China Railway Logistics Limited

中國鐵路貨運有限公司*

(incorporated in Bermuda with limited liability)

Stock Code: 8089

Annual Report 2011

* For identification purpose only

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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Yeung Sau Han Agnes
Ms. Chan Shui Sheung Ivy

Independent Non-executive Directors

Ms. Yuen Wai Man
Mr. Lam Ka Wai Graham
Mr. Wang Chin Mong

AUTHORISED REPRESENTATIVES

Ms. Yeung Sau Han Agnes
Ms. Chan Shui Sheung Ivy

AUDIT COMMITTEE

Ms. Yuen Wai Man *(Chairman)*
Mr. Lam Ka Wai Graham
Mr. Wang Chin Mong

NOMINATION COMMITTEE

Mr. Wang Chin Mong *(Chairman)*
Ms. Yeung Sau Han Agnes
Ms. Yuen Wai Man
Mr. Lam Ka Wai Graham

REMUNERATION COMMITTEE

Mr. Lam Ka Wai Graham *(Chairman)*
Ms. Yeung Sau Han Agnes
Ms. Yuen Wai Man
Mr. Wang Chin Mong

COMPANY SECRETARY

Mr. Li Chak Hung

COMPLIANCE OFFICER

Ms. Yeung Sau Han Agnes

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

CORPORATE INFORMATION

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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China Overseas Building
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Wanchai
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WEB-SITE

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PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER AGENT OFFICE

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

AUDITOR

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

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
China Construction Bank Corporation
Fubon Bank (Hong Kong) Limited

STOCK CODE

8089

Management Discussion and Analysis

BUSINESS REVIEW

The Group is principally engaged in businesses of computer telephony, properties investments, securities trading and loan financing. The turnover of the Group for the year ended 31 December 2011 increased by 38.5% to HK$94,752,000 as compared with the preceding financial year.

Computer Telephony

During the year under review, the computer telephony business segment recorded a turnover of approximately HK$5,920,000 (2010: HK$8,699,000). The turnover for the year ended 31 December 2011 represented a decrease of 31.9% against the high turnover record of the previous year contributed by exceptional high volume of sales orders received during the period.

Properties Investments

As at 31 December 2011, the Group held properties in Hong Kong and in the PRC for investment purposes with total value amounted to approximately HK$148,716,000 (2010: approximately HK$118,887,000).

Through renting out of the properties, the Group recorded a rental income of approximately HK$1,455,000 (2010: approximately HK$288,000). As at 31 December 2011, a gain arising from fair value changes of investment properties of approximately HK$5,695,000 was recorded on the basis of valuation carried out on that date by independent firms of professional valuers not connected with the Group.

During the year, the Group disposed an investment property in Hong Kong at the consideration of HK$19,980,000 resulting in a gain on disposal of approximately HK$880,000 and acquired a property in the PRC for investment purpose at the aggregate consideration of RMB27,500,000.

Securities Trading

As at 31 December 2011, the Group held investments held for trading amounted to approximately HK$91,739,000 (2010: approximately HK$205,989,000) and convertible instruments designed at financial assets at fair value through profit or loss amount to approximately HK$107,599,000 (2010: approximately HK$67,766,000).

Segmental turnover of the securities trading business for the year ended 31 December 2011 was HK$45,500,000 (2010: approximately HK$31,669,000). As a result of the volatility in the securities market, the Group recorded a loss arising from fair value changes of investments held for trading of approximately HK$100,151,000 (2010: approximately HK$137,021,000) and loss on disposals of investments held for trading of approximately HK$23,709,000 (2010: approximately HK$18,746,000).

Loan Financing

During the year under review, the loan financing business reported an interest income of approximately HK$41,877,000 (2010: approximately HK$27,779,000) representing an increase of approximately 50.8%. An impairment loss on loan receivables of approximately HK$199,180,000 was recorded during the year.

FINANCIAL REVIEW

For the year ended 31 December 2011, the Group recorded a turnover of approximately HK$94,752,000 (2010: approximately HK$68,435,000), representing an increase of approximately 38.5% as compared with the preceding financial year. The increase in turnover was principally contributed from the securities trading and the loan financing businesses.

Administrative expenses for the year ended 31 December 2011 was approximately HK$48,198,000 (2010: approximately HK$33,406,000), representing an increase of 44.3% as compared with the preceding financial year. The increase in expenses was mainly due to increase in consultancy and professional fees expenses, as well as staff costs.

The loss attributable to the owners of the Company for the year ended 31 December 2011 aggregated at approximately HK$328,184,000 (2010: profit approximately HK$178,252,000). The basic loss per share for the year ended 31 December 2011 was approximately HK51.48 cents (2010: basic earnings per share HK31.62 cents).

OUTLOOK

The management is concerned that the rising in material and labour costs will affect both the business volume and the profit margin of the computer telephony business in 2012.

The loan financing business has undergone a continual increase in interest income since its commencement in late 2009. As the global market was uncertain during the year, some of the loan borrowers were affected and suffering losses in investments or business. It is noted that the ability of repayment of some loan borrowers had declined. The management will evaluate the direction of the development of the loan financing business.

Facing with uncertainties of the global economy, the financial market in Hong Kong is expected to continue to be volatile during the year of 2012. The management will remain cautious in its investment strategy and will continue to seek new opportunities aiming to enhance the profitability and the shareholders' value of the Company.

In line with our strategy to diversifying the business portfolio of the Group, the Group acquired 30% equity interest in Fortune Lead Holdings Limited, through internal restructuring, which holds 40% equity interest in 蚌埠海吉星農產品物流有限公司 ("Beng Bu Project"). The Beng Bu Project will be engaged in trading of agricultural products, storage, logistics, rental of and sales of properties and operation facilities, property management, provision of market information of agricultural products, import or export services as well as market development services. The management expects that rental income from Beng Bu Project would expand the properties investments segment in the PRC.

Despite of the net loss record for the year, the Group continues to exercise with prudence in managing its financial resources. The Group will adopt a positive but prudent approach towards its investment strategy in seeking other investment opportunities and exploring the feasibility of expansion into other business segments.

INTEREST IN A JOINTLY CONTROLLED ENTITY

The Group's investment in the jointly controlled entity 長沙賽格發展有限公司 (Changsha Seg Development Co Limited) ("Changsha Seg") performed satisfactorily during the year. The Group's share of result of Changsha Seg amounted to approximately HK$13,614,000 for the year ended 31 December 2011 (2010: HK$10,520,000).

Changsha Seg is principally engaged in the management of a shopping mall selling electronic products in Changsha, the PRC that is situated at a prime location near the Changsha Railway Station with gross floor area of approximately 25,700 square metres. Most of the shops therein have been leased out. The Group has been working closely with its partner, Shenzhen Seg Co. Ltd., a company listed on the Shenzhen Stock Exchange, as well as the other shareholders of Changsha Seg, in respect of the operation and development of this shopping mall.

FUND RAISING ACTIVITIES

Pursuant to a conditional placing agreement entered into by and between the Company and Fortune (HK) Securities Limited (as the placing agent) dated 13 May 2010 (as supplemented and amended by an extension letter dated 10 September 2010 and a supplemental placing agreement dated 7 January 2011, respectively), the placing agent conditionally agreed to place on a best-effort basis a maximum of 112,000,000 new shares to be issued under a general mandate at a price of HK$0.43 per share to independent institutional or private investors (the "Placing"). Completion of the Placing took place on 5 May 2011. The placing shares were fully placed to not less than six placees with the total gross and net proceeds amounted to approximately HK$48,200,000 and HK$47,000,000, respectively. The net proceeds from the Placing was used towards general working capital of the Group.

On 21 November 2011, the Company entered into a conditional placing agreement with FT Securities Limited ("FT Securities") in respect of placing of a maximum of 135,000,000 new shares. On 14 March 2012, the Company and FT Securities entered into a supplemental placing agreement to extend the placing period to ending on 19 April 2012 and amend the placing price from HK$0.24 per placing share to HK$0.21 per placing share. On the assumption that all these placing shares are fully placed, the gross proceeds and net proceeds from this placing will be approximately HK$28,400,000 and HK$27,600,000, respectively. The net proceeds are intended to be used towards general working capital of the Group. The placing has not yet been completed as at the date of this annual report.

LIQUIDITY AND FINANCIAL RESOURCES

The Group principally finances its operations through a combination of shareholders equity and internally generated cash flows.

