mr. Liu Qing Chen (re-designated on 18 November 2011)	**13**	–
Mr. Yang Jie	**24**	24
	160	156

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

11. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2011				
Executive directors:				
Mr. Zhao Guo Wei	**120**	**–**	**–**	**120**
Mr. Li Ge	**1,473**	**11**	**2**	**1,486**
Mr. Ma Chun Fung Horace (resigned on 31 October 2011)	**–**	**200**	**10**	**210**
	1,593	**211**	**12**	**1,816**
Non-executive director:				
Mr. Ng Kwai Wah Sunny (resigned on 16 May 2011)	**90**	**–**	**–**	**90**
Mr. Liu Qing Chen (appointed on 16 May 2011 and re-designated to be independent non-executive director on 18 November 2011)	**55**	**–**	**–**	**55**
	145	**–**	**–**	**145**
2010				
Executive directors:				
Mr. Zhao Guo Wei	100	–	–	100
Mr. Li Ge	1,173	–	–	1,173
Mr. Ma Chun Fung Horace (appointed on 21 September 2010 and resigned on 31 October 2011)	–	67	3	70
	1,273	67	3	1,343
Non-executive director:				
Mr. Ng Kwai Wah Sunny (appointed on 30 August 2010and resigned on 16 May 2011)	81	–	–	81

11. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors *(Continued)*

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2010 and 2011.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2010: Nil).

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2010: two) directors, details of whose remuneration are set out in Note 11 above. Details of the remuneration of the remaining three (2010: three) non-director, highest paid employees for the year are as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,242**	1,177
Pension scheme contributions	**34**	34
	1,276	1,211

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

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**3**	3

During the years ended 31 December 2010 and 2011, no share options were granted to non-director, highest paid employees in respect of their services to the Group.

No emoluments were paid by the Group to non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2010: Nil).

13. TAXATION

No provision for Hong Kong profits tax has been made during the year as the Group has no assessable profits arising in Hong Kong (2010: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof (2010: Nil). The credit balance for the year represents the over-provision of PRC enterprise income tax in prior years.

13. TAXATION *(Continued)*

	The Group	
	2011	2010
	HK$'000	HK$'000
Current – Hong Kong	**–**	–
Current – PRC	**(6,657)**	6,574
Tax (credit)/charge for the year	**(6,657)**	6,574

A reconciliation between tax expense and accounting loss at appreciate tax rates is set out below:

	2011		2010	
	HK$'000	**%**	HK$'000	%
Loss before taxation				
– Continuing operations	**(61,427)**		(24,406)	
– Discontinued operation	**2,250**		1,382	
	(59,177)		(23,024)	
National tax on loss before taxation, calculated at the rates applicable to profits in the countries concerned	**(14,131)**	**(23.8)**	(6,324)	(27.5)
Tax concession for a subsidiary operating in the PRC	**1,365**	**2.3**	(6,344)	(27.6)
Tax effect of expenses not deductible for tax purpose	**11,441**	**19.3**	5,761	25.0
Tax effect of income not taxable for tax purpose	**(1,307)**	**(2.2)**	(4,818)	(20.9)
Tax effect of unrecognised temporary difference	**(2)**	**–**	(1)	(0.0)
Tax loss not recognised	**2,634**	**4.4**	18,300	79.5
Over provision in prior year	**(6,657)**	**(11.2)**	–	–
Tax (credit)/charge for the year at the Group's effective rate	**(6,657)**	**(11.2)**	6,574	28.5

13. TAXATION *(Continued)*

Deferred taxation

Deferred tax assets have not been recognised in respect of the following items:

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**17**	14,784	**17**	14,476
Deductible temporary differences	**40**	35	**–**	–
	57	14,819	**17**	14,476

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

14. DISCONTINUED OPERATION

On 30 September 2011, a subsidiary of the Group abandoned the operation of direct retail of household products. The disposal of the direct retail of household products operation is consistent with the Group's long-term policy to focus its activities in the indirect retail of household products and provision of funeral services and sale of funeral related products. The rental agreement of an exhibition hall used for the direct retail of household products operation was early terminated on 30 September 2011. Details of the early termination of the rental agreement are disclosed in note 21.

The profit from the discontinued operation which has been included in the consolidated statements of comprehensive income and consolidated statements of cash flows are set out below:

	2011	2010
	HK$'000	HK$'000
Profit for the year from discontinued operation		
Turnover	**21,531**	18,949
Cost of sales	**(14,570)**	(11,879)
Other revenue	**166**	576
Expenses	**(4,877)**	(6,264)
Profit for the year	**2,250**	1,382

	2011	2010
	HK$'000	HK$'000
Cash flows from discontinued operation		
Net cash outflow from operating activities	**(192)**	(1,350)

15. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company for the year ended 31 December 2011 included a loss of approximately HK$4,990,000 (2010: loss of HK$12,618,000) which has been dealt with in the consolidated financial statements of the Company (Note 38(b)).

