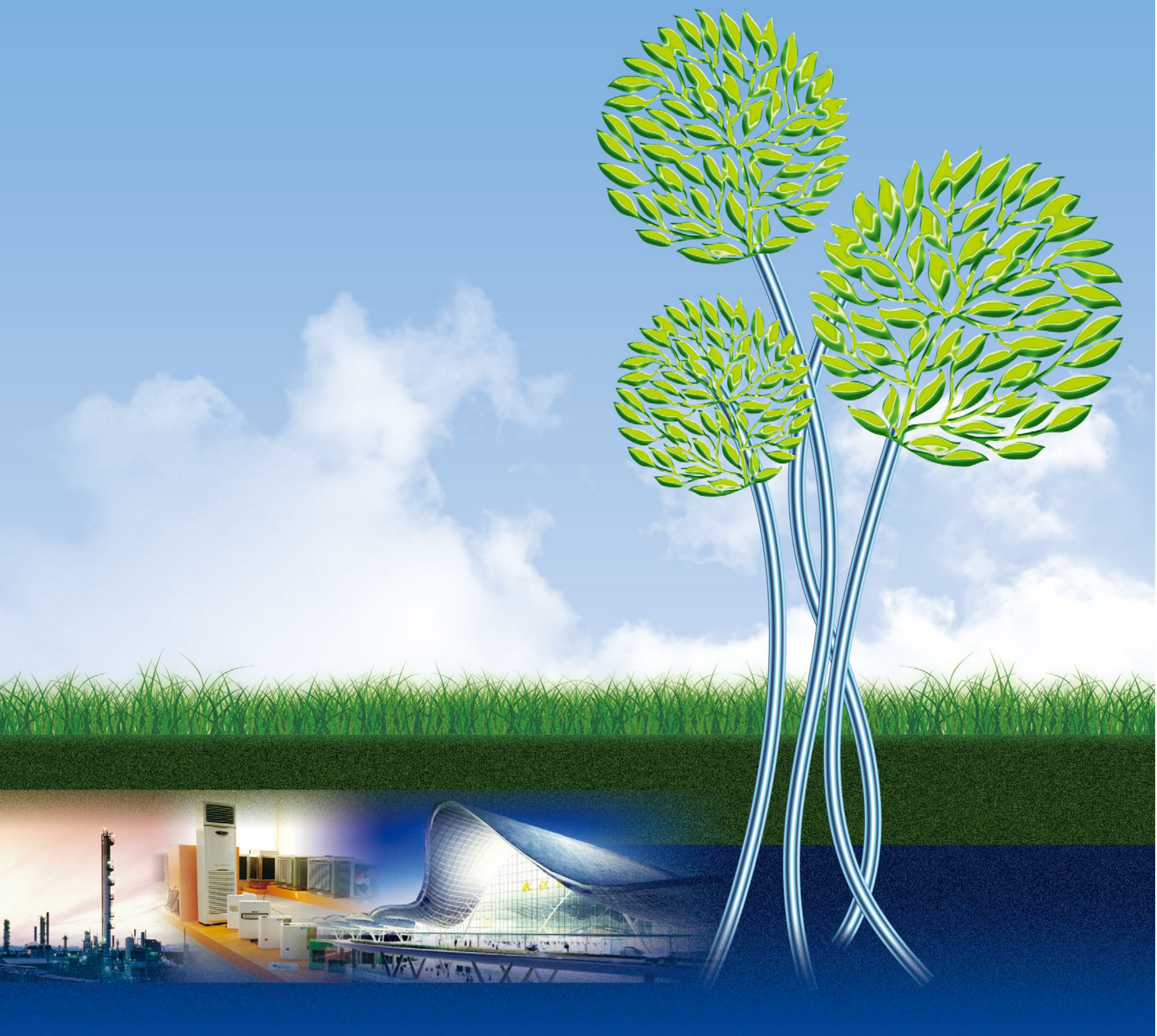
Global Energy Resources International Group Limited

(continued in Bermuda with limited liability)
Stock Code: 8192



ANNUAL REPORT 2011

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

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

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

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This report, for which the directors (the "Directors") of Global Energy Resources International Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the 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

Group Financial Summary

	Year ended 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011 HK$'000**
RESULTS					
Turnover	1,417	1,193	14,553	4,796	**25,474**
Loss before taxation	(2,846)	(7,174)	(9,352)	(17,896)	**(19,766)**
Taxation	–	51	43	(25)	**(342)**
Loss for the year	(2,846)	(7,123)	(9,309)	(17,921)	**(20,108)**

	At 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011 HK$'000**
ASSETS AND LIABILITIES					
Total assets	5,172	18,548	16,349	59,157	**54,300**
Total liabilities	(3,501)	(3,273)	(10,371)	(17,254)	**(20,005)**
Net assets	1,671	15,275	5,978	41,903	**34,295**

Corporate Information

EXECUTIVE DIRECTORS

Mr. Li Shan Jie *(Chairman)*
Mr. Zhang Shi Min *(Chief Executive Officer)*
Mr. Qie Bing Bing
Ms. Li Xiao Mei *(Resigned on 23 June 2011)*

NON-EXECUTIVE DIRECTORS

Mr. Wu Gao Yuan *(Resigned on 1 June 2011)*
Mr. Wen Wei Zhong *(Resigned on 1 June 2011)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Wah
Mr. Fung Hoi Wing, Henry
Mr. Cheung Chung Leung, Richard

COMPANY SECRETARY

Ms. Li Shan Mui, HKICPA, FCCA and CTA

COMPLIANCE OFFICER

Mr. Zhang Shi Min

AUDIT COMMITTEE

Mr. Leung Wah *(Chairman)*
Mr. Fung Hoi Wing, Henry
Mr. Cheung Chung Leung, Richard

NOMINATION COMMITTEE

Mr. Li Shan Jie *(Chairman)*
Mr. Zhang Shi Min
Mr. Leung Wah
Mr. Fung Hoi Wing, Henry
Mr. Cheung Chung Leung, Richard

REMUNERATION COMMITTEE

Mr. Leung Wah *(Chairman)*
Mr. Zhang Shi Min
Mr. Fung Hoi Wing, Henry
Mr. Cheung Chung Leung, Richard

CORPORATE GOVERNANCE COMMITTEE

Mr. Leung Wah *(Chairman)*
Mr. Qie Bing Bing
Mr. Fung Hoi Wing, Henry
Mr. Cheung Chung Leung, Richard

AUTHORISED REPRESENTATIVES

Ms. Li Shan Mui, HKICPA, FCCA and CTA
Mr. Zhang Shi Min

AUDITORS

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

LEGAL ADVISER TO THE COMPANY

As to Bermuda law
Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2803, 28th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

COMPANY HOMEPAGES

www.8192.com.hk

GEM STOCK CODE

8192

Chairman's Statement

Dear shareholders,

On behalf of the board of directors (the "Board" or the "Directors") of Global Energy Resources International Group Limited (the "Company"), I herein present the results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011.

BUSINESS AND FINANCIAL OVERVIEW

During the year, the Group's turnover and loss attributable to owners of the Company were approximately HK$25,474,000 (2010: HK$4,796,000) and approximately HK$21,255,000 (2010: HK$17,996,000) respectively, which represent an increase of approximately 431% in turnover and an increase of approximately 18.1% in loss attributable to owners of the Company as compared with the previous corresponding year.

Due to growing global economic uncertainties, the operating environment in 2011 was difficult. However, we continued to develop areas where our business is strong and further increase our potential customer base and market share. In accordance with the Company's mission, "Energy Saving, Environmentally Friendly and Low Cost", we have, in the past years, developed and launched a series of environmentally friendly air-conditioners and related products. We rely on our trusted brand as the foundation to our long-term growth and to maintain a sustainable operating result.

During the year, we developed the centralized telecommunication computer room environmentally friendly air-conditioner and successfully introduced it into the market to meet the growing demand for energy saving measures and we have continued to gain recognition in this regard. Furthermore, we have successfully tested a new environmentally friendly cooling fan dedicated for agricultural use and two pilot projects were arranged by the dealers to install in Fangcun Flower Market, Guangzhou and in one of the breeding farms of an established group in Inner Mongolia respectively. Generally the new product has been well received by pilot users.

Currently, as China's agricultural market is booming and is expected to continue its strong upward momentum in the future, maintaining a suitable temperature for high-end livestock or plants offers opportunities for the environmentally friendly cooling fan industry to increase their operating profit. For the coming year, the Company's marketing efforts including on-line advertisements, agricultural fairs, etc. will gradually be focused on the agricultural industry in order to grab opportunities in advance.

After the beginning of the new financial year, we had several meetings with dealers and it is generally believed that the environmentally friendly air-conditioner and cooling fan market would steadily grow in 2012. Currently, the Company has prepared inventory for forthcoming sales in accordance with sales planning. Looking ahead, we believe our market share and sales will further increase following the growing recognition of our brand in the market.

The goal of the Company is to become the leading provider of environmentally friendly air-conditioners for energy saving and environmental friendly enterprises in the Mainland, and a top three leading industrial environmentally friendly air-conditioners supplier in Greater China. We will redouble our efforts to continue creating value for our stakeholders, customers and staff as we move closer to our goal.

PROSPECTS

Looking ahead, the Group will continue to focus on its business in China because we believe that Mainland China will benefit from its ongoing economic development. The management of the Company continues to have an optimistic outlook for the sales of environmentally friendly air-conditioners and cooling fans and expects the sales of industrial environmentally friendly air-conditioners and cooling fans will further increase and contribute a significant part of the revenue of the Group in the coming financial year. Meanwhile, the Group will also continue to adopt strict cost control policies in managing our operations and enhance our strengths.

The Group will not only continue to improve its existing business but also keep seeking opportunities to invest in the energy and resources businesses including in particular the coalbed methane ("CBM") business with a view to bringing in improved returns and providing greater value to our shareholders.

On behalf of the Board, I would like to express my heartfelt gratitude to our shareholders, customers and business partners for their continued support in the challenging economic environment. We undertake to increase value in every way we can for our customers and shareholders. My thanks also go to the board members, management and all of our staff for their dedication and hard work.

Li Shan Jie
Chairman

Hong Kong, 21 March 2012

Management Discussion and Analysis

GENERAL

The Group is principally engaged in manufacturing and sales of environmentally friendly air-conditioners and related products, and the provision of information technology and engineering consultancy services.

FINANCIAL REVIEW

Results

During the year under review, the Group recorded a turnover of approximately HK$25,474,000 (2010: approximately HK$4,796,000), representing an increase of approximately 431% in turnover as compared with previous year. The increase in turnover was attributable to the acquisition of 51% of the equity interest in Shenzhen Shun Tian Yun Environmental Technology Limited* which was completed in September 2010 and its contribution to the Group's turnover being fully reflected in the financial year under review. Loss attributable to owners of the Company for the year ended 31 December 2011 amounted to approximately HK$21,255,000 (2010: approximately HK$17,996,000), representing an increase of approximately 18.1% as compared with previous year. The increase in the loss attributable to owners of the Company was mainly due to increase in fees paid to professional advisers in looking for new investment opportunities in new business areas.

Liquidity, financial resources and capital structure

As at 31 December 2011, the Group had assets of approximately HK$54,300,000 (2010: approximately HK$59,157,000), including net cash and bank balances of approximately HK$8,944,000 (2010: approximately HK$26,375,000). As at 31 December 2011, the Group's trade receivables of approximately HK$4,862,000 (2010: Nil) was pledged as collateral for the Group's bank borrowing.