As at 31 December 2011, the Group had cash and bank balances of approximately HK$42,273,000 (2010: approximately HK$113,577,000) and had interest-bearing bank borrowings of approximately HK$7,725,000 (2010: nil).

The gearing ratio (measured as total liabilities to total assets) was 4.2% as at 31 December 2011 (2010: 2.4%).

CAPITAL STRUCTURE

As at 31 December 2011, the Company's issued share capital was HK$675,814, divided into 675,814,000 shares of HK$0.001 each. During the year ended 31 December 2011, the Company allotted and issued 112,000,000 new shares of an aggregate nominal value of HK$112,000 pursuant to the Placing, the details of which are set out in the section headed "Fund Raising Activities" above.

CAPITAL COMMITMENTS

As at 31 December 2011, the Group had capital commitment of approximately HK$288,000 (2010: HK$2,391,000) in respect of acquisition of plant and equipment.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any material contingent liability (2010: nil).

CHARGES ON GROUP ASSETS

As at 31 December 2011, investment properties of the Group with an aggregate carrying value of HK$18,600,000 have been pledged to a bank to secure the general banking facilities granted to the Group (2010: nil).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The reporting currency adopted by the Group is Hong Kong dollars ("HK$"). The majority of the Group's sales, receivables and expenditures are dominated in HK$, United States dollars ("USD") or Renminbi ("RMB"). HK$ is closely linked with USD. Although the exchange rate of HK$ against RMB had steadily depreciated during the year under review, the Directors do not consider that the Group is exposed to any material foreign currency exchange risk. No hedging or other similar device has been implemented. However, the Directors will constantly monitor the Group's foreign exchange exposure and implement foreign currency hedging measures should the need arises.

MATERIAL ACQUISITIONS AND DISPOSALS

On 24 May 2011, Honor Wealth International Limited, a wholly-owned subsidiary of the Company, as the vendor, entered into a provisional sale and purchase agreement in relation to the disposal of a property at a cash consideration of HK$19,980,000. The disposal was completed on 12 August 2011. Details of this transaction were set out in the announcement of the Company dated 25 May 2011.

On 8 July 2011, 深圳市盛世富強科技有限公司 (Shenzhen Sheng Shi Fu Qiang Technology Company Limited, as the purchaser), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with 唐勇先生 (Mr. Tang Yong, as the vendor) in respect of an acquisition of a property in the PRC at the aggregate consideration of RMB27,500,000. Details of this transaction were set out in the announcements of the Company dated 4 April 2011, 4 May 2011 and 21 June 2011, respectively. The transfer of the title of the property from the vendor to the purchaser was completed on 9 November 2011. The Group acquired this property for investment purpose.

On 7 September 2011, King Perfection Limited, a wholly-owned subsidiary of the Company, as the purchaser ("King Perfection") entered into a conditional sale and purchase agreement (the "CB Agreement") with Peak Prosper Holdings Limited ("Peak Prosper", as the vendor) in relation to the acquisition of the convertible bonds in the principal amount of HK$110,040,000 for a consideration of HK$220,000,000 (collectively, the "CB Acquisition"). King Perfection has paid HK$20,000,000 to Peak Prosper as deposit upon execution of the CB Agreement (the "Deposit"). As the conditions precedent of the CB Acquisition were not fulfilled on or before 31 December 2011, on 3 January 2012, the Board announced that, pursuant to the CB Agreement, the CB Acquisition lapsed on 31 December 2011. Details of this transaction were set out in the announcements of the Company dated 12 September 2011, 14 September 2011, 4 October 2011, 25 October 2011, 28 November 2011, 3 January 2012 and 9 March 2012, respectively. Further development of this transaction are reported in the section headed "Events after the Reporting Period".

On 24 October 2011, Magic Perfection Global Limited, a wholly-owned subsidiary of the Company, as the subscriber entered into a conditional subscription agreement with High Step Investment Limited ("High Step", as the issuer) in relation to the subscription of the one-year 5% coupon rate convertible loan notes in the principal amount of HK$30,000,000 at the subscription price of HK$30,000,000 (the "Convertible Loan Notes"), representing 50% of the enlarged issued share capital of High Step upon fully conversion. The major asset of High Step is a luxurious residential house in Hong Kong. This subscription was completed on 24 October 2011. Details of this transaction were set out in the announcements of the Company dated 25 October 2011 and 4 November 2011, respectively.

On 31 October 2011, Major Premium Limited, a wholly-owned subsidiary of the Company, as the subscriber entered into a subscription agreement with The Incorporation of Financial Technicians Limited ("Financial Technicians", as the issuer) in relation to the subscription of the one-year 9% coupon rate convertible bonds in the principal amount of HK$28,000,000 at the subscription price of HK$28,000,000, representing approximately 30.11% following the capital reduction and enlarged in issued share capital of Financial Technicians. This subscription was completed on 31 October 2011. Details of this transaction were set out in the announcement of the Company dated 1 November 2011.

On 19 December 2011, Charm State International Limited, a wholly-owned subsidiary of the Company, as the purchaser ("Charm State") entered into a conditional formal agreement with Worldsky Limited, as the vendor in relation to the acquisition of a property in Hong Kong at a consideration of HK$170,980,000 (the "Plunkett Agreement"). The Group intended to acquire the property for investment purpose and paid an aggregate deposit of HK$25,647,000 ("Total Deposits") ("Plunkett Acquisition"). Details were set out in the announcements of the Company dated 11 November 2011, 2 December 2011, 9 January 2012 and 1 March 2012, respectively, and the circular of the Company dated 20 December 2011.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

The Group (excluding its associates) had about 68 full time employees (2010: 50 employees) in Hong Kong and the PRC as at 31 December 2011. During the year ended 31 December 2011, the Group had incurred staff costs (including Directors' emoluments) of approximately HK$20,056,000 (2010: approximately HK$15,263,000).

The emoluments of the Directors are recommended by the remuneration committee, and approved by the Board, as authorized by the shareholders in the annual general meeting of the Company, having regard to the respective Directors' skills, knowledge and involvement in the Company's affairs. None of the Directors are involved in deciding their own remuneration.

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

In order to attract, retain and motivate eligible employees, including the Directors, the Company has adopted a share option scheme. The scheme enables eligible persons to obtain an ownership interest in the Company and thus motivates them to optimize their continuing contributions to the Group. As at 31 December 2011, there are 2,200,000 share options remained outstanding.

LITIGATIONS

At the special general meeting of the Company held on 9 January 2012, the Plunkett Acquisition (as reported under "Material Acquisitions and Disposals") was not approved by the shareholders of the Company. On 9 January 2012, Charm State (being the purchaser) notified the vendor that pursuant to the Plunkett Agreement, Charm State shall be entitled to annul the Plunkett Agreement, and that the Total Deposits paid by Charm State in aggregate of HK$25,647,000 shall be returned to Charm State. However, the vendor failed to return the Total Deposits. On 29 February 2012, Charm State issued a writ of summons in the High Court of Hong Kong against the vendor, claiming for, among others, the refund of the Total Deposits and the stamp duty paid in amount of HK$7,266,650. Details of the Plunkett Acquisition and the related litigation were set out in the announcements of the Company dated 11 November 2011, 2 December 2011, 9 January 2012 and 1 March 2012, respectively, and the circular of the Company dated 20 December 2011. As at the date hereof, this litigation is still ongoing.

As reported under "Material Acquisitions and Disposals", the CB Acquisition lapsed on 31 December 2011. On 2 February 2012, the Company duly presented for payment the cheque in the amount of HK$20,000,000 (the "Cheque") received from the vendor upon execution of the CB Agreement for securing its performance under the CB Agreement. The Cheque was dishonoured. On 10 February 2012, King Perfection gave notice to the vendor of the said dishonour and thereby demanded repayment of the Deposit of HK$20,000,000, but no reply has been received. On 9 March 2012, King Perfection and the Company issued a writ of summons in the High Court of Hong Kong against the vendor, claiming for, among others, the return of the Deposit. As at the date hereof, this litigation is still ongoing. Details of this litigation were set out in the announcement of the Company dated 9 March 2012.