16. DIVIDENDS

No dividend has been declared or proposed by the directors of the Company in respect of the year ended 31 December 2011 (2010: Nil).

17. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share amount is based on the loss for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year.

	2011 **HK$'000**	2010 HK$'000
Continuing and discontinued operations		
Loss		
Loss attributable to owners of the Company, used in the basic loss per share calculation from continuing and discontinued operations	**(52,520)**	(29,598)
Continuing operations		
Loss		
Loss attributable to owners of the Company, used in the basic loss per share calculation from continuing operations	**(54,770)**	(30,980)
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**1,754,273**	1,470,469

Discontinued operation

Basic and diluted earnings per share for the discontinued operation are HK$0.13 cents per share (2010: HK$0.09 cents per share).

Diluted loss per share for the year ended 31 December 2011 was the same as the basic loss per share. The Company's outstanding share options were not included in the calculation of diluted loss per share because the effect of the Company's outstanding share options was anti-dilutive.

Diluted loss per share for the year ended 31 December 2010 was the same as the basic loss per share. The Company's outstanding share options were not included in the calculation of diluted loss per share because the effect of the Company's outstanding share options was anti-dilutive.

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Building HK$'000	Furniture and fixtures HK$'000	Office and computer equipment HK$'000	Total HK$'000
Cost:							
At 1 January 2010	92,610	7,744	336	51,173	5	6,146	158,014
Additions	78	–	–	–	–	770	848
Disposals	(509)	(4,477)	(151)	–	–	(307)	(5,444)
Disposal of a subsidiary	(229)	–	–	–	–	(462)	(691)
Exchange realignment	3,411	284	12	1,885	–	213	5,805
At 31 December 2010 and 1 January 2011	95,361	3,551	197	53,058	5	6,360	158,532
Additions	948	–	–	–	–	218	1,166
Disposals	–	(3,621)	–	–	–	–	(3,621)
Reclassified as held for sale	–	–	–	(54,906)	–	–	(54,906)
Exchange realignment	3,322	122	7	1,848	–	208	5,507
At 31 December 2011	99,631	52	204	–	5	6,786	106,678
Accumulated depreciation and impairment:							
At 1 January 2010	40,379	6,873	106	1,330	5	2,283	50,976
Charge for the year	15,025	–	31	1,072	–	1,496	17,624
Disposals	(122)	(3,573)	(43)	–	–	(133)	(3,871)
Disposal of a subsidiary	(122)	–	–	–	–	(57)	(179)
Exchange realignment	1,924	251	4	80	–	114	2,373
At 31 December 2010 and 1 January 2011	57,084	3,551	98	2,482	5	3,703	66,923
Charge for the year	15,790	–	32	1,125	–	1,430	18,377
Impairment loss for the year	–	–	–	26,869	–	–	26,869
Disposals	–	(3,621)	–	–	–	–	(3,621)
Reclassified as held for sale	–	–	–	(30,982)	–	–	(30,982)
Exchange realignment	2,225	122	4	506	–	137	2,994
At 31 December 2011	75,099	52	134	–	5	5,270	80,560
Net book value:							
At 31 December 2011	**24,532**	**–**	**70**	**–**	**–**	**1,516**	**26,118**
At 31 December 2010	38,277	–	99	50,576	–	2,657	91,609

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The net book value of the Group's office and computer equipment held under finance lease as at 31 December 2011 was approximately nil (2010: nil).

19. GOODWILL

The Group

	HK$'000
Cost:	
At 1 January 2010	75,920
Exchange realignment	2,797
At 31 December 2010 and 1 January 2011	78,717
Derecognition on discontinued operation	(81,459)
Exchange realignment	2,742
31 December 2011	–
Impairment:	
At 1 January 2010	73,514
Impairment loss recognised	2,424
Exchange realignment	2,779
At 31 December 2010 and 1 January 2011	78,717
Derecognition on discontinued operation	(81,459)
Exchange realignment	2,742
At 31 December 2011	–
Carrying amount:	
At 31 December 2011	**–**
At 31 December 2010	–

For the purpose of impairment testing, goodwill has been allocated to individual cash-generating unit determined based on related segment. The carrying amount of goodwill (net of impairment losses) is all allocated to the segment in direct retail business of household products.

19. GOODWILL *(Continued)*

As at 31 December 2010, with regard to the current market situation in the retail business of household products, the directors reviewed the carrying amount of goodwill arising from the acquisition of household products retail business. The recoverable amount of household products retail business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budget covering five years approved by senior management. The discount rate applied to the cash flow projections is 12% per annum.

The main factor contributing to the impairment of household products retail business cash-generating unit was the failure of the household products retail business to contribute to sales to the extent that had predicted.