During the year under review, the Group financed its operations with internally generated cash flow, a shareholder loan and a short-term bank loan (as referred below).

Capital structure

There was no change in the capital structure of the Company for the year ended 31 December 2011. During the year under review, the Company did not issue any new Shares (2010: 6,980,000,000 new Shares).

Gearing

As at 31 December 2011, the Group had outstanding bank borrowing of approximately RMB4,987,000 (approximately HK$6,044,000) which was a short term revolving loan at floating rates (31 December 2010: Nil). The unutilized bank loan facilities amount to approximately RMB13,000 (approximately HK$15,755) (31 December 2010: Nil). As at 31 December 2011, the Group had an outstanding loan of HK$2,000,000 (2010: Nil) due to the controlling shareholder, Sound Treasure Holdings Limited, which is unsecured , interest-free and repayable on demand. The gearing ratio of the Group, the ratio between net debt and total equity attributable to owners of the Company, was approximately 1.5% for the year ended 31 December 2011 (31 December 2010: Nil).

Details of the Group's gearing ratio are set out in note 36 to the financial statement.

Segment information

During the year under review, the Group's reportable segments are "Manufacturing and sales of air-conditioners and related products" and "Provision of information technology and engineering consultancy services". Analysis of the Group's revenue and results, as well as analysis of the carrying amount of segment assets and liabilities, and capital expenditures by geographical market have been presented.

Details of the Group's segment information are set out in note 5 to the financial statement.

* *The English transliteration of Chinese name is included in this announcement for reference only and should not be regarded as its official English name.*

SIGNIFICANT INVESTMENTS

Material acquisitions or disposals of subsidiaries and affiliated companies

The Company did not have any material acquisitions or disposal of subsidiaries and affiliated companies during the year.

Contingent liabilities

As at 31 December 2011, the Group had no material contingent liabilities.

Treasury policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce its exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Foreign exchange exposure

The Group's income and expenditure during the year ended 31 December 2011 were denominated either in Hong Kong dollars ("HK$") or Renminbi ("RMB"), and most of the assets and liabilities as at 31 December 2011 were denominated either in HK$ or RMB. The Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rate, and no hedging transaction or forward contract arrangement was made by the Group during the year under review.

Future plans for material investments

In addition to the continual improvement of the operating performance of the existing business, the Group is actively looking for new investment opportunities in the energy and resources business including in particular in the coalbed methane business with a view to bringing in improved returns and providing greater value to the shareholder.

Employees and remuneration policies

As at 31 December 2011, the Group had 80 (2010: 87) full-time employees in Hong Kong and the PRC. Total staff costs (including Directors' remuneration) were approximately HK$7,816,000 for the year ended 31 December 2011 (2010: approximately HK$9,067,000). Remuneration is determined with reference to market terms, employment conditions, responsibilities and the performance, qualification and experience of individual employee. Other benefits include Corporate Liabilities Insurance for the Directors and Officers, contributions to the statutory mandatory provident fund scheme for its employees in Hong Kong and social insurance for its employees in the PRC, and are paid at appropriate levels.

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

Mr. Li Shan Jie, aged 45, is the Chairman, executive Director and the chairman of the nomination committee of the Board. Mr. Li obtained a Master of Science degree in Engineering of Shenyang Gongye College* (瀋陽工業學院, now known as Shenyang Ligong University* (瀋陽理工大學), same hereinafter), a Master of Economics degree in World Economics of Liaoning University* (遼寧大學) and Doctor of Economics degree in Political Economy of Liaoning University*, and is a qualified Senior Mechanical Engineer of Liaoning Province, China. Mr. Li was a mechanical engineer of China North Industries Controlling Company* (中國兵器工業總公司, now known as China North Industries Group Corporation* (中國兵器工業集團公司)), the assistant principal of Shenyang Gongye College* and the president of the Coalbed Methane Engineering Department of Shenyang Ligong University* (瀋陽理工大學煤層氣工程學院) and the president of Northeast Asia Development Research Institute* (東北亞開發研究院). Mr. Li is a member of the council of Promotion Center for China Emergency Assistance* (中國民政部緊急救援促進中心) and the chief economist of International Eco-Safety Cooperative Organization* (國際生態安全合作組織). Mr. Li was a committee member of the 4th conference of the 10th Chinese People's Political Consultative Conference of Liaoning Province, China* (中國遼寧省政協第十屆第四次會議).

Mr. Zhang Shi Min, aged 54, is the Chief Executive Officer, an executive Director, member of the nomination committee and remuneration committee of the Board, and a director in a number of subsidiaries of the Group. Mr. Zhang has extensive experience in corporate operating management and risk management. Mr. Zhang graduated from Faculty of Humanities and Social Science* (人文社會科學系) of Hunan University with a Bachelor of Management Studies* (行政管理學學位). In addition, he was part of the senior management of Shenzhen Kang Wo Dian Qi Ji Shu Co., Limited* (深圳康沃電氣技術有限公司) and an executive director and the financial controller of Xi An Chun Ri Wang Luo Neng Yuan Co., Ltd.* (西安春日網絡能源有限公司).

Mr. Qie Bing Bing, aged 27, is an executive Director, a member of the corporate governance committee of the Board, and a director in a number of subsidiaries of the Group. Mr. Qie was promoted to the chief operating officer of the Company on 30 May 2011, but was re-designated to the Chief Investment Officer on 15 February 2012. Alongside with his years of experience in enterprise management and capital operation, Mr. Qie is also well-versed with the management, operation, exploration and exploitation in the field of mineral resources, petroleum and liquid petrol gas. When Mr. Qie worked for Bosch Rexroth Electric Drives and Controls (Shenzhen) Co., Ltd., he had participated in the overall market development in mainland China, as well as overseeing the merger and acquisition activities in the scope of electric drives and control in China. Mr. Qie graduated from China Central Radio and TV University* (中央廣播電視大學) with certificate in Business Administration* (工商管理畢業證書). Mr. Qie was a sales director of Bosch Rexroth Electric Drives and Controls (Shenzhen) Co., Ltd.* (博世力士樂電子傳動與控制(深圳)有限公司) in East China and an investment director of Shenzhen Careall Capital Investment Co., Ltd.* (深圳市康沃資本創業投資有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Wah, aged 47, is an independent non-executive Director, chairman of the audit committee, remuneration committee and corporate governance committee of the Board and a member of the nomination committee of the Board. He is a member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants. He graduated from the University of Hong Kong with a Bachelor of Science degree. Mr. Leung has extensive experience in finance and accounting including working experience in international accounting firms, including Ernst & Young and Deloitte Touche Tohmatsu. Mr. Leung was the company secretary of AUPU Group Holding Company Limited ("AUPU"). He is the chief financial officer of AUPU, the share of which is listed on the Main Board of the Stock Exchange.

* *The English transliteration of the Chinese name(s), where indicated, is included for information only, and should not be regarded as the official English name(s) of such Chinese name(s).*

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Fung Hoi Wing, Henry, aged 56, is an independent non-executive Director, member of the audit committee, nomination committee, remuneration committee and corporate governance committee of the Board. He is a Notary Public and Solicitor of Messrs. Fung, Wong, Ng & Lam, Solicitors and Notaries of Hong Kong. He is also a China-Appointed Attesting Officer. He graduated from the University of Hong Kong with a Bachelor of Social Sciences degree. Mr. Fung is an independent non-executive director and a member of the audit committee of Merdeka Resources Holdings Limited, the share of which is listed on the GEM Board of the Stock Exchange.

Mr. Cheung Chung Leung, Richard, aged 58, is an independent non-executive Director, member of the audit committee, nomination committee, remuneration committee and corporate governance committee of the Board. He has over 30 years of experience as an architect and real estate investment advisor. He graduated from the University of Hong Kong with degrees of Bachelor of Arts (Architectural Studies) and Bachelor in Architecture. He possesses the People's Republic of China Class 1 Registered Architects Qualification and is a member of the Hong Kong Institute of Architects. He is also a Registered Architect pursuant to the Architects Registration Ordinance (Chapter 408 of the Laws of Hong Kong). Mr. Cheung is an independent non-executive director of Talent Property Group Limited, the share of which is listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

Ms. Wei Zhe Min, aged 52, is the asset management director of the Group and a director in two subsidiaries of the Company. Ms. Wei graduated from Guandong Zhongshan University* (廣東中山大學) with certificate in Business Administration for In-service Manager* (在職經理工商管理課程結業證書). Ms. Wei had been appointed as senior management when she worked in a sizable Stated-owned Enterprise, a Sino-foreign Joint Venture Technology Group Company, an Investment Management Company and professional firms. She had participated and organized in many projects of operating in investment management, and She is familiar with operating in capital market management, and tax law and regulations in China. She had professional skills and practicing experience in operation of capital market, finance management, companies merge and restructure, operating strategy, risk management, etc.

Ms. Qie Miao Miao, aged 30, joined the Group on 5 October 2010. She was promoted to the Chief Administrator on 1 November 2011. Ms. Qie has worked for several international investment firms. She has extensive experiences in investment, Project Management, Marketing, Equity Merger, etc. She graduated from Renmin University of China* (中國人民大學) with a degree of bachelor in finance. Ms. Qie is sister of Mr. Qie Bing Bing, executive Director.

Mr. Xu Guang Li, aged 34, is the Chief Financial Officer, joined the Group on 1 December 2010, appointed as CFO on 1 March 2011. Mr. Xu, graduated from La Trobe University in Australia majoring in accounting. He has obtained the qualification of CPA Australia & Hong Kong Institute of Certified Public Accountants. He worked in two leading international CPA firms and was responsible for auditing, financial advisory and due diligence works etc. He has approximately 10 years experience in accounting and auditing.

COMPANY SECRETARY

Ms. Li Shan Mui, Janice, aged 38, is the company secretary of the Company. Ms. Li has over 10 years of experience in audit, accounting, budgeting, financial analysis, administration, etc. She had even worked for many international firms. Ms. Li graduated from University of Hertfordshire, United Kingdom with a degree of Bachelor of Arts in accounting. Ms. Li is a member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, a member of The Taxation Institute of Hong Kong and Certified Tax Adviser, Hong Kong.

Directors' Report

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

SEGMENT INFORMATION

The analysis of the business and geographical segments of the operations of the Group are set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Group and the Company at that date, are set out in the financial statements on pages 23 to 25.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 27 to the financial statements.

RESERVES

Details of the movements in reserves of the Company and of the Group during the year are set out in note 29 to the financial statements and the consolidated statement of changes in equity on page 26 respectively.

The Company had no reserves available for distribution to the shareholders of the Company as at 31 December 2011 (2010: Nil).

GROUP FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group announced in previous years are set out on page 2 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 13 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2011 and up to the date of this annual report were as follows:

Executive Directors

Mr. Li Shan Jie	(appointed on 1 June 2011)
Ms. Li Xiao Mei	(resigned on 23 June 2011)
Mr. Zhang Shi Min	
Mr. Qie Bing Bing	

Non-executive Directors

Mr. Wu Gao Yuan	(resigned on 1 June 2011)
Mr. Wen Wei Zhong	(resigned on 1 June 2011)

Independent non-executive Directors

Mr. Leung Wah
Mr. Fung Hoi Wing, Henry
Mr. Cheung Chung Leung, Richard

Pursuant to bye-law 87(1) of the Company's bye-laws, at least one-thirds of the Directors shall retire from office by rotation. In this connection, Mr. Li Shan Jie and Mr. Leung Wah shall retire from office at the conclusion of the forthcoming annual general meeting of the Company and they, being eligible, will offer themselves for re-election. The Company has received annual confirmations of independence from Mr. Leung Wah, Mr. Fung Hoi Wing, Henry and Mr. Cheung Chung Leung, Richard respectively, and as at the date of this annual report still considers them to be independent and none of them had served the Company for more than 9 years.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the Directors and senior management of the Group as at the date of this annual report are set out on pages 8 to 9.