On 28 March 2012, Fameway Finance Limited (the "Lender", a wholly-owned subsidiary of the Company carrying on business as a money lender in Hong Kong), filed a writ of summons against a borrower, a company incorporated in the British Virgin Islands with limited liability, in respect of two loans outstanding in the aggregate principal amount of HK$37,656,324.38 together with interest accrued thereon, totaling HK$44,553,439.48. These loans are secured by a charge over listed and unlisted securities of listed entities in Hong Kong.

Also on 28 March 2012, the Lender filed a writ of summons against a borrower, a company incorporated in Hong Kong with limited liability, in respect of a loan in the principal amount of HK$81,000,000.00 together with interest accrued thereon, totaling HK$85,460,547.95. This loan is secured by a charge over a property located in Hong Kong.

Also on 28 March 2012, the Lender filed a writ of summons against a borrower, a company incorporated in the British Virgin Islands with limited liability, in respect of a loan outstanding in the principal amount of HK$5,540,000.00 together with interest accrued thereon, totaling HK$6,196,191.78. This loan is secured by a charge over listed securities of a listed entity in Hong Kong.

Also on 28 March 2012, the Lender filed a writ of summons against a borrower, a company incorporated in the British Virgin Islands with limited liability, in respect of a loan outstanding in the principal amount of HK$7,938,359.23 together with interest accrued thereon, totaling HK$8,772,564.09. This loan is secured by a charge over unlisted securities of a listed entity in Hong Kong.

Also on 28 March 2012, the Lender filed a writ of summons against a borrower, a company incorporated in the British Virgin Islands with limited liability, in respect of a loan in the principal amount of HK$15,000,000.00 together with interest accrued thereon, totaling HK$16,489,315.07. This loan is secured by a charge over listed and unlisted securities of listed entities in Hong Kong.

Also on 28 March 2012, the Lender filed a writ of summons against a borrower, a company incorporated in the British Virgin Islands with limited liability, in respect of a loan in the principal amount of HK$25,000,000.00 together with interest accrued thereon, totaling HK$27,910,958.90. This loan is secured by a charge over listed securities of a listed entity in Singapore.

Also on 28 March 2012, the Lender filed a writ of summons against the borrowers (two individuals) and the guarantor (a company incorporated in the British Virgin Islands) in respect of a loan in the principal amount of HK$13,000,000.00 together with interest accrued thereon, totaling HK$15,592,876.71. This loan is guaranteed by the guarantor (a British Virgin Islands company) and also secured by a charge over listed and unlisted securities of listed entities in Hong Kong.

As at the date hereof, these litigations against the seven separate sets of defendants are still ongoing.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Yeung Sau Han Agnes ("Ms. Yeung"), aged 46, was a graduate from the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a higher diploma in fashion design. Prior to joining the Company, Ms. Yeung worked in various garment companies for over 18 years and is currently the director of certain subsidiaries of the Company. Ms. Yeung previously served as an executive director for China Bio-Med Regeneration Technology Limited (Stock Code: 8158) ("China Bio-Med"), from 8 June 2007 to 3 December 2009, and Heng Xin China Holdings Limited (Stock Code: 8046) ("Heng Xin"), from 11 July 2007 to 31 March 2009, which both China Bio-Med and Heng Xin are listed on GEM Board of the Stock Exchange. She was appointed as an executive director of PME Group Limited (Stock Code: 379) ("PME"), a company listed on the Main Board of the Stock Exchange, since 2 May 2007.

Save as disclosed above, Ms. Yeung has not previously held any position with the Company or any of its subsidiaries; has not been a director in any other listed company in the past three years; is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company; and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Ms. Chan Shui Sheung Ivy ("Ms. Chan"), aged 47, is graduated from The University of South Australia with a Master of Business Administration degree. Ms. Chan has over 18 years of experience in investment and is currently the director of certain subsidiaries of the Company. Ms. Chan previously served as an executive director for China Oriental Culture Group Limited (formerly known as ZZNode Technologies Company Limited) (Stock Code: 2371) ("China Oriental Culture"), a company listed on the Main Board of the Stock Exchange, from 24 January 2008 to 25 May 2011. She is a director of Channel Enterprises (Int'l) Limited. Since 2 May 2007, she was appointed as an executive director of PME (Stock Code: 379) which is a company listed on the Main Board of the Stock Exchange.

Save as disclosed above, Ms. Chan has not previously held any other position with the Company or any of its subsidiaries; has not been a director in any other listed company in the past three years; is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company. Ms. Chan had the following interests in shares and underlying shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance as at the date of this annual report:

Name	Personal Interest	Approximate percentage of shareholding
Chan Shui Sheung Ivy	60,000 Shares	0.009%

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Yuen Wai Man ("Ms. Yuen"), aged 40, graduated from the University of Hong Kong with a degree in Business Administration in 1994. She is the fellow member of The Association of Chartered Certified Accountants, fellow member of The Hong Kong Institute of Certified Public Accountants and overseas member of The Chinese Institute of Certified Public Accountants. Prior to joining the Company, Ms. Yuen worked in accounting and auditing area for over 17 years.

Save as disclosed above, Ms. Yuen has not previously held any position with the Company or any of its subsidiaries; has not been a director in any other listed company in the past three years; is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company; and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lam Ka Wai Graham ("Mr. Lam"), aged 44, graduated from the University of Southampton, England with a Bachelor of Science degree in Accounting and Statistics. He is a member of Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lam is currently a Managing Director and Head of Corporate Finance of an investment bank and has around 18 years experience in investment banking as well as around 4 years experience in accounting and auditing. He is also the independent non-executive director of Cheuk Nang (Holdings) Limited (Stock Code: 131), China Fortune Financial Group Limited (Stock Code: 290), Nan Nan Resources Enterprise Limited (Stock Code: 1229), Pearl Oriental Oil Limited (Stock Code: 632) and Value Convergence Holdings Limited (Stock Code: 821), all of which are companies listed on the Main Board of the Stock Exchange; and Trasy Gold Ex Limited (Stock Code: 8063), a company listed on GEM Board of the Stock Exchange. In addition, Mr. Lam was the independent non-executive director of China Oriental Culture (Stock Code: 2371) and Applied Development Holdings Limited (Stock Code: 519), companies listed on the Main Board of the Stock Exchange, from 29 January 2008 to 5 October 2010 and from 1 October 2005 to 12 December 2011, respectively; and Finet Group Limited (Stock Code: 8317) and Hao Wen Holdings Limited (Stock Code: 8019), companies listed on GEM Board of the Stock Exchange, from 5 August 2009 to 24 January 2011 and from 17 November 2010 to 16 May 2011, respectively.

Save as disclosed above, Mr. Lam has not previously held any position with the Company or any of its subsidiaries; has not been a director in any other listed company in the past three years; is not connected with any directors, senior management, substantial shareholders, or controlling shareholders of the Company; and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Wang Chin Mong ("Mr. Wang"), aged 40, is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wang has more than 15 years of experience in the fields of auditing, accounting and finance. He was an independent non-executive director of Heng Xin (Stock Code: 8046), a company listed on GEM Board of the Stock Exchange, for the period from April 2008 to March 2009.

Save as disclosed above, Mr. Wang has not previously held any position with the Company or any of its subsidiaries; has not been a director in any other listed company in the past three years; is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company; and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

SENIOR MANAGEMENT

Ms. Siu Yuk Wa Joe Joe, the Chief Financial Officer of the Group since 2008. Ms. Siu holds a Bachelor's Degree of Business Administration and is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. She has over 23 years of experience in accounting and financial management.

REPORT OF DIRECTORS

The Board presents this annual report together with the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries were principally engaged in businesses of computer telephony, properties investments, securities trading and loan financing.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business segment is set out in Note 7 to the accompanying financial statements.

RESULTS

Details of the Group's results for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on pages 37 and 38 of this annual report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 139 to 141 of this annual report.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and the Group's associates are set out in Notes 44 and 18 to the accompanying financial statements, respectively.

PLANT AND EQUIPMENT

Details of movements in plant and equipment during the year are set out in Note 16 to the accompanying financial statements.

DIVIDEND

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

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 34 to the accompanying financial statements.

RESERVES

Movements in reserves of the Group during the year are set out in the section headed "Consolidated Statement of Changes in Equity" on page 41 of this annual report.