Key assumptions were used in the value in use calculation of the household products retail business cash-generating unit for the year ended 31 December 2010. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rates – the discount rates used are before tax and reflect specific risks relating to the relevant units.

20. INTANGIBLE ASSETS

The Group

	Trademarks HK$'000	Undertaker's licence HK$'000	Total HK$'000
Cost:			
At 1 January 2010	19,267	–	19,267
Disposals	(5,331)	–	(5,331)
Disposal of a subsidiary	(5,210)	–	(5,210)
Exchange realignment	710	–	710
At 31 December 2010 and 1 January 2011	9,436	–	9,436
Acquisition of a subsidiary *(Note 39)*	–	1,013	1,013
Exchange realignment	329	–	329
At 31 December 2011	9,765	1,013	10,778
Amortisation:			
At 1 January 2010	9,048	–	9,048
Amortise for the year	3,151	–	3,151
Disposals	(1,320)	–	(1,320)
Disposal of a subsidiary	(4,227)	–	(4,227)
Exchange realignment	425	–	425
At 31 December 2010 and 1 January 2011	7,077	–	7,077
Amortise for the year	2,405	–	2,405
Exchange realignment	283	–	283
At 31 December 2011	9,765	–	9,765
Carrying amount:			
At 31 December 2011	**–**	**1,013**	**1,013**
At 31 December 2010	2,359	–	2,359

The trademarks have definite useful lives and are amortised on a straight line basis over 5 – 10 years.

The undertaker's licence represents the rights granted to the Group by the Food and Environmental Hygiene Department of Hong Kong for carrying on the business of an undertaker of burials for an indefinite period of time. Such intangible asset is carried at cost less accumulated impairment losses. The recoverable amount of the intangible asset has been determined based on a value in use calculation.

20. INTANGIBLE ASSETS *(Continued)*

Based on the estimation of the directors, no impairment loss in respect of the undertaker's licence was recognised during the year ended 31 December 2011, in which the recoverable amount was determined on discounted cash flow method. The calculation use cash flow projections based on financial budgets approved by the management covering a 5-year period. The discount rate applied was approximately 14.45%.

The undertaker's licence associated with the rights for carrying on the business of an undertaker of burials is renewable periodically by the Food and Environmental Hygiene Department. The directors of the Company are not aware of any expected impediment with respect to the renewal of the undertaker's licence and consider that the possibility of failing in licence renewal is remote. Therefore, the directors of the Company consider that the intangible assets are treated as having indefinite useful lives.

21. LONG-TERM PREPAYMENTS

The Group

The long-term prepayments represent the rental prepayments of trademarks, production plant and exhibition halls to Lang Fang Huari Furniture Joint Stock Co., Ltd. ("Huari Furniture").

	HK$'000
Carrying amount:	
At 1 January 2010	22,590
Amortise for the year	(7,587)
Exchange realignment	611
At 31 December 2010 and 1 January 2011	15,614
Addition	9,765
Amortise for the year	(7,524)
Refund of prepayment	(2,212)
Exchange realignment	431
At 31 December 2011	**16,074**

	2011 HK$'000	2010 HK$'000
Analysed for reporting purposes as:		
Current assets (included in prepayments, deposits and other receivables *(Note 26)*)	**11,192**	15,614
Non-current assets	**4,882**	–
	16,074	15,614

21. LONG-TERM PREPAYMENTS *(Continued)*

The amount of rental prepayments of production plant and exhibition halls are classified as current assets as at 31 December 2010 because the Group received early termination notice from Huari Furniture to cease the rental agreements effective in 2011. In the opinion of the directors of the Company, the Company is in the progress of negotiation with Huari Furniture regarding the date of cessation of rental agreements and consider that the Group will then recover the rental prepayments once the cessation of the rental agreements are finalised. During the year ended 31 December 2011, the early termination notice was revised and only the rental of exhibition hall was early terminated on 30 September 2011. The rental of production plant would be expired on 31 December 2012. The amount of approximately HK$6,309,000 was classified as current assets under prepayments, deposits and other receivables (Note 26).

The addition of approximately HK$9,765,000 during the year ended 31 December 2011 represented the prepayment on rental of trademarks for a lease term of two years commencing from 1 January 2012.