DIRECTORS' SERVICE CONTRACTS

Each of executive Directors, Mr. Li Shan Jie also acts as the Chairman, Mr. Zhang Shi Min also acts as the Chief Executive Officer and Mr. Qie Bing Bing also acts as the Chief Investment Officer, has entered into a letter of employment with the Company. Under the letter of employment, each of them receives a basic salary per month without bonus and such other remuneration are subject to be reviewed by the Remuneration Committee and finally determined by the Board with reference to the financial performance of the Group, their duties, responsibilities and prevailing market conditions. Each of the letter of employment shall remain valid unless terminated by either party giving not less than three months' notice in writing or payment of three months' salary (calculated as the total of the salary for each month in this three-month notice period) in lieu of notice to the other party. At the absolute discretion of the Company, the terms set out on the Letter of Employment may be suspended until each of them has successfully renewed a valid working permit in Hong Kong.

Each of the independent non-executive Directors has signed a letter of appointment with the Company for the third term of 1 year with effect from 12 January 2012.

Each of the Directors are subject to retirement by rotation and/or re-election at the Company's annual general meeting in accordance with the Bye-laws of the Company.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting of the Company 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' INTERESTS IN CONTRACTS

None of the Directors had a material interest, whether directly or indirectly, in any contract of significance subsisting during or at the end of the year to which the Company or any of its subsidiaries was a party.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2011, none of the Directors had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules.

SHARE OPTION SCHEME

A share option scheme was adopted and approved by the then sole member of the Company on 26 October 2002 (the "Share Option Scheme"). No share options have been granted under the 2002 Share Option Scheme since its adoption. A new share option scheme (the "2012 Share Option Scheme") is proposed by the Board to be adopted by the shareholders at the forthcoming annual general meeting of the Company and the Share Option Scheme shall be abolished accordingly. Details of proposed 2012 Share Option Scheme is available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at Unit 2803, 28th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong during the 14-day period immediately preceding the forthcoming annual general meeting.

Particulars of the Share Option Scheme are set out in note 28 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed in the section headed "Directors' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Except for Ms. Li Xian Mei's interests, prior to her resignation as executive Director on 23 June 2011, at no time during the year had the Directors and chief executives of the Company (including their spouses and children under 18 years of age) any interest in, or been granted, or exercised any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations (within the meaning of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2011, the interests or short positions of person in the shares and underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in shares and underlying shares of the Company

Name of Shareholder	Number of shares interested	Capacity in which shares are held	Percentage of issued share capital
Sound Treasure Holdings Limited	5,170,000,000 *(Note)*	Beneficial owner	41.20%
Ms. Li Xiao Mei	5,170,000,000 *(Note)*	Interest in controlled corporation	41.20%
Mr. Su Zhi	700,000,000	Beneficial owner	5.58%

Note: The shares are held by Sound Treasure Holdings Limited ("Sound Treasure") incorporated in British Virgin Islands with limited liability, a company wholly owned by Ms. Li Xiao Mei. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Ms. Li is deemed to be interested in the shares held by Sound Treasure.

Save as disclosed above, as at 31 December 2011, the Directors were not aware of any other person (other than the directors and chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
– the largest supplier	20.9%
– five largest suppliers combined	52.2%
Sales	
– the largest customer	9.7%
– five largest customers combined	35.7%

None of the Directors or any of their associates or any shareholders of the Company (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 above major suppliers or largest customers of the Group for the year ended 31 December 2011.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not redeem any of its listed securities during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors and the controlling shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any business or interest in companies that competes or may compete with the business of the Group or any other conflict of interests which any such person has or may have with the Group.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2011 are set out in note 16 to the financial statements.

CONNECTED TRANSACTIONS

Details of amount due to a shareholder are set out in note 25 to the financial statements. As at 31 December 2011, the Group had an outstanding loan of HK$2,000,000 (2010: Nil) due to the controlling shareholder, Sound Treasure Holdings Limited, (the "Connected Transaction"). The Connected Transaction is exempt from the reporting, announcement and independent shareholders' approval requirements of the rule 20.65(4) of the GEM Listing Rules.

The related party transactions are set out in note 33 to the financial statements. All the related party transactions did not constitute connected transactions or continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the GEM Listing Rules.

Save as disclosed above, there were no significant connected transactions entered into by the Group for the year ended 31 December 2011.

PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

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

EVENTS AFTER THE REPORTING PERIOD

No significant events after the reporting period of the Group are required to be disclosed in the financial statements.

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.

On behalf of the Board

Li Shan Jie
Chairman and Executive Director

Hong Kong, 21 March 2012

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the CG Code and except for the period between the resignation of Ms. Li Xiao Mei as the Chairman on 23 June 2011 and the appointment of Mr. Li Shan Jie as the Chairman on 21 September 2011, the Company has complied with the provisions set out in the CG Code for the year ended 31 December 2011.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions 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 had made specific enquiries of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2011.

BOARD OF DIRECTORS AND BOARD MEETING

The Board members for the year ended 31 December 2011 and up to the date of this annual report were:

Executive Directors

Mr. Li Shan Jie	(appointed on 1 June 2011)
Ms. Li Xiao Mei	(resigned on 23 June 2011)
Mr. Zhang Shi Min	
Mr. Qie Bing Bing	

Non-executive Directors

Mr. Wu Gao Yuan	(resigned on 1 June 2011)
Mr. Wen Wei Zhong	(resigned on 1 June 2011)

Independent non-executive Directors

Mr. Leung Wah
Mr. Fung Hoi Wing, Henry
Mr. Cheung Chung Leung, Richard

The Board is responsible for the Group's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of quarterly, interim and annual accounts for the Board's approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Each of the Directors' biographical information is set out on pages 8 to 9 of this annual report. All executive directors have given sufficient time and attention to the affairs of the Group and each of them has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

The Company had appointed three independent non-executive directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of the shareholders of the Company. Each of them has signed a letter of appointment with the Company for the third term of 1 year with effect from 12 January 2012.

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

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Directors' Appointment, Re-election and Removal

Each of executive Directors, Mr. Li Shan Jie also acts as the Chairman, Mr. Zhang Shi Min also acts as the Chief Executive Officer and Mr. Qie Bing Bing also acts as the Chief Investment Officer, has entered into a letter of employment with the Company. Under the Letter of Employment, each of them receives a basic salary per month without bonus and such other remuneration are subject to be reviewed by the Remuneration Committee and finally determined by the Board with reference to the financial performance of the Group, their duties, responsibilities and prevailing market conditions. Each of the Letter of Employment shall remain valid unless terminated by either party giving not less than three months' notice in writing or payment of three months' salary (calculated as the total of the salary for each month in this three-month notice period) in lieu of notice to the other party. At the absolute discretion of the Company, the terms set out on the Letter of Employment may be suspended until each of them has successfully renewed a valid working permit in Hong Kong.

Each of the independent non-executive directors has signed a letter of appointment with the Company for the third term of 1 year with effect from 12 January 2012 and their appointments are subject to retirement by rotation and/or re-election at the Company's annual general meeting in accordance with the Bye-laws of the Company.

Pursuant to bye-law no. 87(1) of the Company's Bye-laws, at least one-third of the Directors shall retire from office by rotation and any director appointed to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Also, all Directors are subject to retirement by rotation at least once every three years. The directors to retire every year shall be those appointed by the Board during the year and those who have been longest in office since their last election or re-election.

Independent non-executive Directors

Pursuant to the requirements of the rule 5.09 of the GEM Listing Rules, the Company has received written annual confirmation from each of the independent non-executive directors of his independence. Based on such confirmations of independence, the Company considers all of the independent non-executive directors to be independent under Rule 5.09 of the GEM Listing Rules. As at the date of this annual report, the Board still considers them to be independent and none of them had served the Company for more than 9 years.

Board Meetings and Board Practices

The Board meets four times a year to review the financial and operating performance of the Group.

Details of the attendance of the meetings of the Board are as follows:

Directors		Attendance
Mr. Li Shan Jie	(appointed on 1 June 2011)	2/4
Mr. Zhang Shi Min		3/4
Mr. Qie Bing Bing		3/4
Mr. Leung Wah		4/4
Mr. Fung Hoi Wing, Henry		3/4
Mr. Cheung Chung Leung, Richard		4/4
Mr. Wu Gao Yuan	(resigned on 1 June 2011)	1/4
Mr. Wen Wei Zhong	(resigned on 1 June 2011)	0/4
Ms. Li Xiao Mei	(resigned on 23 June 2011)	1/4

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Board Meetings and Board Practices *(Continued)*

Apart from the above regular Board meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision in advance of each Board meeting. The company secretary of the Company (the "Company Secretary") is responsible for distributing detailed documents to the Directors prior to the Board meetings to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings so that they may receive accurate, timely and clear information. All Directors have access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. The Company Secretary is also responsible for providing to the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In order to reinforce their respective independence, accountability and responsibility, and to avoid power being concentrated in any one individual, the role of the Chairman is separated from that of the Chief Executive Officer. The Chairman is Mr. Li Shan Jie, executive Director, who was appointed on 21 September 2011 after Ms. Li Xiao Mei resigned as the Chairman on 23 June 2011 and the Chief Executive Officer is Mr. Zhang Shi Min, executive Director. Their respective responsibilities are clearly established and defined by the Board in writing. The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst the Chief Executive Officer, supported by the executive directors and senior management, is responsible for managing the Group's businesses, including the implementation of major strategies and initiatives adopted by the Board.

CORPORATE GOVERNANCE COMMITTEE

The Board is committed to maintaining high standards of corporate governance. On 20 January 2012, a corporate governance committee (the "CG Committee") was established by the Board with written terms of reference in compliance with the forthcoming provisions set out in the CG Code particularly D.3.1 of the CG Code. As at the date of this annual report, the CG Committee comprises of four members, Mr. Leung Wah, Mr. Qie Bing Bing, Mr. Fung Hoi Wing, Henry and Mr. Cheung Chung Leung, Richard, of which Mr. Qie is an executive Director with sufficient knowledge of the Group's day-to-day operations and the majority is independence non-executive directors. The chairman of the CG Committee is Mr. Leung Wah.

The principles of corporate governance adopted by the Board stress the importance of a quality board, sound internal controls, and transparency and accountability to all the Shareholders.

The Corporate Governance Committee is primarily responsible for developing and reviewing the policies and practice of corporate governance including the continuous professional development of directors and senior management, compliance with code of conduct of the Directors and the Company's policies and procedures.