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

SHARE OPTION SCHEME

A summary of the share option scheme and details of the movements in share options of the Company during the year are set out in Note 35 to the accompanying financial statements.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes are set out in Note 37 to the accompanying financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the bye-laws of the Company (the "Bye-laws") and the laws in Bermuda.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases for the year ended 31 December 2011 attributable to the Group's major suppliers is as follows:

	Percentage of purchases
The largest supplier	77.6%
Five largest suppliers combined	97.7%

The percentage of revenue for the year ended 31 December 2011 attributable to the Group's major customers is as follows:

	Percentage of revenue
The largest customer	16.5%
Five largest customers combined	49.6%

During the year, none of the Directors, their associates, or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the Group's five largest customers and suppliers.

RELATED PARTY TRANSACTIONS

The related party transactions of the Group are disclosed in Note 38 to the accompanying financial statements, none of which fell under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 20 of the GEM Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting date are set out in Note 45 to the accompanying financial statements.

DIRECTORS

The Directors who held office during the year and up to the date of this annual report are:

Executive Directors

Ms. Yeung Sau Han Agnes
Ms. Chan Shui Sheung Ivy

Independent Non-executive Directors

Ms. Yuen Wai Man
Mr. Lam Ka Wai Graham
Mr. Wang Chin Mong

In accordance with bye-law no. 87(1) of the Company's bye-laws, Ms. Yeung Sau Han Agnes and Ms. Yuen Wai Man will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive Directors are appointed for a specific term, subject to retirement by rotation in accordance with the Company's bye-laws.

Under the bye-laws of the Company, all Directors are subject to retirement by rotation at least once every three years.

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

DIRECTORS' AND SENIOR MANAGEMENT'S 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 14 to 17 of this annual report.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest individuals of the Group are set out in Notes 12 and 13 to the accompanying financial statements, respectively.

SERVICE CONTRACT OF DIRECTORS

Ms. Yeung Sau Han Agnes has entered into a service contract with the Company for an initial fixed term of two years commenced from 8 May 2008, which will continue thereafter until terminated by either party.

Ms. Chan Shui Sheung Ivy has not entered into any service contract or appointment letter with the Company.

Ms. Yuen Wai Man has entered into an appointment letter with the Company effective from 4 July 2011 for a term of one year.

Mr. Lam Ka Wai Graham has entered into an appointment letter with the Company effective from 22 December 2011 for a term of one year.

Mr. Wang Chin Mong has entered into an appointment letter with the Company effective from 10 August 2011 for a term of one year.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors or Company's members of its management had a material interest, whether directly or indirectly, subsisted at 31 December 2011 or at any time during the year.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors; namely, Ms. Yuen Wai Man, Mr. Lam Ka Wai Graham and Mr. Wang Chin Mong, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers all of the independent non-executive Directors are independent.

COMPETING INTERESTS

None of the Directors or the controlling shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business or interest that competes or may compete with the business of the Group or has any other conflict of interest with the Group during the year ended 31 December 2011.

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

As at 31 December 2011, the interests and short positions of the Directors and chief executives 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 (Chapter 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules were as follows:

Long position in shares and underlying shares of the Company

Name of Director	Type of interests	Number of issued ordinary shares held	Total interests (Shares)	Approximate percentage of the issued share capital
Chan Shui Sheung Ivy	Beneficial owner	60,000	60,000	0.009%

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed in the above section headed "Directors' and Chief Executives' Interests in Shares", at no time during the year ended 31 December 2011 was the Company or any of its subsidiaries a party to any arrangement to enable any of the Directors or the chief executive of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of the Company or any other body corporate, and none of the Directors, their spouse or their children under the age 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year ended 31 December 2011.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, persons (other than a director or chief executive of the Company) who had interests or short positions directly or indirectly in the Company's shares and/or underlying shares recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position in shares and underlying shares of the Company

Name of Shareholders	Capacity	Number of shares	Percentage of interests
PME Group Limited	Interest of corporation controlled	80,254,000 *(Note 1)*	11.88%
Sunbright Asia Limited	Beneficial owner	71,000,000 *(Note 1)*	10.51%
Well Support Limited	Beneficial owner	52,415,466 *(Note 2)*	7.76%
Liu Yi Dong	Trustee of Liu Yi Dong Family Trust	52,415,466 *(Note 2)*	7.76%

Notes:

1. Pursuant to the corporate substantial shareholder notices filed by PME Group Limited and by Sunbright Asia Limited, PME Group Limited is interested in 80,254,000 Shares through its controlled corporation as follows:

   (i) 71,000,000 Shares are directly held by Sunbright Asia Limited which in turn is 100% directly owned by CR Investment Group Limited which in turn is directly 100% owned by PME Group Limited; and

(ii) 9,254,000 Shares are directly held by Betterment Enterprises Limited which in turn is directly 99.49% owned by Richcom Group Limited which in turn is directly 100% owned by CR Investment Group Limited which in turn is directly 100% owned by PME Group Limited.

2. Pursuant to the corporate substantial shareholder notice filed by Well Support Limited and the individual substantial shareholder notice filed by Liu Yi Dong, these Shares are held by Well Support Limited, which is beneficially owned by Liu Yi Dong Family Trust and the beneficiaries of which are Liu Yi Dong and his family members.

Save as disclosed above, the Directors were not aware of any other persons, other than a director or chief executive of the Company, who had an interest or a short position in the shares or underlying shares of the Company as at 31 December 2011 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 26 to 34 of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, the Company has maintained sufficient public float throughout the year ended 31 December 2011 as required under the GEM Listing Rules.

AUDITOR

On 18 May 2011, SHINEWING (HK) CPA LIMITED ("SHINEWING") was re-appointed as the auditor of the Company for a term ending upon conclusion of the forthcoming annual general meeting. A resolution to re-appoint SHINEWING as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Chan Shui Sheung Ivy
Executive Director

Hong Kong, 30 March 2012

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules (the "CG Code") for the year ended 31 December 2011 except for the deviations as disclosed in the following relevant paragraphs.

BOARD OF DIRECTORS

As at the date of this annual report, the Board consists of five Directors, of whom two are the executive Directors, namely Ms. Yeung Sau Han Agnes and Ms. Chan Shui Sheung Ivy, and three are the independent non-executive Directors, namely Ms. Yuen Wai Man, Mr. Lam Ka Wai Graham and Mr. Wang Chin Mong.

Biographical details of each Director is set out in the section headed "Directors and Senior Management" on pages 14 to 17 of this annual report.

The Board includes a balanced composition of executive Directors and independent non-executive Directors, and possesses a wide spectrum of relevant skills and experience. All executive Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. The participation of the independent non-executive Directors in the Board brings independent opinion on issues relating to the Group's strategy, performance, conflicts of interest and management process in order to ensure the interests of all shareholders of the Company have been duly considered. To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among members of the Board.

Throughout the year ended 31 December 2011, the Board consists three independent non-executive Directors who have appropriate professional qualification or accounting or related financial management expertise as required by Rule 5.05(2) of the GEM Listing Rules.

Pursuant to Rule 5.09 of the GEM Listing Rules, the Company has received a written confirmation from each independent non-executive Director of his/her independence to the Company. The Company considers all of the independent non-executive Directors to be independent.

The Board is responsible for approving and monitoring business plans, evaluating the performance of the Group and oversight of management. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

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

The Board held 13 meetings during the year ended 31 December 2011. Details of the attendance of the Board are as follows:

	Attendance
Executive Directors	
Ms. Yeung Sau Han Agnes	13/13
Ms. Chan Shui Sheung Ivy	13/13
Independent Non-executive Directors	
Ms. Yuen Wai Man	10/13
Mr. Lam Ka Wai Graham	9/13
Mr. Wang Chin Mong	10/13

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

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. And all Directors have access to the advice and services of the Company Secretary with a view to ensuring that the Board procedures, and all applicable rules and regulations, are followed. During the year, the Company fully complied with Rules 5.14 of the GEM Listing Rules.

Any Director wishing to do so in the furtherance of his or her duties may take independent professional advice at the Company's expense. The Directors are encouraged to update their skills, knowledge and familiarity with the Group through their initial induction, ongoing participation at the Board and committee meetings, and through meeting key members of management.