22. INTERESTS IN SUBSIDIARIES

	The Company	
	2011	2010
	HK$'000	HK$'000
Unlisted shares, at cost	**78**	78
Less: Provision for impairment loss of investment cost *(Note (i))*	**(78)**	(78)
	–	–
Amounts due from subsidiaries *(Note (ii))*	**160,897**	165,045
Less: Provision for impairment loss of amounts due from subsidiaries	**(48,177)**	(53,056)
	112,720	111,989

Movement in provision for impairment loss of amounts due from subsidiaries is as follows:

	The Company	
	2011	2010
	HK$'000	HK$'000
Balance at the beginning of the year	**53,056**	20,308
Provision for impairment loss of amounts due from subsidiaries *(Note (iii))*	**–**	32,748
Reversal of provision for impairment loss of amounts due from subsidiaries *(Note (iv))*	**(4,879)**	–
Balance at the end of the year	**48,177**	53,056

22. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:

(i) In view of the accumulated losses and net liabilities position of the Company's subsidiaries as at 31 December 2010 and 2011, the directors of the Company considered that the investment cost would not be recoverable, and thus they concluded that it is appropriate to make provision for impairment loss of investment costs.

(ii) The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and recoverable on demand.

(iii) In view of the accumulated losses and net liabilities position of the Company's subsidiaries for the year ended 31 December 2010 and 2011, the directors of the Company considered that the carrying amounts of the amounts due from subsidiaries exceeds the recoverable amount, and thus, they concluded that it is appropriate to make provision for impairment in values in respect of the amounts due from subsidiaries.

(iv) The reversal of provision for impairment loss of amounts due from subsidiaries represents the recovery of amounts due from subsidiaries which provision for impairment was previously made.

22. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's subsidiaries at 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation and kind of legal entity	Issued and paid-up capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities and place of operation
Alwin Asia Investment Limited	British Virgin Islands, limited liability company	US$10,000	100%	100%	Investment holding, Hong Kong
Tedwood International Limited	Hong Kong, limited liability company	HK$1	100%	100%	Inactive, Hong Kong
EMAX Venture Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Inactive, Hong Kong
General Asia Holdings Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holding, Hong Kong
Trader Group International Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holding, Hong Kong
Langfang Huari Hengyu Home Co., Ltd.	The PRC, wholly owned foreign enterprise	US$13,700,000	100%	100%	Manufacture and sales of household products, the PRC
Able Profit (Hong Kong) Limited#	Hong Kong, limited liability company	HK$1	100%	100%	Provision of funeral services and sale of funeral related products, Hong Kong
Ming Ting Rui He (Beijing) Trading Limied#	The PRC, wholly owned foreign enterprise	US$1,000,000	100%	100%	Inactive, the PRC
South China Memorial Park & Funeral Service Limited*	Hong Kong, limited liability company	HK$10,000	60%	60%	Inactive, Hong Kong

Able Profit (Hong Kong) Limited and Ming Ting Rui He (Beijing) Limited were incorporated on 10 June 2011 and 26 May 2011 respectively.

* South China Memorial Park & Funeral Service Limited was acquired on 15 December 2011.

23. INVENTORIES

	The Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**38,471**	43,218
Work in progress	**27,055**	20,008
Finished goods	**72,408**	26,687
	137,934	89,913
Less: Write down of obsolete inventories	**–**	(2,436)
	137,934	87,477

No inventories of the Group were carried at net realisable value (2010: HK$1,493,000) at the end of the reporting period.

Movement in write down of obsolete inventories is as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
Balance at the beginning of the year	**2,436**	12,800
Written off of obsolete inventories	**(2,436)**	(12,800)
Write down of obsolete inventories	**–**	2,367
Exchange realignment	**–**	69
Balance at the end of the year	**–**	2,436

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2011	2010
	HK$'000	HK$'000
Investment at fair value	**3,723**	–

The above investment was classified as fair value through profit or loss on initial recognition and current asset as the maturity is less than one year of the end of the reporting period.

As at 31 December 2011, the financial assets at fair value through profit or loss represent a participation note linked to certain bonds, benefit rights of trusts and currencies tools in the PRC.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

The participation note is mature in February 2012. This participation note is 100% principal and interest protected at maturity, noteholders will get back at least their capital invested and certain percentage of interest if they hold the notes to maturity. The host contract of this investment is a debt instrument and the embedded derivative is an option tied to changes in the underlying value of certain bonds, benefit rights of trusts and currencies tools. As the contract contains an embedded derivative, the directors have designated the investment as a financial asset at fair value through profit or loss.

This participation note is not publicly traded and in the absence of readily available information to determine the fair value of this investment, the Company has adopted the indicative market value provided by the issuer as its best estimate of the fair value of this investment.

25. TRADE RECEIVABLES

The average credit period on sales of goods is 90 days to 180 days (2010: 30 days). In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

	The Group	
	2011	2010
	HK$'000	HK$'000
Trade receivables	**51,891**	53,388
Less: Provision for impairment loss of trade receivables	**(9,675)**	(8,403)
	42,216	44,985

As at 31 December 2011, the Group's trade receivables of approximately HK$9,675,000 (2010: HK$8,403,000) were individually determined to be impaired. The individual impaired receivables related to customers that were in financial difficulties and management assessed that the receivables were not expected to be recovered. The Group does not hold any collateral over these balances.

An ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
0 – 30 days	**2,798**	17,257
31 – 60 days	**3,340**	8,264
61 – 90 days	**1,138**	4,584
91 – 180 days	**11,929**	11,376
Over 180 days	**23,011**	3,504
	42,216	44,985

25. TRADE RECEIVABLES *(Continued)*

Included in the Group's trade receivables balance are debtors with a carrying amount of approximately HK$30,452,000 (2010: HK$27,728,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

An ageing analysis of trade receivables which are past due but not impaired is as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
31 – 60 days	**–**	8,264
61 – 90 days	**–**	4,584
91 – 180 days	**7,441**	11,376
Over 180 days	**23,011**	3,504
	30,452	27,728

Movement in provision for impairment loss of trade receivables is as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
Balance at the beginning of the year	**8,403**	12,213
Reversal of provision for impairment loss	**(1,222)**	(7,985)
Provision for impairment loss of trade receivables	**2,187**	4,050
Exchange realignment	**307**	125
Balance at the end of the year	**9,675**	8,403

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit were initially granted up to the reporting date. Accordingly, the directors considered impairment loss is values be made in respect of trade receivables to their recoverable values and believed that there is no further credit provision required in excess of the allowance for doubtful debts.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Rental prepayment for production plant and exhibition hall	**6,309**	15,614	**–**	–
Rental prepayments for trademarks	**4,883**	–	**–**	–
Prepayments	**81,555**	83,895	**88**	83
Other deposits and receivables	**7,419**	6,909	**793**	509
Deposit for a proposed acquisition	**–**	40,000	**–**	–
	100,166	146,418	**881**	592
Less: Provision for impairment loss of prepayments and other receivables	**(13,445)**	(8,145)	**–**	–
	86,721	138,273	**881**	592

Movement in provision for impairment loss of prepayments and other receivables is as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
Balance at the beginning of the year	**8,145**	5,614
Reversal of provision for impairment loss	**(3,786)**	(1,800)
Provision for impairment loss of prepayments and other receivables	**8,728**	4,069
Exchange realignment	**358**	262
Balance at the end of the year	**13,445**	8,145

Included in the amount of prepayments, approximately HK$72,971,000 (2010: HK$74,693,000) is prepayment for purchase of raw materials.

27. CASH AND BANK BALANCES

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**50,416**	25,527	**1,991**	803

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$35,895,000 (2010: HK$23,468,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

28. PLEDGED BANK DEPOSITS

As at 31 December 2011, the Group's bank deposits of approximately HKD1,390,000 (2010: nil) denominated in RMB were pledged as security for the Group's issuance of documentary credit granted by a bank.

29. ASSETS CLASSIFIED AS HELD FOR SALE

	The Group	
	2011	2010
	HK$'000	HK$'000
Building	**23,924**	–

During the year ended 31 December 2011, the Group intended to dispose of a building as the directors considered that it can minimise the operation costs and risks and generated additional capital for the daily operations of the Group. The building was originally intended for self-use for manufacturing household products and furniture. On 8 March 2012, Langfang Huari Hengyu Home Co., Ltd., entered into an agreement with an independent third party to which Langfang Huari Hengyu Home Co., Ltd. agreed to sell the building for a consideration of approximately HK$23,924,000. Therefore, the building with net book value of approximately HK$50,793,000 was impaired to HK$23,924,000 before its reclassification to assets classified as held for sale. Impairment loss of HK$26,869,000 was included in other operating expenses (Note 18).

30. TRADE PAYABLES

An ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
0 – 30 days	**15,518**	15,947
31 – 60 days	**–**	2,542
61 – 90 days	**4,354**	1,110
91 – 180 days	**6,982**	2,484
Over 180 days	**19,155**	10,671
	46,009	32,754

31. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**2,822**	1,547	**–**	200
Value-added tax payables	**1,149**	250	**–**	–
Accruals	**4,661**	3,842	**1,421**	798
	8,632	5,639	**1,421**	998

32. RECEIPTS IN ADVANCE

	The Group	
	2011	2010
	HK$'000	HK$'000
Receipts in advance	**54,241**	29,210

The amounts are sales deposits received from customers and are expected to be settled or recognised as income within one year.