NOMINATION COMMITTEE

The nomination committee of the Board (the "Nomination Committee") was established with written terms of reference in compliance with the provisions set out in the CG Code particularly A.4.5 of the CG Code. A new terms of reference of the Nomination Committee had been adopted by the Board on 1 March 2012, in compliance with the forthcoming amended provisions set out in the CG Code particularly A.5.2 of CG Code. As at the date of this annual report, the Nomination Committee comprises of five members, Mr. Li Shan Jie, Mr. Zhang Shi Min, Mr. Leung Wah, Mr. Fung Hoi Wing, Henry and Mr. Cheung Chung Leung, Richard, a majority of which is independent non-executive directors. In order to comply with the forthcoming amendments to the CG Code A.4.4, the Board changed the chairman of the Nomination Committee appointing Mr. Li Shan Jie, the chairman of the Board, to replace Mr. Zhang Shi Min on 3 January 2012.

The Nomination Committee is primarily responsible for reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become members of the Board and assessing the independence of independent non-executive Directors.

The Board's criteria for nominating a suitable candidate for Directorship involves the consideration of the candidate's education, background, experience, qualification, reputation and such other attributes. The Nomination Committee should be provided with sufficient resources to perform its duties.

The Nomination Committee meetings were held on 22 March 2011 and 1 June 2011 and its written resolutions passed on 19 January 2011 and 30 December 2011, amongst other matters, to review the structure, size and composition of the Board, assessing the continual independence of the independent non-executive directors, considering and recommending the re-election of the retiring Directors, specially nominated Mr. Qie Bing Bing and Mr. Li Shan Jie as the Deputy Operating Officer and an executive Director on 19 January 2011 and 1 June 2011 respectively and reviewed the terms set out in the renewal of the letter of appointment for Mr. Leung Wah, Mr. Fung Hoi Wing, Henry and Mr. Cheung Chung Leung, Richard as independent non-executive Directors.

The Nomination Committee held two meetings during the year ended 31 December 2011 and the attendance record of these meetings are as follows:

Members		**Attendance**
Mr. Li Shan Jie *(the Chairman)*	(appointed on 3 January 2012)	0/2
Mr. Zhang Shi Min		2/2
Mr. Leung Wah		2/2
Mr. Fung Hoi Wing, Henry		1/2
Mr. Cheung Chung Leung, Richard		2/2

In accordance with the Company's bye-laws, any director so appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Also, all directors are subject to retirement by rotation at least once every three years. The directors to retire every year shall be those appointed by the Board during the year and those who have been longest in office since their last election or re-election.

REMUNERATION COMMITTEE

The remuneration committee of the Board (the "Remuneration Committee") was established with written terms of reference in compliance with the provisions set out in the CG Code particularly B.1.3 of the CG Code. A new terms of reference of the Remuneration Committee had been adopted by the Board on 1 March 2012, in compliance with the forthcoming new GEM Listing Rules. As at the date of this annual report, the Remuneration Committee comprises of four members, Mr. Leung Wah, Mr. Zhang Shi Min, Mr. Fung Hoi Wing, Henry and Mr. Cheung Chung Leung, Richard, a majority of which is independent non-executive Directors. In order to comply with the forthcoming new rules of the GEM Listing Rules, amongst other matters, the Board changed the chairman of the Remuneration Committee appointing Mr. Leung Wah, independent non-executive Director, to replace Mr. Zhang Shi Min on 3 January 2012.

The Remuneration Committee is primarily responsible for making recommendations to the Board regarding the Group's policy and structure for remuneration of Directors and senior management and determining the specific remuneration packages of all Directors and senior management of the Company.

The Remuneration Committee meetings were held on 22 March 2011 and 1 June 2011 and its written resolutions passed on 19 January 2011, 1 May 2011 and 30 December 2011, amongst other matters, to review, consider and approve the remuneration policy of the Group and specially reviewed the remuneration packages for Mr. Qie Bing Bing as the Deputy Operating Officer and Mr. Li Shan Jie as the Chairman respectively, recommended to reduce the remuneration of the Directors and Senior Management in order to control the cost of the Group and reviewed the Directors' fee stated in the renewal of letter of appointment for Mr. Leung Wah, Mr. Fung Hoi Wing, Henry and Mr. Cheung Chung Leung, Richard as independent non-executive directors.

The Remuneration Committee held two meetings during the year ended 31 December 2011 and the attendance record of these meetings are as follows:

Members		Attendance
Mr. Leung Wah *(the Chairman)*	(appointed on 3 January 2012)	2/2
Mr. Zhang Shi Min		2/2
Mr. Fung Hoi Wing, Henry		1/2
Mr. Cheung Chung Leung, Richard		2/2

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the provisions set out in the CG Code particularly C.3.3 of the CG Code and Rules 5.28 and 5.33 of the GEM Listing Rules. A new terms of reference of the Audit Committee had been adopted by the Board on 1 March 2012, to comply with the forthcoming amended provisions set out in CG Code. As at the date of this annual report, the Audit Committee comprises of three members, Mr. Leung Wah, Mr. Fung Hoi Wing, Henry and Mr. Cheung Chung Leung, Richard and all of them are independent non-executive directors. The chairman of the Audit Committee is Mr. Leung Wah.

The Audit Committee is primarily responsible for assisting, reviewing and supervising the Group's financial reporting system and internal control procedures.

AUDIT COMMITTEE *(Continued)*

The Audit Committee meetings were held on 22 March 2011, 11 May 2011, 11 August 2011 and 10 November 2011, amongst other matters, to consider the annual results of the Group ending 31 December 2010, the quarterly results of the Group for the three months ended 31 March 2011 and the nine months ended 30 September 2011 and the interim results of the Group for the six months ended 30 June 2011, reviewing of related party transactions, re-appointment of auditor, discussing with the auditors of the Company on internal control, auditors' independence and remuneration and the scope of work in relation to the annual audit.

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.

The Audit Committee held four meetings during the year ended 31 December 2011 and the attendance record of these meetings are as follows:

Members	**Attendance**
Mr. Leung Wah *(the Chairman)*	4/4
Mr. Fung Hoi Wing, Henry	4/4
Mr. Cheung Chung Leung, Richard	4/4

INTERNAL CONTROL

The Board has overall responsibility for maintaining effective internal control to safeguard the Group's assets and the shareholders' interests. The Board has conducted regular reviews on the effectiveness of the Group's all material internal controls during the year.

The Board monitors the Group's progress on corporate governance practices. Periodic meetings are held, and circulars or guidance notes are issued to Directors and senior management of the Group to ensure awareness of best corporate governance practices.

AUDITORS' REMUNERATION

The Company has appointed Messrs. HLB Hodgson Impey Cheng as the auditors of the Group (the "Auditors"). The Board is authorized in the annual general meeting of the Company to determine the remuneration of the Auditors. During the year, the Auditors performed the work of statutory audit for the year ended 31 December 2011 and also involved in non-audit assignment of the Group. The remuneration of the Auditors for the work of statutory audit and non-audit assignment for the year ended 31 December 2011 are HK$300,000 and approximately HK$42,818 respectively.

The aforesaid non-audit assignment is relating to the Auditors' professional service in connection with performing fixed assets inspection in number of cities in China regarding a potential acquisition of the Group.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors acknowledge their responsibility for the preparation and true and fair presentation of the financial statements of the Company. In preparing the financial statements, the financial reporting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable judgements and estimates have been made.

The Board is not aware of any material uncertainties relating to the events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the ongoing concern basis in preparing the financial statements.

The Auditors' responsibilities are set out in the section headed "Independent Auditors' Report".

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHT

The Board recognizes the importance of maintaining clear, timely and effective communication with the shareholders of the Company and investors. Therefore, the Company uses a number of formal communication channels to account to the shareholders and investors for the performance of the Company, which include the publication of the reports on the website of the Company, holding of the annual general meeting or special general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board and updating key information of the Group available on the website of the Company.

On 21 March 2012, The Board adopted a shareholder communication policy in order to comply with new CG Code E.1.4 with effect from 1 April 2012 and adopted procedures shareholders can use to propose a person for election as a director which will be published on the Company's website pursuant to a new rule 17.50C of the GEM Listing Rules, both new CG Code and new rule are effective from 1 April 2012.

Independent Auditors' Report

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

TO THE SHAREHOLDERS OF GLOBAL ENERGY RESOURCES INTERNATIONAL GROUP LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Global Energy Resources International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 70, 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 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 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 Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 21 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	6	**25,474**	4,796
Cost of sales		**(17,497)**	(3,551)
Gross profit		**7,977**	1,245
Other revenue	6	**167**	117
Impairment loss recognised on trade receivables	18	**(2,996)**	–
Gain on disposal of a subsidiary	32	**30**	–
Selling and distribution expenses		**(3,135)**	(1,859)
Administrative expenses		**(21,520)**	(17,131)
Loss from operations		**(19,477)**	(17,628)
Finance costs	7	**(289)**	(268)
Loss before taxation	8	**(19,766)**	(17,896)
Taxation	9	**(342)**	(25)
Loss for the year		**(20,108)**	(17,921)
Other comprehensive income, net of income tax			
Exchange differences on translating foreign operations		**841**	490
Other comprehensive income for the year, net of income tax		**841**	490
Total comprehensive loss for the year		**(19,267)**	(17,431)
(Loss)/Profit for the year attributable to			
Owners of the Company		**(21,255)**	(17,996)
Non-controlling interests		**1,147**	75
		(20,108)	(17,921)
Total comprehensive (loss)/income for the year attributable to			
Owners of the Company		**(20,266)**	(17,584)
Non-controlling interests		**999**	153
		(19,267)	(17,431)
Loss per share	11		
– Basic and diluted		**HK(0.17) cents**	HK(0.28) cents

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**2,151**	997
Goodwill	14	**10,661**	10,386
Other assets	15	**609**	590
		13,421	11,973
Current assets			
Inventories	17	**15,723**	10,149
Trade receivables	18	**6,452**	8,823
Other receivables, deposits and prepayments	19	**9,760**	1,837
Cash and cash equivalents	20	**8,944**	26,375
		40,879	47,184
Current liabilities			
Trade payables	22	**3,099**	6,809
Accruals and other payables	23	**7,650**	4,870
Amount due to a related party	24	**1,212**	5,509
Amount due to a shareholder	25	**2,000**	–
Bank borrowing	26	**6,044**	–
Tax payable		**–**	66
		20,005	17,254
Net current assets		**20,874**	29,930
Total assets less current liabilities		**34,295**	41,903
Net assets		**34,295**	41,903
EQUITY			
Share capital	27	**6,274**	6,274
Reserves		**13,890**	34,156
Total equity attributable to owners of the Company		**20,164**	40,430
Non-controlling interests		**14,131**	1,473
Total equity		**34,295**	41,903

The consolidated financial statements were approved and authorised for issue by the board of directors on 21 March 2012 and signed on its behalf by:

Li Shan Jie
Director

Zhang Shi Min
Director

Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	16	**24,132**	27,905
Current assets			
Other receivables, deposits and prepayments	19	**308**	519
Cash and cash equivalents	20	**466**	13,777
		774	14,296
Current liabilities			
Accruals and other payables	23	**475**	918
Amount due to a subsidiary	21	**68**	–
Amount due to a shareholder	25	**2,000**	–
		2,543	918
Net current (liabilities)/assets		**(1,769)**	13,378
Total assets less current liabilities		**22,363**	41,283
Net assets		**22,363**	41,283
EQUITY			
Share capital	27	**6,274**	6,274
Reserves	29	**16,089**	35,009
Total equity		**22,363**	41,283

The financial statements were approved and authorised for issue by the board of directors on 21 March 2012 and signed on its behalf by:

Li Shan Jie
Director

Zhang Shi Min
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company										
	Share capital HK$'000	Capital reserve (note (i)) HK$'000	Share premium HK$'000	Special reserve (note(ii)) HK$'000	Convertible bonds equity reserve HK$'000	Statutory reserve (note (iii)) HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010	2,784	1,030	20,273	11	1,190	–	9	(19,319)	5,978	–	5,978
Non-controlling interests arising on the acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	1,320	1,320
Conversion of convertible bonds	3,400	–	698	–	(1,190)	–	–	–	2,908	–	2,908
Issue of new shares	90	–	49,410	–	–	–	–	–	49,500	–	49,500
Share issue expenses	–	–	(372)	–	–	–	–	–	(372)	–	(372)
Transaction with owners	3,490	–	49,736	–	(1,190)	–	–	–	52,036	1,320	53,356
Net (loss)/profit for the year	–	–	–	–	–	–	–	(17,996)	(17,996)	75	(17,921)
Other comprehensive income, net of income tax:											
Exchange differences on translating foreign operations	–	–	–	–	–	–	412	–	412	78	490
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	412	(17,996)	(17,584)	153	(17,431)
At 31 December 2010 and 1 January 2011	6,274	1,030	70,009	11	–	–	421	(37,315)	40,430	1,473	41,903
Capital injection in a subsidiary	–	–	–	–	–	–	–	–	–	11,659	11,659
Transfer to statutory reserve	–	–	–	–	–	320	–	(320)	–	–	–
Transaction with owners	–	–	–	–	–	320	–	(320)	–	11,659	11,659
Net (loss)/profit for the year	–	–	–	–	–	–	–	(21,255)	(21,255)	1,147	(20,108)
Other comprehensive income/(loss), net of income tax:											
Exchange differences on translating foreign operations	–	–	–	–	–	–	989	–	989	(148)	841
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	989	(21,255)	(20,266)	999	(19,267)
At 31 December 2011	**6,274**	**1,030***	**70,009***	**11***	**-***	**320***	**1,410***	**(58,890)***	**20,164**	**14,131**	**34,295**

* The aggregated amount of these balances of HK$13,890,000 (2010: HK$34,156,000) in surplus is included as reserves in the consolidated statement of financial position.

Notes:

(i) The capital reserve of the Group represents a capital contribution by a shareholder company during the year ended 31 December 2007.

(ii) The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the amount of the share capital of a subsidiary acquired pursuant to a group reorganisation in 2002.

(iii) Subsidiary of the Company establish in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior year 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.

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		**(19,766)**	(17,896)
Adjustments for:			
Interest income		**(37)**	(17)
Interest paid	7	**289**	268
Depreciation	13	**328**	165
Impairment loss recognised on trade receivables	18	**2,996**	–
Loss on disposal of property, plant and equipment	8	**40**	–
Operating loss before working capital changes		**(16,150)**	(17,480)
Increase in inventories		**(5,575)**	(1,529)
Increase in trade receivables		**(625)**	(1,420)
Increase in other receivables, deposits and prepayments		**(12,757)**	(728)
(Decrease)/increase in trade payables		**(3,710)**	139
Increase in accruals and other payables		**7,614**	2,675
Cash used in operating activities		**(31,203)**	(18,343)
PRC enterprise income tax paid		**(408)**	(3)
Net cash used in operating activities		**(31,611)**	(18,346)
Cash flows from investing activities			
Interest received		**37**	17
Net cash outflow from acquisition of subsidiaries	31	**–**	(11,084)
Addition of other assets		**–**	(590)
Purchase of property, plant and equipment	13	**(1,510)**	(988)
Net cash used in investing activities		**(1,473)**	(12,645)
Cash flows from financing activities			
Proceeds from the issue of shares		**–**	49,500
Shares issue expenses		**–**	(372)
Capital injection in a subsidiary by non-controlling interests		**11,659**	–
Repayment to a related party		**(4,297)**	–
Amount due from a shareholder		**2,000**	–
Proceeds from bank borrowing		**6,044**	–
Interest paid		**(289)**	–
Net cash generated from financing activities		**15,117**	49,128
Net (decrease)/increase in cash and cash equivalents		**(17,967)**	18,137
Cash and cash equivalents at beginning of the year		**26,375**	8,097
Effect of foreign exchange rate changes		**536**	141
Cash and cash equivalents at end of the year		**8,944**	26,375

Notes to the Financial Statements

For the year ended 31 December 2011

1. GENERAL INFORMATION

Global Energy Resources International Group Limited is a limited liability company incorporated in the Cayman Islands and continued in Bermuda. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business in Unit 2803, 28th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors, the ultimate holding company of the Company is Sound Treasure Holdings Limited, a company incorporated in British Virgin Islands.

The principal activity of the Company and its subsidiaries (the "Group") are described in Note 16.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

The financial statements for the year ended 31 December 2011 were approved for issue by the board of directors on 21 March 2012.

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

In the current year, the Group has adopted all of the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2011.

HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Amendment to HKAS 32 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 principal effects of adopting these new and revised HKFRSs are as follows:

HKAS 24 (revised 2009) simplifies the definition of "related party" and removes inconsistencies, which emphasises a symmetrical view of related party transactions. The revised standard also provides limited relief from disclosure of information by government-related entities in respect of transactions with the government to which the group is related, or transactions with other entities related to the same government. These amendments have had no material impact on the Group's financial statements.

Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

The adoption of the new HKFRSs had no material effect on the results and the financial position of the Group for the current or prior accounting period. Accordingly, no prior period adjustment is required.

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

Improvements to HKFRSs issued in 2010

Except for the amendment to HKAS 1 described earlier, the application of Improvements to HKFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joints Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]
HKFRS 7 (Amendments)	Disclosure – Transfer of Financial Assets[1]
	Disclosure – Offsetting Financial Assets and Financial liabilities[4]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[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.

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

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

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

New and revised HKFRSs in issue but not yet effective *(Continued)*

Key requirements of HKFRS 9 are described as follows:

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

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale investments may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

3.1 Statement of compliance

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

3.2 Basis of preparation

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

3.3 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 this 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.

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

3.3 Basis of consolidation *(Continued)*

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 subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests 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 Group 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.

3.4 Business combinations

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

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

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

- liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

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

Notes to the Financial Statements

For the year ended 31 December 2011

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

3.4 Business combinations *(Continued)*

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

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

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 included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

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

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 at the acquisition date that, if known, would have affected the amounts recognised at that date.

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

3.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

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.

3.6 Foreign currencies

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

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the end of the reporting period. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

When a foreign operation is sold, such exchange differences are recognised in profit and loss as part of the gain or loss on sale.

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

3.7 Revenue recognition

Revenue comprises the fair value of consideration received for the rendering of services. Provided it is probable that the economic benefit will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

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

3.8 Property, plant and equipment

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the rate of 10% to 20% per annum.

The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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

3.9 Impairment testing of non-financial assets

Property, plant and equipment and interests in subsidiaries are subject to impairment testing at the end of each reporting period. Individual assets or cash-generating units are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

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

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

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

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

3.10 Leases

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

The Group as lessee

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

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

3.11 Financial assets

The Group's financial assets include trade and other receivables, cash and cash equivalents.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in the statement of comprehensive income.

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

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

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

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

Impairment of financial assets

At the end of each reporting period, financial assets are reviewed to determine whether there is any objective evidence of impairment.

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

3.11 Financial assets *(Continued)*

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

– Significant financial difficulty of the debtor;

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

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

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

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

Loss events in respect of a group of financial assets include observable data indicating that there is measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

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

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

3.12 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

3.13 Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

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

3.14 Taxation

Income tax comprises current tax payable and deferred tax.

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

Deferred tax is calculated using the liability method on temporary differences at the end of the reporting period between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

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

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

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

3.15 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

3.16 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

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

3.17 Provisions and contingent liabilities

Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. At the end of the subsequent reporting periods, such contingent liabilities are recognised at the higher of the amount recognised in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less accumulated amortisation recognised in accordance with HKAS 18 Revenue.

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

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

3.18 Related parties

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

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

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

3.18 Related parties *(Continued)*

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

(i) The entity and the Group are member of the same group (which means the 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 (1).

(vii) A person identified in (1)(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 and regardless of whether a price is charged.

3.19 Retirement benefit costs and short term employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group contributes to a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiary which operates in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit and loss as they become payable in accordance with the rules of the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans is limited to the fixed percentage contributions payable.

Short-term employee benefits

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

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

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

3.20 Borrowing costs

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

3.21 Financial liabilities

The Group's financial liabilities include trade payables, accruals and other payables and convertible bonds. They are included in the line items in the consolidated statement of financial position as "Trade payables", "Accruals and other payables", "Amount due to a related party", "Amount due to a shareholder" and "Bank borrowing" under current and non-current liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing cost.

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

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

Trade payables and accruals and other payables

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

Other financial liabilities

Other financial liabilities (including borrowings, amount due to a related party, and amount due to a shareholder) are subsequently measured at amortised cost using the effective interest method.

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 fair value through profit or loss.

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

3.22 Segment reporting

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

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

4. ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of the Group's accounting policies which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following is the critical judgment, apart from those involving estimations that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

4.1 Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. The Group annually reviews the useful life of an asset and its residual value, if any. The useful life is based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.

4. ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.2 Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for raw materials and finished goods based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product-by-product basis at the end of each reporting period and assess the need for write down of inventories.

4.3 Allowance for impairment of doubtful debts

The impairment of trade and other receivables are based on the ongoing evaluation of collectability and aging analysis of the outstanding receivables and on management's judgment. From time to time, the Group may experience delays in collection. Where recoverability of trade and other debtor balances are called into doubts, resulting in an impairment of their ability to make payments, provision may be required. Certain receivables may be initially identified as collectable, yet subsequently become uncollectable and result in a subsequent write-off of the related receivable to the consolidated statement of comprehensive income. Changes in the collectability of trade and other receivables for which provisions are not made could affect our results of operations.

4.4 Impairment losses for property, plant and equipment

Property, plant and equipment are assessed at the end of each reporting period to identify indications that they may be impaired. If any such indication exists, the recoverable amount of the property, plant and equipment is estimated. The recoverable amount of the property, plant and equipment is based on value-in-use calculations. These calculations are determined based on cash flow projections with reasonable assumptions that represent management's best estimate of the range of economic conditions over the remaining useful life of the assets. Changes in facts and circumstances may result in revisions to whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit of loss in future years.

4.5 Income taxes

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax 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 current and deferred tax provisions in the period in which such determination is made.

4.6 Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in Note 3. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

5. SEGMENT INFORMATION

Information reported to executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group's reportable segments under HKFRS 8 are as follows:

- Provision of information technology and engineering consultancy services
- Manufacturing and sales of environmentally friendly air-conditioners and related products

Segment revenues and results

For the year ended 31 December 2011:

	Provision of information technology and engineering consultancy services HK$'000	Manufacturing and sales of environmentally friendly air-conditioners and related products HK$'000	Total HK$'000
Segment revenue	**89**	**25,385**	**25,474**
Segment results	**(3,951)**	**(295)**	**(4,246)**
Other gains			**112**
Central administrative costs			**(15,343)**
Finance costs			**(289)**
Loss before taxation			**(19,766)**

For the year ended 31 December 2010:

	Provision of information technology and engineering consultancy services HK$'000	Manufacturing and sales of environmentally friendly air-conditioners and related products HK$'000	Total HK$'000
Segment revenue	3,091	1,705	4,796
Segment results	(1,949)	(591)	(2,540)
Other gains			88
Central administrative costs			(15,176)
Finance costs			(268)
Loss before taxation			(17,896)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year.

5. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

The accounting policies of the operating segments are the same as the Group's accounting polices described in note 3 to the financial statement. Segment results represent the profit earned by each segment without allocation of other gains, central administrative costs including directors' remuneration, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

31 December 2011

	Provision of information technology and engineering consultancy services HK$'000	**Manufacturing and sales of environmentally friendly air-conditioners and related products HK$'000**	**Total HK$'000**
Segment assets	**1,012**	**50,882**	**51,894**
Unallocated assets			**2,406**
Total assets			**54,300**
Segment liabilities	**3,051**	**14,329**	**17,380**
Unallocated liabilities			**2,625**
Total liabilities			**20,005**

31 December 2010

	Provision of information technology and engineering consultancy services HK$'000	Manufacturing and sales of environmentally friendly air-conditioners and related products HK$'000	Total HK$'000
Segment assets	8,842	22,151	30,993
Unallocated assets			28,164
Total assets			59,157
Segment liabilities	6,552	9,104	15,656
Unallocated liabilities			1,598
Total liabilities			17,254

5. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

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

– all assets are allocated to reportable segments other than assets held by the Company and its subsidiaries which the role are investment holding company. Goodwill is allocated to reportable segment of "manufacturing and sales of environmentally friendly air conditioners and related products"; and

– all liabilities are allocated to reportable segments other than liabilities held by the Company and its subsidiaries which the role are investment holding company.

Other segment information

For the year ended 31 December 2011

	Provision of information technology and engineering consultancy services HK$'000	**Manufacturing and sales of environmentally friendly air-conditioners and related products HK$'000**	**Unallocated HK$'000**	**Total HK$'000**
Depreciation of property, plant and equipment	**5**	**150**	**173**	**328**
Addition to non current-assets	**–**	**1,510**	**–**	**1,510**

For the year ended 31 December 2010

	Provision of information technology and engineering consultancy services HK$'000	Manufacturing and sales of environmentally friendly air-conditioners and related products HK$'000	Unallocated HK$'000	Total HK$'000
Depreciation of property, plant and equipment	3	6	156	165
Addition to non current-assets	12	93	883	988

In addition to the depreciation reported above, impairment losses of approximately HK$2,996,000 (2010: Nil) were recognised in respect of trade receivables. These impairment losses were attributable to the reportable segment of "provision of information technology and engineering consultancy services".

Revenue from major products

The Group's revenue from its major products is set out in Note 6.

5. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's revenue from external customers and its non-current assets (other than financial instruments) are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
PRC	**25,474**	4,796	**12,867**	11,247
Hong Kong	**–**	–	**554**	726
Total	**25,474**	4,796	**13,421**	11,973

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets is based on the physical location of the assets.

Information about major customers

For the year ended 31 December 2011, there was no single customer contributed 10% or more to the Group's revenue.

For the year ended 31 December 2010, HK$3,332,000 or 69% of the Group's revenue generated from largest three customers. No other single customer contributed 10% or more to the Group's revenue to 2010.

Revenue from major customers, each of them amounted to 10% or more of the Group's revenue, are set out below:

	2011 HK$'000	2010 HK$'000
Customer A	**–**	1,892
Customer B	**–**	921
Customer C	**–**	519

At the end of the reporting period, 33% of the Group's trade receivables were due from the largest customer (Top three customers in 2010: 93%).

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For the year ended 31 December 2011

6. REVENUE

Revenue, which is also the Group's turnover, represents the aggregate of the amounts received and receivable from third parties in connection with the sales of environmentally friendly air-conditioners and related products, provision of information technology and engineering consultancy services. Revenue and other income recognised during the year are as follows:

	2011 HK$'000	2010 HK$'000
Revenue		
Sales of environmentally friendly air-conditioners and related products	**25,385**	1,705
Services income	**89**	3,091
	25,474	4,796
Other revenue		
Interest income	**37**	17
Sundry income	**130**	100
	167	117

7. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Bank borrowing		
– Wholly repayable within five year	**289**	–
Interest expenses on convertible bonds carried at amortised cost	**–**	268
	289	268

8. LOSS BEFORE TAXATION

	2011 HK$'000	2010 HK$'000
Loss before taxation is arrived at after charging and crediting:		
Auditors' remuneration	**300**	280
Depreciation of owned assets	**328**	165
Net foreign exchange loss/(gain)	**51**	(212)
Cost of inventories recognised as cost of sales	**17,154**	3,352
Operating lease rentals in respect of rented premises	**3,310**	2,568
Loss on disposal of property, plant and equipment	**40**	–

9. TAXATION

The Company is not subject to taxes in profits, income or dividends in Bermuda. Its subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rates of 16.5% (2010: 16.5%) on the estimated assessable profits for the year.

No provision for taxation has been made in the financial statements as the subsidiaries in Hong Kong had no assessable profit for the year (2010: Nil).

The income tax provision in respect of operations in the PRC is calculated at the applicable rates on the estimated assessable profits for the year based on the unification of income tax rates for domestic-invested and foreign-invested enterprises at 25%.

	2011 **HK$'000**	2010 HK$'000
Current tax:		
PRC enterprise income tax	**342**	69
Deferred tax:		
Reversal of deferred tax liabilities	**–**	(44)
	342	25

Reconciliation between tax expense and accounting loss at applicable tax rates is as follows:

	2011 **HK$'000**	2010 HK$'000
Loss before taxation	**(19,766)**	(17,896)
Tax on loss before taxation, calculated at the rates applicable to loss in the tax jurisdiction concerned	**(3,647)**	(3,169)
Tax effect of non-deductible expenses	**1,618**	278
Tax effect of non-taxable income	**(101)**	(61)
Tax effect of temporary differences not recognised	**–**	(92)
Tax effect of unused tax losses not recognised	**2,472**	3,113
Reversal of deferred tax liabilities	**–**	(44)
Income tax for the year	**342**	25

Deferred Taxation

Deferred taxation is calculated in full on temporary difference under the liabilities method using a principal taxation rate of 16.5% (2010: 16.5%). During the year, no deferred taxation was recognised by the Company.

Unrecognised deferred tax assets

As at 31 December 2011, the Group and the Company had unutilised tax losses of HK$29,256,000 (2010: HK$18,115,000) and HK$16,873,000 (2010: HK$11,157,000) respectively available for offsetting against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

10. LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a loss of HK$18,920,000 (2010: HK$13,910,000) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year attributable to owners of the Company of HK$21,255,000 (2010: HK$17,996,000) and on the weighted average number of 12,548,000,000 ordinary shares (2010: 6,443,000,000 ordinary shares) in issue during the year.

12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employer's retirement benefit schemes HK$'000	Total HK$'000
2011				
Executive directors				
Mr. Li Shan Jie (appointed on 1 June 2011)	–	230	–	230
Ms. Li Xiao Mei (resigned on 23 June 2011)	–	624	–	624
Mr. Zhang Shi Min	–	759	1	760
Mr. Qie Bing Bing	–	411	–	411
	–	2,024	1	2,025
Non-executive directors				
Mr. Wu Gao Yuan (resigned on 1 June 2011)	70	–	–	70
Mr. Wen Wei Zhong (resigned on 1 June 2011)	70	–	–	70
	140	–	–	140
Independent non-executive directors				
Mr. Leung Wah	140	–	–	140
Mr. Fung Hoi Wing, Henry	140	–	–	140
Mr. Cheung Chung Leung, Richard	140	–	–	140
	420	–	–	420
Total	560	2,024	1	2,585

12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' remuneration *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employer's retirement benefit schemes HK$'000	Total HK$'000
2010				
Executive directors				
Ms. Li Xiao Mei (appointed on 12 January 2010)	1,558	–	–	1,558
Mr. Zhang Shi Min (appointed on 5 February 2010)	527	448	–	975
Mr. Chan Wai Keung (appointed on 5 March 2010 and resigned on 6 May 2010)	–	250	2	252
Mr. Gan Hongzhi (appointed on 12 January 2010 and resigned on 5 February 2010)	90	–	–	90
Mr. Qie Bing Bing (re-designated on 13 November 2010)	–	–	–	–
Mr. Chan Chun Tin, Stanley (resigned on 12 January 2010)	–	–	–	–
Mr. Ying Kan Man (resigned on 12 January 2010)	–	–	–	–
	2,175	698	2	2,875
Non-executive directors				
Mr. Wu Gao Yuan (appointed on 5 March 2010)	148	–	–	148
Mr. Wen Wei Zhong (appointed on 5 March 2010)	148	–	–	148
Mr. Qie Bing Bing (appointed on 5 March 2010 and re-designated to be executive director on 13 November 2010)	124	–	–	124
	420	–	–	420
Independent non-executive directors				
Mr. Lung Hung Cheuk (resigned on 12 January 2010)	1	–	–	1
Mr. Yip Tai Him (resigned on 12 January 2010)	1	–	–	1
General Dato Seri Mohd Azumi bin Mohamed (resigned on 12 January 2010)	8	–	–	8
Mr. Leung Wah (appointed on 12 January 2010)	174	–	–	174
Mr. Fung Hoi Wing, Henry (appointed on 12 January 2010)	174	–	–	174
Mr. Cheung Chung Leung, Richard (appointed on 12 January 2010)	174	–	–	174
	532	–	–	532
Total	3,127	698	2	3,827

12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five highest paid individuals during the year included two directors (2010: two) and one former director (2010: one). The details of the emoluments of the remaining two (2010: remaining two) highest paid individuals are as follows:

	2011 HK$'000	2010 HK$'000
Basic salaries and allowances	911	796
Retirement benefits scheme contributions	13	12
	924	808

None of the above highest paid individuals (2010: nil) received individual emoluments in excess of HK$1 million. The remaining two of the above highest paid individuals (2010: two) received individual emoluments below HK$1 million.

During each of the years ended 31 December 2011 and 2010, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during each of the years ended 31 December 2011 and 2010.

Notes to the Financial Statements

For the year ended 31 December 2011

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Furniture, fixtures and equipment HK$'000
Cost:	
At 1 January 2010	7
Additions	988
Acquisition of subsidiaries	164
Exchange alignment	4
At 31 December 2010 and 1 January 2011	1,163
Additions	1,510
Disposal	(61)
Exchange alignment	18
At 31 December 2011	2,630
Accumulated depreciation and impairment:	
At 1 January 2010	1
Charge for the year	165
At 31 December 2010 and 1 January 2011	166
Charge for the year	328
Disposal written off	(21)
Exchange alignment	6
At 31 December 2011	479
Carrying amount:	
At 31 December 2011	**2,151**
At 31 December 2010	997

14. GOODWILL

The Group

	HK$'000
Cost:	
At 1 January 2010	–
Acquisition of subsidiaries (Note 31)	10,041
Exchange alignment	345
At 31 December 2010, 1 January 2011	10,386
Exchange alignment	275
At 31 December 2011	10,661
Accumulated impairment:	
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	–
Carrying amount:	
At 31 December 2011	**10,661**
At 31 December 2010	10,386

Impairment testing on goodwill

For the purpose of impairment testing, goodwill with indefinite useful lives have been allocated to cash-generating unit ("CGU") determined based on the related segment. The carrying amount of goodwill (net of impairment loss) at 31 December 2011 and 2010 allocated to this unit is as follows:

	2011 HK$'000	2010 HK$'000
Manufacturing and sales of environmentally friendly air-conditioners and related products	**10,661**	10,386

Manufacturing and sales of environmentally friendly air-conditioners and related products

The recoverable amount of the manufacturing and sales of environmentally friendly air-conditioners and related products CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14.73% (2010: 17.26%).