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 "Code of Conduct"). Following a specific enquiry, all Directors confirmed that they have complied with the Code of Conduct throughout the year ended 31 December 2011.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The code provision A.2.1 of the CG Code prescribed, among others, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

During the year ended 31 December 2011 and up to the date hereof, the Company did not have a chairman or chief executive officer. The roles of chairman and the chief executive officer were performed separately by Directors. The Board will keep reviewing the current structure from time to time and should candidates with suitable knowledge, skill and experience be identified, the Company will make appointments to fill the posts as appropriate.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established on 12 August 2005 with written terms of reference. It currently consists of four members, including three independent non-executive Directors; namely, Ms. Yuen Wai Man, Mr. Lam Ka Wai Graham and Mr. Wang Chin Mong; and one executive Director, Ms. Yeung Sau Han Agnes. Mr. Lam Ka Wai Graham is the chairman of this committee.

The role and function written in the terms of reference of the remuneration committee are no less exacting terms than CG Code. The remuneration committee makes recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management. No committee member can be involved in deciding his own remuneration. The remuneration committee will consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration to determine the remuneration package of all executive Directors and senior management; and expected time commitment to the Company's affair would be considered for determination of the remuneration packages of all non-executive Directors and independent non-executive Directors.

The remuneration committee of the Company will consult the Board about its proposals relating to the remuneration of other executive Directors and the senior management of the Company and has the right to require the Company's management to furnish any remuneration related information of the Company for the purposes of discharging its duties.

During the year under review, the remuneration committee of the Company held 2 meetings to review the remuneration package of Directors and senior management.

Details of the attendance of the Company's remuneration committee meetings are as follows:

Members	Attendance
Mr. Lam Ka Wai Graham *(Chairman)*	2/2
Ms. Yeung Sau Han Agnes	2/2
Ms. Yuen Wai Man	2/2
Mr. Wang Chin Mong	2/2

NOMINATION COMMITTEE

The nomination committee of the Company was established on 12 August 2005 with written terms of reference. It currently comprises four members, including three independent non-executive Directors; namely, Ms. Yuen Wai Man, Mr. Lam Ka Wai Graham and Mr. Wang Chin Mong; and one executive Director, Ms. Yeung Sau Han Agnes. Mr. Wang Chin Mong is the chairman of this committee.

The duties and responsibilities of the nomination committee include the following:

– To review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

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

– To assess the independence of independent non-executive directors; and

– To make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

During the year under review, the nomination committee of the Company held one meeting with the significant matters discussed are summarized as follows:

- To consider the retirement of the Directors as required by the Listing Rules and the bye-laws of the Company to retire and to recommend the Board for re-election of Directors.

- To review the structure, size and composition of the Board, including the balance of skills, knowledge and experience and independence of the independent non-executive Directors and make recommendation to the Board accordingly.

Details of the attendance of the Company's nomination meetings are as follows:

Members	**Attendance**
Ms. Yeung Sau Han Agnes *(Chairman)*	1/1
Ms. Yuen Wai Man	1/1
Mr. Lam Ka Wai Graham	1/1
Mr. Wang Chin Mong	1/1

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. As at the date of this annual report, the Company's audit committee comprises three independent non-executive Directors, namely Ms. Yuen Wai Man, Mr. Lam Ka Wai Graham and Mr. Wang Chin Mong. Ms. Yuen Wai Man is the chairman of the committee.

The primary duties of the audit committee include, among other things, making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and to approve the remuneration and term of engagement of the external auditors; reviewing the Company's annual reports and financial statements, interim reports and quarterly reports of the Group; and supervising the financial reporting process and effectiveness of internal control system of the Group.

The audit committee in conjunction with the external auditors of the Company have reviewed the Group's financial statements and annual results for the year ended 31 December 2011 and have provided advice and comments thereon to the Board.

The audit committee of the Company held five meetings during the year ended 31 December 2011. Details of the attendance of the Company's audit committee meetings are as follows:

Members	**Attendance**
Ms. Yuen Wai Man *(Chairman)*	5/5
Mr. Lam Ka Wai Graham	5/5
Mr. Wang Chin Mong	4/5

The Group's unaudited quarterly and interim results and audited annual results in respect of the year ended 31 December 2011 have been reviewed by the Company's audit committee.

AUDITOR'S REMUNERATION

During the year, the remuneration paid/payable to the Company's external auditor, SHINEWING (HK) CPA LIMITED, is set out below:

	HK$'000
Services rendered to the Group	
– Audit services	730
– Non-audit services	150
	880

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

Annual Report and Financial Statements

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

The statements of the external auditor of the Company, SHINEWING (HK) CPA LIMITED, about their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 35 to 36 of this annual report.

Accounting Period

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

Accounting Records

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

Going Concern

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

INVESTORS AND SHAREHOLDERS RELATIONS

The Board recognizes the importance of maintaining clear, timely and effective communication with the shareholders of the Company and investors. The Company has disclosed all necessary information to its shareholders and investors in compliance with the GEM Listing Rules. Moreover, the Board maintains close communications with the shareholders and investors of the Company through a number of formal communication channels. These include (i) the publication of the Company's latest business developments and financial performance through it annual, interim and quarterly reports, notices, announcements and circulars; (ii) the shareholders' meetings providing an opportunity for the shareholders of the Company to raise comments and exchanging views with the Board; and (iii) the Company's website provides an effective communication platform between the Company and its shareholders and investors.

INTERNAL CONTROL

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The Company will engage an independent professional firm to conduct an annual review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management.

On behalf of the Board
Chan Shui Sheung Ivy
Executive Director

Hong Kong, 30 March 2012

信永中和 ShineWing

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

TO THE MEMBERS OF CHINA RAILWAY LOGISTICS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Railway Logistics Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 138, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of 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.

SHINEWING (HK) CPA Limited
Certified Public Accountants

Chong Kwok Shing
Practising Certificate Number: P05139

Hong Kong
30 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	7	**94,752**	68,435
Revenue	7	**49,252**	36,766
Cost of sales		**(4,067)**	(4,127)
Gross profit		**45,185**	32,639
Other income and gains	8	**3,888**	2,203
Distribution and selling expenses		**(18)**	(23)
Administrative expenses		**(48,198)**	(33,406)
Gain on disposal of an investment property		**880**	14,610
Fair value changes in investment properties	17	**5,695**	12,840
Loss arising from fair value changes of investments held for trading		**(100,151)**	(137,021)
Loss on disposals of investments held for trading		**(23,709)**	(18,746)
(Loss) gain on disposal of convertible instruments designated at financial assets at fair value through profit or loss		**(1,869)**	562
Gain (loss) arising from fair value changes of convertible instruments designated at financial assets at fair value through profit or loss		**5,302**	(103,253)
Gain on deconsolidation of a subsidiary	42	**–**	414,302
Impairment loss on loan receivables	23	**(199,180)**	–
Impairment loss on investment deposits paid	27	**(26,286)**	–
Other expenses		**–**	(2,300)
Share of result of an associate	18	**–**	–
Share of result of a jointly controlled entity		**13,614**	10,520
Finance costs	9	**(224)**	–
(Loss) profit before tax	10	**(325,071)**	192,927
Income tax expense	11	**(603)**	(12,727)
(Loss) profit for the year		**(325,674)**	180,200

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 HK$'000	2010 HK$'000
Other comprehensive (expense) income			
Fair value (loss) gain on available-for-sale financial assets		**(5,118)**	5,479
Exchange differences on translating foreign operations		**5,177**	3,556
Share of exchange translation reserve of a jointly controlled entity		**3,277**	3,111
Other comprehensive income for the year		**3,336**	12,146
Total comprehensive (expense) income for the year		**(322,338)**	192,346
(Loss) profit for the year attributable to:			
– Owners of the Company		**(328,184)**	178,252
– Non-controlling interests		**2,510**	1,948
		(325,674)	180,200
Total comprehensive (expense) income attributable to:			
– Owners of the Company		**(325,455)**	189,822
– Non-controlling interests		**3,117**	2,524
		(322,338)	192,346
(Loss) earnings per share	*15*		
– Basic		**HK(51.48) cents**	HK 31.62 cents
– Diluted		**HK(51.48) cents**	HK 31.62 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Plant and equipment	16	**13,795**	14,238
Investment properties	17	**148,716**	118,887
Interest in an associate	18	**–**	–
Interest in a jointly controlled entity	19	**123,213**	106,322
Goodwill	20	**–**	–
Deposits paid for acquisition of plant and equipment	21	**5,150**	3,121
Available-for-sale financial assets	22	**19,058**	23,916
Loan receivables	23	**–**	20,100
		309,932	286,584
Current assets			
Loan receivables	23	**233,802**	408,885
Convertible instruments designated at financial assets at fair value through profit or loss	24	**107,599**	67,766
Inventories	25	**646**	17,469
Trade receivables	26	**474**	4,571
Prepayments, deposits and other receivables	27	**108,829**	57,058
Tax recoverable		**1,830**	–
Investments held for trading	28	**91,739**	205,989
Bank balances and cash	29	**42,273**	113,577
		587,192	875,315
Current liabilities			
Trade payables	30	**1,205**	394
Accruals and other payables		**6,760**	5,526
Receipts in advance		**481**	529
Taxation		**12,938**	12,833
Bank borrowing	31	**332**	–
		21,716	19,282
Net current assets		**565,476**	856,033
Total assets less current liabilities		**875,408**	1,142,617