33. AMOUNT DUE TO A DIRECTOR

The Group

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

34. AMOUNT DUE TO A SHAREHOLDER

The Group

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

35. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 2010 and 2011, the total future minimum lease payments under finance lease and their present values are as follows:

The Group

	Minimum lease payments 2011 HK$'000	Minimum lease payments 2010 HK$'000	**Present value of minimum lease payments 2011 HK$'000**	Present value of minimum lease payments 2010 HK$'000
Amount payable:				
Within one year	**15**	20	**11**	15
In the second to fifth years, inclusive	**–**	13	**–**	11
Total minimum finance lease payments	**15**	33	**11**	26
Future finance charges	**(4)**	(7)		
Total net finance lease payables	**11**	26		
Portion classified as current liabilities	**(11)**	(15)		
Non-current liabilities	**–**	11		

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The interest rate on finance lease was approximately 5% per annum and the term entered into was five years. Interest rate is fixed at the contract rate. The leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

36. SHARE CAPITAL

Ordinary shares

	Par value HK$	Number of shares '000	Share capital HK$'000
Authorised:			
At 1 January 2010, 31 December 2010 and 31 December 2011	0.002	250,000,000	500,000
Issued and fully paid:			
At 1 January 2010	0.002	1,384,800	2,769
Shares issued under share option scheme *(Note 41)*	0.002	82,800	166
Placing of shares *(Note (i))*	0.002	276,956	554
At 31 December 2010 and 31 January 2011	0.002	1,744,556	3,489
Shares issued under share option scheme *(Note 41)*	0.002	13,800	28
At 31 December 2011	**0.002**	**1,758,356**	**3,517**

Note:

(i) On 8 October 2010, the placing agent, on behalf of the Company placed 276,956,000 shares of HK$0.002 each at a placing price of HK$0.116 each to not less than six investors. The Company received net proceeds from the subscription of approximately HK$31,803,000.

Share options

Details of the Company's share option schemes are included in Note 37 to the consolidated financial statements.

37. SHARE OPTION SCHEMES

Share options

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Old Share Option Scheme"), the Board of the Company may for a consideration of HK$1 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board of the Company in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Old Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

37. SHARE OPTION SCHEMES *(Continued)*

Share options *(Continued)*

The Old Share Option Scheme became effective for a period of ten years commencing 24 May 2002 (the date on which the Old Share Option Scheme was adopted).

As at 31 December 2011, there was 27,600,000 (2010: 55,200,000) outstanding share options issued by the Company under the Old Share Option Scheme.

On 9 December 2010, the company adopted the new share option scheme (the "New Share Option Scheme"). Pursuant to the New Share Option Scheme, the Board of the Company may for a consideration of HK$1 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board of the Company in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The New Share Option Scheme became effective for a period of ten years commencing on 9 December 2010 (the date on which the New Share Option Scheme was adopted).

At the date of approval of these consolidated financial statements, no share options had been granted under the New Share Option Scheme.

38. RESERVES

(a) The Group

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

The Group's contributed surplus as at 31 December 2010 and 2011 represents the amount of HK$36,000,000 transfer from share capital due to a capital reduction in the year ended 31 December 2001.

Subsidiaries of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior year's losses or to increase capital after proper approval.

Apart from the above, subsidiaries are also required to appropriate its annual statutory net profit (after offsetting any prior years' losses) to the statutory welfare fund to be utilised for employees' common welfare in accordance with the PRC Company Law. The directors recommended that 5% of statutory net profit for the entity should be appropriated to this reserve.

38. RESERVES *(Continued)*

(a) The Group *(Continued)*

Movements in the statutory reserves are as follows:

	Statutory welfare fund HK$'000	Statutory reserve fund HK$'000	Total HK$'000
At 1 January 2010	13,826	27,655	41,481
Appropriations for the year	673	1,346	2,019
At 31 December 2010 and 1 January 2011	14,499	29,001	43,500
Appropriations for the year	–	–	–
At 31 December 2011	**14,499**	**29,001**	**43,500**

As the subsidiaries of the Company established in the PRC recorded net losses for the year ended 31 December 2011, no appropriation of statutory reserves was made during the year.

(b) The Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Share option reserve HK$'000	Total HK$'000
At 1 January 2010		169,277	36,000	(101,749)	–	103,528
Recognition of equity-settled share-based payments		–	–	–	8,004	8,004
Issue of shares upon exercise of share options		16,312	–	–	(4,830)	11,482
Premium arising from issue of new shares	*36 Note (i)*	31,573	–	–	–	31,573
Share issue expenses	*36 Note (i)*	(324)	–	–	–	(324)
Loss for the year		–	–	(45,366)	–	(45,366)
At 31 December 2010 and 1 January 2011		216,838	36,000	(147,115)	3,174	108,897
Expiry of share options		–	–	690	(690)	–
Issue of shares upon exercise of share options		2,696	–	–	(828)	1,868
Loss for the year		–	–	(111)	–	(111)
At 31 December 2011		**219,534**	**36,000**	**(146,536)**	**1,656**	**110,654**

The Company's contributed surplus as at 31 December 2010 and 2011 represents the amount of HK$36,000,000 transfer from share capital due to a capital reduction in the year ended 31 December 2001.

39. ACQUISITION OF A SUBSIDIARY

On 28 November 2011, a wholly owned subsidiary of the Company, Able Profit (Hong Kong) Limited, entered into an agreement with an independent third party, to acquire 60% of the entire share capital of South China Memorial Park & Funeral Service Limited, for a total consideration of approximately HK$1,000,000. The acquisition was completed on 15 December 2011.