The key assumptions used in the value in use calculations for CGU allocated to manufacturing and sales of environmentally friendly air-conditioners and related products are as follows:

Assumed growth rate	The cash flows beyond that five-years period have been extrapolated using a steady 3% per annum growth rate which is the projected long-term average growth rate for the environmentally friendly air-conditioners and related products. The directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount of the group of units to exceed the aggregate its recoverable amount.

Apart from the considerations described above in determining the value in use of the CGU, the Company's senior management is not aware of any other probable changes that would necessitate changes in the key assumptions.

Notes to the Financial Statements

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15. OTHER ASSETS

	The Group HK$'000
Cost:	
At 1 January 2010, 31 December 2010 and 1 January 2011	**590**
Exchange alignment	**19**
At 31 December 2011	**609**
Accumulated impairment:	
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	–
Carrying amount:	
At 31 December 2011	**609**
At 31 December 2010	590

Note:

Other asset is a club membership which represent entrance fee paid to a golf club held on long-term basis.

16. INTERESTS IN SUBSIDIARIES

	The Company	
	2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	**128**	50
Less: Impairment	**–**	–
	128	50
Amounts due from subsidiaries	**39,469**	40,590
Less: Provision for amounts due from subsidiaries	**(15,465)**	(12,735)
	24,004	27,855
	24,132	27,905

The carrying amounts of amounts due from subsidiaries are reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from respective subsidiaries.

The amounts due from subsidiaries are unsecured, interest-free and not repayable within twelve months from 31 December 2011. In the opinion of the directors, the settlement of these amounts due from subsidiaries is neither planned nor likely to occur in the foreseeable future and in substance, these amounts are extensions of the Company's investments in these subsidiaries.

Notes to the Financial Statements

For the year ended 31 December 2011

16. INTERESTS IN SUBSIDIARIES *(Continued)*

Details 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 share capital	Percentage of issued capital and voting power held by the Company Directly	Indirectly	Principal activities and place of operations
UURG (China) Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	100%	–	Investment holding in Hong Kong
UURG Controls (Shenzhen) Limited	The PRC, limited liability company	Registered and paid-up capital of HK$5,000,000	–	100%	Provision of information technology and engineering consultancy services in the PRC
8192 Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	100%	–	Provision of services in Hong Kong
China Glory International Holdings Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	100%	–	Dormant
SINO CMB (Group) Holding Company Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	100%	–	Dormant
Energy China Investment Company Limited	Hong Kong, limited liability company	50,000 ordinary share of HK$50,000	100%	–	Investment holding
Global Petroleum Holding Resource Limited*	British Virgin Islands	10,000 ordinary share of USD10,000	100%	–	Dormant
中達博誠能源科技(深圳)有限公司	The PRC, limited liability company	Registered and paid up capital of RMB10,467,840	–	100%	Investment holding
深圳市順天運環保科技有限公司	The PRC, limited liability company	Registered and paid up capital of RMB20,000,000	–	51%	Manufacturing and sales of air-conditioners and related products
深圳市瑞風節能環保設備有限公司	The PRC, limited liability company	Registered and paid up capital of RMB500,000	–	51%	Manufacturing and sales of air-conditioners and related products

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year. The financial statements of the above subsidiaries were audited by HLB Hodgson Impey Cheng, Hong Kong for statutory purpose and/or for the purpose of group consolidation.

* Subsidiary newly set up during the year

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For the year ended 31 December 2011

17. INVENTORIES

	The Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**1,255**	1,460
Semi-finished goods	**7,291**	–
Finished goods	**7,177**	8,689
	15,723	10,149

18. TRADE RECEIVABLES

	The Group	
	2011	2010
	HK$'000	HK$'000
Trade receivables	**9,448**	8,823
Less: Impairment losses recognised on trade receivables	**(2,996)**	–
	6,452	8,823

The directors of the Company consider that the fair values of trade receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

The average credit periods on sales of goods are 30 days. The following is an ageing analysis of trade receivables at the end of the reporting period:

	2011	2010
	HK$'000	HK$'000
0-30 days	**2,243**	494
31-60 days	**242**	79
61-90 days	**–**	70
Over 90 days	**3,967**	8,180
	6,452	8,823

18. TRADE RECEIVABLES *(Continued)*

The ageing analysis of the Group's trade receivables that were past due as at the end of the reporting period but not impaired is as follows:

	2011 HK$'000	2010 HK$'000
1-90 days past due	**–**	149
91-180 days past due	**3,967**	2,093
181-360 days past due	**–**	6,087
	3,967	8,329

The movement in the allowance for doubtful debts is as follows:

	2011 HK$'000	2010 HK$'000
Balance at beginning of the year	**–**	–
Impairment losses recognised on trade receivables	**2,996**	–
Balance at end of the year	**2,996**	–

As at 31 December 2011, the Group's trade receivables of approximately HK$2,996,000 (2010: Nil) were individually determined to be impaired. The individual impaired receivables related to customers that were in financial difficulties and the directors assessed that the receivables were not be expected to be recovered. The Group does not hold any collateral over these balances.

The ageing analysis of the impaired trade receivables is as follows:

	2011 HK$'000	2010 HK$'000
181–360 days past due	**2,996**	–

As at 31 December 2011, the trade receivables with net book value HK$4,862,000 (2010: Nil) is pledged as collateral for the Group's bank borrowing. Please refer to note 26 for details.

19. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		**The Company**	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Deposits paid and prepayments to suppliers	**7,228**	352	**308**	519
Other deposits and receivables	**1,366**	1,485	**–**	–
Value added tax receivables	**1,166**	–	**–**	–
	9,760	1,837	**308**	519

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20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**8,944**	26,375	**466**	13,777

The effective interest rates of the bank balances of the Group and the Company ranged from 0.5% to 1.1% (2010: 0.5% to 1.1%) per annum.

Included in bank and cash balances of the Group is HK$7,395,000 (2010: HK$12,476,000) of bank balances dominated in RMB placed with banks in the PRC. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

21. AMOUNT DUE TO A SUBSIDIARY

The amount due was unsecured, interest-free and repayable on demand.

22. TRADE PAYABLES

The Group was granted by its suppliers credit periods ranging from 30 – 60 days. Based on the invoice dates, the ageing analysis of the trade payables were as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
0-30 days	**541**	169
31-60 days	**182**	–
61-90 days	**–**	1
Over 90 days	**2,376**	6,639
	3,099	6,809

23. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**1,080**	767	**475**	318
Receipt in advances	**1,493**	2,507	**–**	–
Other payables	**5,077**	1,596	**–**	600
	7,650	4,870	**475**	918

24. AMOUNT DUE TO A RELATED PARTY

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

25. AMOUNT DUE TO A SHAREHOLDER

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

26. BANK BORROWING

	The Group	
	2011	2010
	HK$'000	HK$'000
Bank borrowing – secured	**6,044**	–
On demand or within one year	**6,044**	–

The contractual floating interest rate per annum is respect of borrowings was within the following range:

On demand or within one year	**7.84-8.31%**	–

The fair value of the short-term borrowing approximates their carrying amount.

The collateral for the Group's bank borrowing is as follow:

	2011	2010
	HK$'000	HK$'000
Trade receivables of a subsidiary	**4,862**	–

As at 31 December 2011, the Group's bank borrowing of approximately HK$6,044,000 (2010: Nil) was guaranteed by four parties, which are two senior management staffs of a subsidiary, a subsidiary of the Group and an independent third party.

The carrying amount of the Group's bank borrowing is denominated in Renminbi.

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27. SHARE CAPITAL

	2011 Number of shares '000	2011 Amount HK$'000	2010 Number of shares '000	2010 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.0005 each at end of year	**40,000,000**	**20,000**	40,000,000	20,000
Issued and fully paid:				
Ordinary shares of HK$0.0005 each at beginning of year	**12,548,000**	**6,274**	5,568,000	2,784
Issue of ordinary shares (Note (i))	**–**	**–**	180,000	90
Issue of ordinary shares upon conversion of convertible bonds	**–**	**–**	6,800,000	3,400
Ordinary shares of HK$0.0005 each at end of year	**12,548,000**	**6,274**	12,548,000	6,274

Note:

(i) **Issue of ordinary shares**
The Company entered into a placing agreement with placing agent. Pursuant to the placing agreement, the Company issued a total of 180,000,000 new shares at placing price of HK$0.275 per placing share. The issued share capital was then increased from HK$2,784,000 to HK$2,874,000 as enlarged by the allotment and issue of the placing shares on 19 April 2010.

28. SHARE OPTION SCHEME

The current share option scheme in force was adopted and approved by the sole member of the Company on 26 October 2002 (the "Share Option Scheme").

The Share Option Scheme was adopted for a period of 10 years commencing from 26 October 2002 pursuant to a written resolution of the sole member passed on 26 October 2002 for the primary purpose of providing incentives or rewards to directors and eligible employees. Under the Share Option Scheme, the Company may grant options to eligible employees and directors of the Company and its subsidiaries, to subscribe for shares in the Company. In addition, under the Share Option Scheme, the Company may, from time to time, grant share options to any contractor, supplier, customer, agent or advisor, of the Group at the discretion of the board of directors.

The number of shares which may be issued under the Share Option Scheme is subject to the following limits:

(i) the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 30% of the total number of issued shares of the Company from time to time.

(ii) as refreshed by the shareholders in the general meeting on 5 May 2008, the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is not permitted to exceed 556,800,000 shares, representing 10% of the issued share capital of the Company at 5 May 2008.

A nominal consideration of HK$10 is payable upon acceptable of the grant of the options. The exercise price is determined by the directors of the Company and will be the highest of: (a) the closing price of the ordinary shares of the Company on the date of offer; (b) the average of the closing prices of the ordinary shares of the Company for the five business days immediately preceding the date of offer; and (c) the nominal value of the ordinary shares of the Company.

28. SHARE OPTION SCHEME *(Continued)*

Any options granted under the Share Option Scheme must be exercised during such option period as may be determined and notified by the directors of the Company, which shall not exceed 10 years from the date of grant of the options.

No options had been granted or remained outstanding for each of the years ended 31 December 2011 and 2010.

A new share option scheme (the "2012 Share Option Scheme") is proposed by the Board to be adopted by the shareholders at the forthcoming annual general meeting of the Company and the 2002 Share Option Scheme shall be abolished accordingly.

29. RESERVES

The Company

	Share premium HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Convertible bonds equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	20,273	1,030	742	1,190	(22,862)	373
Conversion of convertible bonds	698	–	–	(1,190)	–	(492)
Issue of new shares	49,410	–	–	–	–	49,410
Share issue expenses	(372)	–	–	–	–	(372)
Net loss for the year	–	–	–	–	(13,910)	(13,910)
At 31 December 2010 and 1 January 2011	70,009	1,030	742	–	(36,772)	35,009
Net loss for the year	–	–	–	–	(18,920)	(18,920)
At 31 December 2011	**70,009**	**1,030**	**742**	**–**	**(55,692)**	**16,089**

The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the group reorganisation in 2002 and the nominal amount of the Company's shares issued for the acquisition.