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Bank borrowing	31	**7,393**	–
Deferred taxation	32	**8,831**	8,055
		16,224	8,055
Net assets		**859,184**	1,134,562
Capital and reserves			
Share capital	34	**676**	564
Reserves		**838,189**	1,116,796
		838,865	1,117,360
Non-controlling interests		**20,319**	17,202
Total equity		**859,184**	1,134,562

The consolidated financial statements on pages 37 to 138 were approved and authorised for issue by the board of directors on 30 March 2012 and are signed by:

Chan Shui Sheung Ivy
Director

Yeung Sau Han Agnes
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital	Share premium	Contributed surplus	Share options reserve	Investment revaluation reserve	Capital reserve *(note)*	Warrant reserve	Exchange translation reserve	Accumulated losses	Equity attributable to owners of the Company	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	564	2,854,452	7,914	3,590	951	6,898	3,300	(98)	(1,950,033)	927,538	17,335	944,873
Profit for the year	–	–	–	–	–	–	–	–	178,252	178,252	1,948	180,200
Other comprehensive (expense) income for the year:												
Fair value gain on available-for-sale financial assets	–	–	–	–	5,479	–	–	–	–	5,479	–	5,479
Exchange difference on translation of foreign operations	–	–	–	–	–	–	–	3,556	–	3,556	–	3,556
Share of exchange translation reserve of a jointly controlled entity	–	–	–	–	–	–	–	2,535	–	2,535	576	3,111
Total comprehensive (expenses) income for the year	–	–	–	–	5,479	–	–	6,091	178,252	189,822	2,524	192,346
Deconsolidation of a subsidiary *(Note 42)*	–	–	–	–	–	(6,898)	–	–	6,898	–	(2,657)	(2,657)
At 31 December 2010 and 1 January 2011	564	2,854,452	7,914	3,590	6,430	–	3,300	5,993	(1,764,883)	1,117,360	17,202	1,134,562
Loss for the year	–	–	–	–	–	–	–	–	(328,184)	(328,184)	2,510	(325,674)
Other comprehensive (expenses) income for the year:												
Fair value loss on available-for-sale financial assets	–	–	–	–	(5,118)	–	–	–	–	(5,118)	–	(5,118)
Exchange difference on translation of foreign operations	–	–	–	–	–	–	–	5,177	–	5,177	–	5,177
Share of exchange translation reserve of a jointly controlled entity	–	–	–	–	–	–	–	2,670	–	2,670	607	3,277
Total comprehensive (expenses) income for the year	–	–	–	–	(5,118)	–	–	7,847	(328,184)	(325,455)	3,117	(322,338)
Issue of shares by placing *(Note 34)*	112	48,048	–	–	–	–	–	–	–	48,160	–	48,160
Placement cost *(Note 34)*	–	(1,200)	–	–	–	–	–	–	–	(1,200)	–	(1,200)
At 31 December 2011	676	2,901,300	7,914	3,590	1,312	–	3,300	13,840	(2,093,067)	838,865	20,319	859,184

note:

The capital reserve represents the difference between the capital contribution by non-controlling interests and the relevant share of the carrying value of a subsidiary's net assets by non-controlling interest.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(325,071)**	192,927
Adjustments for:		
Bank interest income	**(191)**	(184)
Finance costs	**224**	–
Dividend income	**(668)**	(630)
Depreciation of plant and equipment	**2,719**	2,441
Reversal of impairment loss on trade receivables	**(112)**	(143)
Impairment loss on loan receivables	**199,180**	–
Impairment loss on trade receivables	**117**	–
Impairment loss on investment deposits paid	**26,286**	–
Impairment loss on available-for-sale financial assets	**240**	–
Share of result of a jointly controlled entity	**(13,614)**	(10,520)
Gain on disposal of an investment property	**(880)**	(14,610)
Gain on deconsolidation of a subsidiary	**–**	(414,302)
Fair value changes in investment properties	**(5,695)**	(12,840)
(Gain) loss on fair value change of convertible instrument designated at financial assets at fair value through profit or loss	**(5,302)**	103,253
Loss arising from fair value changes of investments held for trading	**100,151**	137,021
Loss (gain) on disposal of convertible instruments designated at financial assets at fair value through profit or loss	**1,869**	(562)
Deposit forfeited	**–**	(1,000)
(Reversal of) write-down of inventories	**(2,300)**	2,300
Operating cash flows before movements in working capital	**(23,047)**	(16,849)
Decrease (increase) in inventories	**19,123**	(19,143)
Decrease (increase) in loan receivables	**3,003**	(292,904)
Decrease (increase) in trade receivables	**4,092**	(4,176)
Increase in prepayments, deposits and other receivables	**(11,041)**	(13,465)
Decrease in investments held for trading	**7,099**	22,374
Increase in trade payables	**811**	172
Increase in accruals and other payables	**1,234**	1,162
(Decrease) increase in receipts in advance	**(48)**	170
Cash from (used in) operations	**1,226**	(322,659)
Income tax paid	**(1,830)**	–
NET CASH USED IN OPERATING ACTIVITIES	**(604)**	(322,659)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES			
Proceeds from disposal of an investment property		**19,880**	77,610
Proceeds on disposals of convertible instruments		**21,600**	20,400
Net cash inflow from deconsolidation of a subsidiary	42	**–**	54,720
Refund of deposits paid for acquisition of potential investment/receivables in respect of a terminated acquisition in previous years		**12,468**	22,750
Deposit forfeited		**–**	1,000
Dividend income		**668**	630
Interest received		**191**	184
Net cash inflow from disposal of subsidiaries	41	**–**	10
Deposits paid for acquisition of potential investments		**(77,914)**	(35,205)
Acquisition of investment properties		**(38,717)**	(24,253)
Purchase of plant and equipment		**(2,276)**	(1,386)
Deposits paid for acquisition of plant and equipment		**(3,420)**	(3,121)
Acquisition of available-for-sale financial assets		**(500)**	(2,000)
Acquisition of convertible instruments		**(58,000)**	–
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		**(126,020)**	111,339
FINANCING ACTIVITIES			
Proceeds from placement	34	**48,160**	–
Placement Cost	34	**(1,200)**	–
Repayment of bank loan		**(10,275)**	–
New bank loan raised		**18,000**	–
Interest paid		**(224)**	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		**54,461**	–

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 HK$'000	2010 HK$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(72,163)**	(211,320)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**113,577**	323,851
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE	**859**	1,046
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**42,273**	113,577

1. GENERAL

China Railway Logistics Limited (the "Company") was incorporated in Bermuda on 25 February 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18 May 2000. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the annual report.

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

The principal activities of the Company is investment holding and the principal activities of its subsidiaries are set out in Note 44.

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

In the current year, the Company and its subsidiaries (collectively referred to as the "Group") have applied the following new and revised HKFRSs, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the statement of changes in equity. Such amendments have been applied retrospectively and hence the disclosures in these consolidated financial statements have been modified to reflect the change.

New and revised HKFRSs issued but not yet effective

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

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

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

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

HKFRS 9 Financial Instruments issued in 2009 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

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 accounting periods. All other debt investments and equity investments are measured at fair value 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 accounting for changes in 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 recognised 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 recognised in profit or loss.