Summary of the effects of the acquisition of the subsidiary is as follows:

	HK$'000
Net liabilities acquired:	
Other payables and accruals	(21)
Intangible assets *(note 20)*	1,013
Non-controlling interests arising on acquisition	8
	1,000
Total consideration satisfied by:	
Cash consideration	1,000
Net cash outflow arising on acquisition:	
Cash consideration	(1,000)
Cash and cash equivalents acquired	–
	(1,000)

Note:

During the year ended 31 December 2011, South China Memorial Park & Funeral Service Limited contribute approximately nil and nil to the Group's turnover and loss for the year from the date of acquisition to the end of the reporting period.

If the acquisition had been completed on 1 January 2011, the Group's turnover for the year from continuing operations would have been approximately HK$177,234,000, and loss for the year from continuing operations would have been approximately HK$54,300,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of turnover and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

40. DISPOSAL OF A SUBSIDIARY

On 17 September 2010, a wholly owned subsidiary of the Company, Trader Group International Limited, entered into an agreement with an independent third party, to dispose 100% of the entire share capital of Lang Fang Tian Feng Home Co., Ltd, for a total consideration of approximately RMB5,557,000 (HK$6,347,000). The disposal was completed on 30 September 2010.

40. DISPOSAL OF A SUBSIDIARY *(Continued)*

Summary of the effects of the disposal of the subsidiary is as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	512
Intangible assets	983
Cash and cash equivalents	397
Inventories	101
Trade receivables	17,379
Prepayments, deposits and other receivables	361
Trade payables	(118)
Other payables and accruals	(1,768)
Receipts in advance	(11,558)
	6,289
Release of exchange reserve	(10,995)
Gain on diposal of a subsidiary	11,053
	6,347
Satisfied by:	
Cash consideration	6,347
Net cash inflow arising from disposal:	
Cash consideration	6,347
Cash and cash equivalents disposed of	(397)
	5,950

41. SHARE-BASED PAYMENT TRANSACTIONS

During the year ended 31 December 2010, the Company had granted 138,000,000 options to employees and consultants under the Company's Old Share Option Scheme as disclosed in Note 37.

As at 31 December 2011, the number of shares in respect of which share options had been granted and remained outstanding under the Old Share Option Scheme was 27,600,000 (2010: 55,200,000), representing 1.6% (2010: 3.2%) of the shares of the Company in issue at that date.

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

Details of specific categories of options are as follows:

Participants	Share option type	Date of grant of share options	Exercise period of share options	Exercise price of share options	Fair value at grant date	Closing price of the Company's shares immediately before the grant date
				HK$ per share	HK$ per share	HK$ per share
Employees and Consultants	2010A	22 January 2010	22 January 2010 to 21 January 2012	0.1374	0.06	0.139
Consultants	2010B	28 September 2010	28 September 2010 to 27 September 2011	0.157	0.05	0.162

Movement of share options during the years 2011 and 2010 are as follows:

		Number of share options					
Participants	Share option type	Outstanding at 1 January 2011	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31 December 2011
Employees and Consultants	2010A	41,400,000	–	(13,800,000)	–	–	27,600,000
Consultants	2010B	13,800,000	–	–	–	(13,800,000)	–
		55,200,000	–	(13,800,000)	–	(13,800,000)	27,600,000

		Number of share options					
Participants	Share option type	Outstanding at 1 January 2010	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31 December 2010
Employees and Consultants	2010A	–	110,400,000	(69,000,000)	–	–	41,400,000
Consultants	2010B	–	27,600,000	(13,800,000)	–	–	13,800,000
		–	138,000,000	(82,800,000)	–	–	55,200,000

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

The fair value of the share options granted were priced using a Trinomial option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of a share option varies with different variables of certain subjective assumptions.

Expected volatility was determined by using the historical volatility of the Company's share price volatility over previous 1 year.

Inputs into the model:

	Option type	
	2010A	**2010B**
Grant date share price	HK$0.1310	HK$0.1550
Exercise price	HK$0.1374	HK$0.1570
Expected volatility	95.21%	90.30%
Option life	2 years	1 year
Risk free rate	0.539%	0.363%

The following share options granted under the Old Share Option Scheme were exercised during the year ended 31 December 2011:

Share option type	**Number exercised**	**Exercise date**	**Share price at exercise date**	**Weighted average closing price of the Company's shares immediately before the exercise date**
	'000		HK$	HK$
2010A	13,800	19 April 2011	0.124	0.1463

The following share options granted under the Share Option Scheme were exercised during the year ended 31 December 2010:

Share option type	**Number exercised**	**Exercise date**	**Share price at exercise date**	**Weighted average closing price of the Company's shares immediately before the exercise date**
	'000		HK$	HK$
2010A	13,800	2 June 2010	0.137	0.1502
2010A	41,400	22 September 2010	0.168	0.1404
2010A	13,800	10 December 2010	0.164	0.1622
2010B	13,800	10 December 2010	0.164	0.1622
	82,800			

42. CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities as at 31 December 2011 (2010: Nil).

43. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases office properties and staff quarter under operating lease arrangements. Leases for properties are negotiated for lease terms ranging from one to two years.