30. OPERATING LEASE COMMITMENTS

As at 31 December 2011, the total future minimum lease payments of the Group under non-cancellable operating lease in respect of rented premises are payable as follows:

	The Group	
	2011 HK$'000	2010 HK$'000
Within one year	**4,302**	2,411
In the second to fifth years inclusive	**5,996**	3,454
	10,298	5,865

The Group leases an office premise under operating leases. The leases run for an initial period from four to five years, without any option to renew the lease terms at the expiry date and do not include any contingent rentals.

31. ACQUISITION OF SUBSIDIARIES

On 30 August 2010, 中達博誠能源科技(深圳)有限公司, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") to acquire from Mr. Wang Ying (the "Vendor") for the 51% of the equity interest in the Shenzhen Shun Tian Yun Environmental Technology Limited, which holds the entire equity interest in Shenzhen City Ruifeng Environmental Equipment Limited (collectively referred to "Shun Tian Yun Group"), at a total consideration of RMB10,000,000 (approximately HK$11,416,000). The acquisition was completed on 1 September 2010.

The net assets acquired in the transaction were as follows:

	Carrying amount immediately before the combination HK$'000	**Fair value adjustment** HK$'000	**Fair value** HK$'000
Net asset acquired			
Property, plant and equipment	164	–	164
Inventories	8,131	–	8,131
Trade receivables	304	–	304
Other receivables, deposits and prepayments	451	–	451
Cash and cash equivalents	332	–	332
Trade payables	(512)	–	(512)
Accruals and other payables	(614)	–	(614)
Amount due to a non-controlling shareholder	(5,561)	–	(5,561)
	2,695	–	2,695
Non-controlling interests			(1,320)
Goodwill			10,041
			11,416
Satisfied by:			
Cash			11,416
Net cash outflow arising on acquisition:			
Cash and cash equivalents acquired			332
Cash consideration			(11,416)
			(11,084)

Notes:

(i) Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire Shun Tian Yun Group. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development of Shun Tian Yun Group. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

31. ACQUISITION OF SUBSIDIARIES *(Continued)*

Notes: (Continued)

(ii) Shun Tian Yun Group from the date of acquisition to the end of the reporting period attributed profit of approximately HK$287,000 to the Group's loss for the year. Revenues for the year includes approximately HK$1,705,000 in respect of Shun Tian Yun Group.

(iii) If the acquisition had been completed on 1 January 2010, total Group revenue for the year would have been approximately HK$6,251,000, and loss for the year attributable to owners of the Company would have been approximately HK$17,856,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

(iv) Pursuant to the Sale and Purchase Agreement, the Vendor guaranteed that the profit after tax of the Shun Tian Yun Group for the year ended 31 December 2011 shall not be less than RMB2,200,000 (the "Profit Guarantee"). Any shortfall in the guaranteed profits shall be compensated by the Vendor to the Group on a dollar-to-dollar basis. For further details, please refer to the Company's announcement dated on 30 August 2010.

At the end of reporting period, the profit after tax of Shun Tian Yun Group was approximately RMB2,250,000. As the Profit Guarantee target can be meet, the Vendor does not need to bear any compensation to the Group.

(v) According to the interim report of the Group for the six months ended 30 June 2010, it is the intention of the Group to actively seek for investment opportunities in order to broaden the business of the Group. According to a market analysis dated 24 February 2009 from 暖通空調在線 (Air Conditioning Online) (www.ehvacr.com), the market share of commercial air conditioning products in the PRC (excluding the four biggest foreign brands) has been progressively increased from 3.5% in 2008 to 14.2% in 2009. In view of the potential growth of the environmental air-conditioning market, the directors consider that the acquisition provides a good opportunity for the Company to venture into a new business and broaden its revenue base. Meanwhile, the Company will continue to explore further business opportunities to diversify into other industries with good business potential and growth prospects.

After considering the Profit Guarantee provided by the Vendor under the Sale and Purchase Agreement and the future prospects of the commercial air conditioning products in the PRC, the Directors consider that the terms of the acquisition are fair and reasonable and are in the interests of the Company and the shareholders as a whole.

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32. DISPOSAL OF A SUBSIDIARY

On 11 August 2011, the Group disposed of UURG Hong Kong Limited which provided general service to the Group companies at a consideration of HK$2. The disposal was completed on 11 August 2011.

The net liabilities disposed in the transaction were as follows:

	2011 HK$'000
Net liabilities disposed	
Accruals and other payables	(30)
	(30)
Gain on disposal	30
	–
Satisfied by:	
Cash	–
Net cash inflow arising on acquisition:	
Cash and cash equivalents disposed	–
Cash consideration	–
	–

For the period from 1 January 2011 to the date of disposal, the loss contributed by UURG Hong Kong Limited of approximately HK$200,000 has recognised in the Group's loss for the year ended 31 December 2011.

33. RELATED PARTY TRANSACTIONS

Save as disclosed in notes 12, 16, 21, 24, 25 and 28, the Group had also entered into the following related party transaction during the reporting period.

Related party transactions

	2011 HK$'000	2010 HK$'000
The remuneration of directors and other members of key management during the year was as follows:		
Retirement benefit, scheme contributions		
Short term benefits	3,495	4,621
Post-employment benefit	14	14
	3,509	4,635

34. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2011 (2010: Nil).

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest risk and certain other price risks, which result from both its operating and investing activities. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether these changes are caused by factors specific to the individual financial instrument or its issuers, or factors affecting all similar financial instrument traded in the market. The Group does not have written risk management policies and guidelines. However, the directors closely monitor and focus on actively securing the Group's short to medium term cash flows by minimising the exposure to financial market.

The Group does not actively involve in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

(i) Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable rate borrowings (Note 26). It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

Interest rate sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for bank borrowing at the end of the reporting period. If interest rates had been 50 basis points (2010: Nil) higher/lower and all other variable were held constant, the Group's post-tax profit for the year ended 31 December 2011 would decrease/increase by HK$30,000 (2010: Nil). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

(ii) Foreign currency risk

The Group mainly operates in Hong Kong and the PRC. The functional currencies of the Company and its subsidiaries are mainly HK$ and RMB with certain of their business transactions being settled in RMB. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. As the functional currency of the PRC subsidiary is also RMB, thus, the management considered the foreign exchange exposure is minimal.

(iii) Credit risks

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfil its obligation which results in financial loss. The carrying amounts of cash and cash equivalents and trade and other receivables included in the statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arises when the Group has significant exposure to individual customers. At the end of the reporting period, 9% (2010: 79%) of the total trade receivables was due from the Group's largest customer.

(iv) Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs are identified monthly.

The Group's liquidity is dependent upon the cash received from its customers. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(iv) Liquidity risk *(Continued)*

As at 31 December 2011 and 31 December 2010, the remaining contractual maturities of the Group's and the Company's financial liabilities which are based on contractual undiscounted cash flows are summarised below:

The Group

	Weighted average effective interest rate	Total carrying amount HK$'000	Total undiscounted cash flows HK'$000	Within 1 year or on demand HK'$000	More than 1 year but less than 5 year HK'$000
At 31 December 2011					
Trade payables	**–**	**3,099**	**3,099**	**3,099**	**–**
Accruals and other payables	**–**	**6,157**	**6,157**	**6,157**	**–**
Amount due to a related party	**–**	**1,212**	**1,212**	**1,212**	**–**
Amount due to a shareholder	**–**	**2,000**	**2,000**	**2,000**	**–**
Bank borrowing	**8.11%**	**6,044**	**6,044**	**6,044**	**–**
		18,512	**18,512**	**18,512**	**–**
At 31 December 2010					
Trade payables	–	6,809	6,809	6,809	–
Other payables	–	2,365	2,365	2,365	–
Amount due to a related company	–	5,509	5,509	5,509	–
		14,683	14,683	14,683	–

The Company

	Weighted average effective interest rate	Total carrying amount HK$'000	Total undiscounted cash flows HK'$000	Within 1 year or on demand HK'$000	More than 1 year but less than 5 year HK'$000
At 31 December 2011					
Amount due to a shareholder	**–**	**2,000**	**2,000**	**2,000**	**–**
Amount due to a subsidiary	**–**	**68**	**68**	**68**	**–**
Accruals and other payables	**–**	**475**	**475**	**475**	**–**
		2,543	**2,543**	**2,543**	**–**
At 31 December 2010					
Accruals and other payables	–	819	819	819	–

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(v) Summary of financial assets and liabilities by category

The carrying amounts of the Group's and the Company's financial assets and liabilities as recognised at 31 December 2011 and 2010 may be categorised as follows. See Notes 3.11 and 3.21 for explanations about how the category of financial instruments affects their subsequent measurement.

(i) Financial assets

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**8,944**	26,375	**466**	13,777
Loans and receivables:				
Trade receivables	**6,452**	8,823	**–**	–
Other receivables	**345**	168	**–**	–
Amount due from subsidiaries	**–**	–	**24,004**	27,855
	15,741	35,366	**24,470**	41,632

(ii) Financial liabilities

Financial liabilities at amortised cost:

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current liabilities:				
Trade payables	**3,099**	6,809	**–**	–
Other payables	**6,157**	2,365	**475**	819
Amount due to a related party	**1,212**	5,509	**–**	–
Amount due to a shareholder	**2,000**	–	**2,000**	–
Bank borrowing	**6,044**	–	**–**	–
Amount due to a subsidiary	**–**	–	**68**	–
	18,512	14,683	**2,543**	819

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36. CAPITAL MANAGEMENT

The Group's capital management objectives are:

(i) to ensure the Group's ability to continue as a going concern;

(ii) to provide an adequate return to the owners of the Company;

(iii) to support the Group's sustainable growth; and

(iv) to provide capital for the purpose of potential mergers and acquisitions.

The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners of the Company; return capital to owners of the Company; issue new shares; or sell assets to reduce debt.

Management regards total equity presented below as capital, for capital management purpose.

	2011 HK$'000	2010 HK$'000
Total equity	**34,295**	41,903

Gearing ratio

The directors reviewed the capital structure on an annual basis. As part of this review, the directors considers the cost of capital and the risks associated with each class of capital

The gearing ratio at the end of the reporting period was as follows:

	2011 HK$'000	2010 HK$'000
Debts (Note 1)	**9,256**	5,509
Cash and cash equivalents	**(8,944)**	(26,375)
Net debt	**312**	(20,866)
Equity (Note 2)	**20,164**	40,430
Net debt to equity ratio	**1.5%**	N/A

Notes:

1. Debt comprises amount due to a related party, amount due to a shareholder and bank borrowing as detail in Notes 24, 25 and 26 respectively.

2. Equity includes all capital and reserves attributable to owners of the Company.

37. CONTINGENT LIABILITIES

As at 31 December 2011, the Group and the Company had no material contingent liabilities.

38. PLEDGE OF ASSET

Assets with the following carrying amount has been pledged to secured bank borrowing of the Group:

	2011	2010
	HK$'000	HK$'000
Trade receivables (Note 18)	**4,862**	–

39. EVENTS AFTER THE REPORTING PERIOD

No significant events after reporting period of the Group are required to be disclosed in the financial statements.

40. COMPARATIVES

Certain comparative amounts have been reclassified to conform with current year's presentation.

41. AUTHORISATION OF ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 21 March 2011.