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

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

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

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

Key requirements of these five standards are described below:

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures *(Continued)*

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

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

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

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

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

Amendments to HKAS 12 Deferred Tax – Recovery of Underlying Assets

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property are presumed to be recovered through sale for the purpose of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. The directors anticipate that the application of the amendments to HKAS 12 in future accounting periods may result in adjustments to the amounts of deferred tax liabilities recognised in prior years regarding the Group's investment properties of which the carrying amounts are presumed to be recovered through sale.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

3. SIGNIFICANT ACCOUNTING POLICIES *(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 recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant 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. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination

Acquisitions of business are accounted for using the acquisition method. The consideration transferred in a business 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 value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment 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 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination *(Continued)*

Non-controlling interest 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 interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination *(Continued)*

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

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

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

For the purpose 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, whenever there is an 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 pro-rata on the basis of 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 amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the jointly controlled entity. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities *(Continued)*

When a group entity transacts with a jointly controlled entity of the Group, profits or losses resulting from the transactions are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Rental income from investment properties, leasing of telecommunication and computer telephony equipment are recognised on a straight-line basis over the respective term of the leases.

Service fees income is recognised when the services are provided.

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

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences on monetary items, are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

Retirement benefits schemes contribution

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect in included in the accounting for the business combination.

Cash and cash equivalents

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(i) Financial assets

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

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Financial assets at fair value through profit or loss *(Continued)*

Convertible instruments acquired by the Group (including related embedded derivatives) are designated at financial assets at fair value through profit or loss on initial recognition. Subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

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

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

Available-for-sale financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Available-for-sale financial assets (Continued)

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

Impairment loss on financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

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

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

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

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Impairment loss on financial assets *(Continued)*

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(ii) Financial liabilities and equity instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(ii) Financial liabilities and equity instruments *(Continued)*

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade payables, accruals and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Warrants

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

For warrants issued to subscribers of the Company's shares, the fair value of warrants on the date of issue is recognised in equity (warrant reserve). The warrant reserve will be transferred to share capital and share premium upon exercise of the warrants. Where the warrants remain unexercised at the expiry date, the amount previously recognised in warrant reserve will be transferred to accumulated losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred assets, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Provisions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

Share options granted by the Company to employees of the Group in an equity settled share-based payment arrangement

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

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

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

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment loss on assets other than goodwill (see the accounting policy in respect of goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In addition, tangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an investment loss is recognised as income immediately in profit or loss unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Estimated impairment loss on loan receivables

Loan receivables are reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The directors of the Company make judgements on whether such events or changes in circumstances have occurred, and makes estimates in determining the recoverable amount.

As at 31 December 2011, the carrying amount of loan receivables is HK$233,802,000 (2010: HK$428,985,000), net of accumulated impairment losses of HK$354,983,000 (2010: HK$155,803,000).

Estimated impairment of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

As at 31 December 2011, the carrying amount of trade receivables is HK$474,000 (2010: HK$4,751,000), net of accumulated impairment losses of HK$790,000 (2010: HK$785,000).

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

Fair value of convertible instruments designated at financial assets at FVTPL

The fair value of the convertible instruments involves assumptions on the issuer's credit spread, discount rate, expected credit rating and future cash flows. Should these assumptions change, there would be material changes to the fair value.

Estimated impairment of investment deposits paid

Investment deposits paid are reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The directors of the Company make judgements on whether such events or changes in circumstances have occurred, and makes estimates in determining the recoverable amount.

As at 31 December 2011, the carrying amount of investment deposits paid is HK$82,509,000 (2010: HK$41,779,000) net of accumulated impairment losses of HK$26,286,000 (2010: nil).

Fair value of investment properties

At the end of the reporting period, investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market conditions. In relying on the valuation report, the directors of the Company has exercised their judgement and is satisfied that the assumptions used in valuation have reflected the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties being recognised in profit or loss. The carrying amount of investment properties measured at fair value at 31 December 2011 was approximately HK$148,716,000 (2010: HK$118,887,000).

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

Estimated impairment loss on interest in a jointly controlled entity

Determining whether the interest in a jointly controlled entity is impaired requires an estimation of future cash flows expected to arise and expected dividend yield from the jointly controlled entity and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of the Group's jointly controlled entity as at 31 December 2011 and 2010 are included in Note 19.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group at 31 December 2011 consists of debt, which includes cash and cash equivalents, bank borrowings disclosed in Note 31 and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Available-for-sale financial assets		
– at cost	**2,260**	2,000
– at fair value	**16,798**	21,916
	19,058	23,916
FVTPL		
– investments held for trading	**91,739**	205,989
– convertible instruments designated at financial assets at FVTPL	**107,599**	67,766
	199,338	273,755
Loans and receivables (including bank balances and cash)	**384,524**	583,079
Financial liabilities		
Other financial liabilities measured at amortised cost		
– trade payables	**1,205**	394
– accruals and other payables	**6,760**	5,526
– bank borrowings	**7,725**	–
	15,690	5,920

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity, trade receivables, other receivables, loan receivables, deposits paid for acquisition of potential investments, bank balances and cash, financial assets at FVTPL (including investments held for trading and convertible instruments designated at FVTPL), available for sale financial assets, trade payables, and accruals and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The functional currency of certain subsidiaries established in the People's Republic of China (the "PRC") is Renminbi ("RMB"). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date, that are denominated in currencies other than the functional currency of the relevant group entities were mainly denominated in United States dollars ("USD").

Other than the above, the Group did not have significant exposure to risk resulting from changes in foreign currency exchange rates. The Group currently does not have any policy to hedge its exposure to currency risk.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% (2010: 5%) in exchange rate of HK$ against RMB/USD while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% (2010: 5%) change in foreign currency rates.

	(Increase) decrease in loss for the year 2011 HK$'000	Increase (decrease) in profit for the year 2010 HK$'000
– if HK$ weakens against USD	**(205)**	455
– if HK$ strengthens against USD	**205**	(455)
Movement in other comprehensive income		
– if HK$ weakens against RMB	**(69)**	1,260
– if HK$ strengthens against RMB	**69**	(1,260)
– if HK$ weakens against USD	**(840)**	1,096
– if HK$ strengthens against USD	**840**	(1,096)

A change of 5% in exchange rate of HK$ against RMB and USD does not affect other comprehensive income other than the exchange translation reserve and investment revaluation reserve.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(ii) Interest rate risk

The Group's exposure to changes in interest rate risk is mainly attributable to its bank balances and bank borrowings at variable-interest rate expose the Group to cash flow interest-rate risk, while loan receivables and convertible bonds at fixed rates expose the Group to fair value interest-rate risk. The Group has not formulated a policy to manage the interest rate risk. The Group has not used any derivative contracts or formulated any policy to hedge its exposure to interest rate risk as the exposure is considered to be insignificant.

Sensitivity analysis

If the interest rates had been increased/decreased by 100 basis points and assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all other variables were held constant, the Group's loss after tax would increase/decrease and the group's accumulated losses would decrease/increase by approximately HK$36,000 (2010: profit for the year and accumulated losses will decrease/increase by approximately HK$114,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank borrowings. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities, unlisted investments in funds and convertible instruments designated at financial assets at FVTPL. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's other price risk is mainly concentrated on instruments quoted on the Stock Exchange and on fund investments quoted by the financial institutions.

Sensitivity analysis

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

If the prices of the respective equity securities and unlisted investments in funds included in investment held for trading had been 10% (2010: 10%) higher (lower), the post-tax loss for the year ended 31 December 2011 would increase (decrease) by approximately HK$7,659,000 (2010: post-tax profit would decrease (increase) by approximately HK$19,032,000) as a result of the changes in financial assets at fair value through profit or loss.

For unlisted investments in funds included in available-for-sale financial assets, if the prices of the respective equity instruments had been 10% higher (lower), the investment revaluation reserve as at 31 December 2011 would increase (decrease) by approximately of HK$1,680,000 (2010: HK$2,192,000).

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

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

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

In respect of loan receivables, representing financing advances to customers under the Group's loan financing business, individual credit evaluations are performed on all customers. These evaluations focus on the customer's financial background and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group has a certain degree of concentration of credit risk as 21% (2010: 30%) and 49% (2010: 65%) of the total gross trade receivables were due from the Group's largest customer and the five largest customers for the Group's telephony business respectively.

In respect of the loan receivables arising from the Group's loan financing business, 26% (2010: 20%) of the total gross loan receivables as at 31 December 2011 was due from the Group's largest customer and 60% (2010: 61%) of the total loan receivables as at 31 December 2011 was due from the Group's five largest customers for the Group's loan financing business.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

The directors of the Company consider the credit risk under control since the management exercise due care in granting credit and check the financial background of these customers on a regular basis.