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
Land and buildings		
Within one year	**213**	65
In the second to fifth years, inclusive	**44**	–
	257	65

The Company had no operating lease commitment as at 31 December 2011 (2010: Nil).

44. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

(a) Compensation of key management personnel of the Group:

	2011	2010
	HK$'000	HK$'000
Short term employee benefits	**2,520**	2,025
Pension scheme contribution	**36**	35
Total compensation paid to key management personnel	**2,556**	2,060

Further details of directors' emoluments are included in Note 11 to the consolidated financial statements.

45. EVENTS AFTER THE REPORTING PERIOD

On 15 December 2011, a direct wholly-owned subsidiary of the Company, EMAX Venture Limited entered into a sale and purchase agreement (the "Acquisition Agreement") with Mr. Lau Chi Yan, Pierre (the "Vendor"), an independent third party to the Company pursuant to which EMAX Venture Limited conditionally agreed to acquired and the Vendor conditionally agreed to sell the entire issued share and the amount of shareholder's loan due to the Vendor at the date of completion at a total consideration of HK$80,000,000 in cash. The transactions has not completed as at the date of approval of these consolidated financial statements. Details of the above transactions were set out in the Company's announcements and the circular dated 15 December 2011 and 24 February 2012 respectively.

On 10 February 2012, a non-wholly owned subsidiary of the Company, South China Memorial Park & Funeral Services Limited, has been granted by the government of Hong Kong Special Administrative Region a right for a period of 60 months with effect from 1 April 2012 to 31 March 2017 (both dates inclusive) to provide funeral services to members of the public under a valid funeral parlour licence, and operate, manage and maintain a public funeral parlour situated in Hung Hom, Hong Kong. Details of the above transaction were set out in the Company's announcement dated 13 February 2012.

On 8 March 2012, an indirect wholly-owned subsidiary of the Company, Langfang Huari Hengyu Home Co., Ltd., entered into a sale agreement with Huari Furniture, pursuant to which Langfang Huari Hengyu Home Co., Ltd. agreed to sell and Huari Furniture agreed to purchase a plant situated in Langfang City, PRC which was 100% owned by Langfang Huari Hengyu Home Co., Ltd. for a consideration of RMB19,600,000 (approximately HK$23,924,000). The transactions has not completed as at the date of approval of these consolidated financial statements. Details of the above transaction were set out in the Company's announcement dated 8 March 2012.

46. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 26 March 2012.

Five Year Financial Summary

For the year ended 31 December 2011

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**177,083**	181,338	297,460	477,827	447,814
Cost of sales	**(156,923)**	(171,930)	(252,309)	(323,895)	(296,060)
Gross profit	**20,160**	9,408	45,151	153,932	151,754
Other revenue	**310**	969	2,473	3,496	935
Other income	**5,275**	22,253	2,227	172	433
Selling and distribution costs	**(20,942)**	(15,981)	(45,896)	(43,521)	(17,193)
Administrative expenses	**(28,442)**	(24,918)	(33,755)	(35,985)	(16,140)
Impairment loss recognised in respect of goodwill	**–**	–	(61,576)	(11,868)	–
Equity-settled share-based payments	**–**	(8,004)	–	–	–
Fair value changes on financial assets at fair value through profit or loss	**–**	–	–	–	(288)
Other operating expenses	**(37,784)**	(8,129)	(29,104)	(84)	(416)
(Loss)/profit from operations	**(61,423)**	(24,402)	(120,480)	66,142	119,085
Finance costs	**(4)**	(4)	(4)	(4)	(3)
(Loss)/profit before taxation	**(61,427)**	(24,406)	(120,484)	66,138	119,082
Taxation	**6,657**	(6,574)	–	–	(984)
(Loss)/profit for the year from continuing operations	**(54,770)**	(30,980)	(120,484)	66,138	118,098
Discontinued operations					
Profit for the year from discontinued operations	**2,250**	1,382	–	–	–
(Loss)/profit for the year	**(52,520)**	(29,598)	(120,484)	66,138	118,098
Attributable to:					
Owners of the Company	**(52,520)**	(29,598)	(120,484)	66,138	118,098

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**378,337**	390,230	425,921	495,665	432,731
Total liabilities	**(113,943)**	(84,160)	(140,779)	(108,014)	(130,946)