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

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong, which accounted for 100% (2010: 100%) of the trade receivables and loan receivables as at 31 December 2011 and 2010.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The tables include both interest and principal cash flows. To the extent that interest flows and floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

At 31 December 2011

	On demand or within one year HK$'000	More than one year but less than two years HK$'000	More than two years but not more than five years HK$'000	More than five years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2011 HK$'000
Non-derivative financial liabilities						
Trade payables	1,205	–	–	–	1,205	1,205
Accruals and other payables	6,760	–	–	–	6,760	6,760
Bank borrowing	339	717	1,173	7,250	9,479	7,725
	8,304	717	1,173	7,250	17,444	15,690

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

At 31 December 2010

	On demand or within one year HK$'000	More than one year but less than two years HK$'000	More than two years but not more than five years HK$'000	More than five years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2010 HK$'000
Non-derivative financial liabilities						
Trade payables	394	–	–	–	394	394
Accruals and other payables	5,526	–	–	–	5,526	5,526
	5,920	–	–	–	5,920	5,920

Fair value

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

The fair value of the other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Fair value *(Continued)*

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

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

Fair value measurements recognised in the statement of financial position

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

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

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

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

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
2011				
Financial assets at FVTPL				
– listed equity securities held for trading	**88,124**	**–**	**–**	**88,124**
– unlisted investment in funds held for trading	**–**	**3,615**	**–**	**3,615**
– convertible instruments designated at FVTPL	**–**	**24,195**	**83,404**	**107,599**
Available-for-sale financial assets				
– unlisted investment in funds	**–**	**16,798**	**–**	**16,798**
	88,124	**44,608**	**83,404**	**216,136**

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
2010				
Financial assets at FVTPL				
– listed equity securities held for trading	202,352	–	–	202,352
– unlisted investment in funds held for trading	–	3,637	–	3,637
– convertible instruments designated at FVTPL	–	67,766	–	67,766
Available-for-sale financial assets				
– unlisted investment in funds	–	21,916	–	21,916
	202,352	93,319	–	295,671

There are no transfers between levels 1 and 2 during both reporting periods.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

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

Reconciliation of Level 3 fair value measurements of financial assets

	HK$'000
At 1 January 2011	–
Purchase	58,000
Fair value gain recognised in profit or loss	25,404
At 31 December 2011	83,404

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION

The Group's operating segments, based on the information reported to the chief operating decision maker, being executive directors, for making strategic decisions. The segments are managed separately as each business offers different products which vary in materials used, design and technology and services which require different production/service information to formulate different marketing strategies. The following summary describes the operations in each of the Group's reportable and operating segments:

Computer telephony	–	leasing of telecommunication equipments and computer telecommunications and computer telephony system and provision of consulting and maintenance services
Properties investments	–	investment in properties for rental income purpose
Securities trading	–	trading of securities
Loan financing	–	provision of financing services

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

Turnover represents the aggregate of the amounts received and receivable for goods sold, net of returns and services rendered by the Group; rental income; net proceeds from the disposal of investments held for trading; and interest income from the provision of loan financing during the year. The following is an analysis of the Group's turnover:

	2011 HK$'000	2010 HK$'000
Turnover		
– Computer telephony	**5,920**	8,699
– Properties investments	**1,455**	288
– Securities trading	**45,500**	31,669
– Loan financing	**41,877**	27,779
	94,752	68,435

Segment revenues and results

Information reported to the executive directors, being the chief operating decision maker, for the purpose of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specially, the Group's reported and operating segments under HKFRS 8 are as follows:

1. Computer telephony
2. Properties investments
3. Securities trading
4. Loan financing

	2011 HK$'000	2010 HK$'000
Segment revenue		
– Computer telephony	**5,920**	8,699
– Properties investments	**1,455**	288
– Securities trading	**–**	–
– Loan financing	**41,877**	27,779
	49,252	36,766

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

	2011 HK$'000	2010 HK$'000
Segment results		
– Computer telephony	**(326)**	1,518
– Properties investments	**20,350**	37,356
– Securities trading	**(124,492)**	(155,855)
– Loan financing	**(168,183)**	18,134
	(272,651)	(98,847)
Unallocated corporate expenses	**(33,231)**	(22,040)
Unallocated corporate income	**(3,888)**	2,203
Net gain (loss) on fair value change/disposal of convertible instruments designated at financial assets at FVTPL	**3,433**	(102,691)
Gain on deconsolidation/disposal of subsidiaries/associate	**–**	414,302
Impairment loss on investment deposits paid	**(26,286)**	–
Share of result of an associate	**–**	–
Finance costs	**(224)**	–
(Loss) profit before tax	**(325,071)**	192,927

The accounting policies of the operating segment are the same as the Group's accounting policies described in Note 3. Segment (loss) profit represents the (loss) profit attributable to each segment without allocation of central administration costs, directors' emoluments, fair value changes and gain (loss) on disposal of convertible instruments designated at financial assets at FVTPL, gain on deconsolidation of a subsidiary, impairment loss on investment deposits paid, share of result of an associate and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

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

	2011	2010
	HK$'000	HK$'000
Segment assets		
– Computer telephony	**1,461**	1,796
– Properties investments	**296,418**	229,837
– Securities trading	**115,457**	219,322
– Loan financing	**213,465**	409,211
Total segment assets	**626,801**	860,166
Unallocated corporate assets	**270,323**	301,733
Consolidated total assets	**897,124**	1,161,899
Segment liabilities		
– Computer telephony	**2,738**	1,933
– Properties investments	**303**	1,357
– Securities trading	**1,828**	–
– Loan financing	**111**	92
Total segment liabilities	**4,980**	3,382
Unallocated corporate liabilities	**32,960**	23,955
Consolidated total liabilities	**37,940**	27,337

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

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

- all assets are allocated to operating segments other than interest in an associates, available-for-sale financial assets, goodwill, certain property, plant and equipment, deposits paid for acquisition of potential investments, convertible instruments designated at financial assets at FVTPL and bank balances and cash, certain inventories and certain other receivables; and

- all liabilities are allocated to operating segments other than certain other payables and accruals, bank borrowing, deferred taxation and taxation.

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2011

	Computer telephony HK$'000	Properties investments HK$'000	Securities trading HK$'000	Loan financing HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included the measure of segment profit or loss or segment assets						
Depreciation on plant and equipment	67	34	–	60	2,558	2,719
Additions to plant and equipment, investment properties and deposits paid for acquisition of plant and equipment	41	42,410	–	571	1,391	44,413
Reversal of						
– impairment loss on trade receivables	(112)	–	–	–	–	(112)
– written down in inventories	–	–	–	–	(2,300)	(2,300)
Share of result of a jointly controlled entity	–	(13,614)	–	–	–	(13,614)
Fair value losses (gains)						
– investment properties	–	(5,695)	–	–	–	(5,695)
– investments held for trading	–	–	100,151	–	–	100,151
– convertible instruments designated at financial assets at fair value through profit or loss	–	–	(5,302)	–	–	(5,302)
Impairment loss on						
– loan receivables	–	–	–	199,180	–	199,180
– investment deposits paid	–	–	–	–	26,286	26,286
– trade receivables	117	–	–	–	–	117
Losses (gains) on disposals						
– investment properties	–	(880)	–	–	–	(880)
– investments held for trading	–	–	23,709	–	–	23,709
– convertible instruments designated at financial assets at fair value through profit or loss	–	–	1,869	–	–	1,869
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:						
Interest revenue	–	(86)	(79)	(13)	(13)	(191)
Finance cost	–	–	(224)	–	–	(224)
Income tax expenses	–	603	–	–	–	603

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2010

	Computer telephony HK$'000	Properties investments HK$'000	Securities trading HK$'000	Loan financing HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included the measure of segment profit or loss or segment assets						
Depreciation on plant and equipment	103	–	–	–	2,338	2,441
Additions to plant and equipment, investment properties and deposits paid for acquisition of plant and equipment	23	27,374	–	–	1,363	28,760
Reversal of impairment loss on trade receivables	(143)	–	–	–	–	(143)
Share of result of a jointly controlled entity	–	(10,520)	–	–	–	(10,520)
Fair value losses (gains)						
– investment properties	–	(12,840)	–	–	–	(12,840)
– investments held for trading	–	–	137,021	–	–	137,021
– convertible instruments designated at financial assets at fair value through profit or loss	–	–	(103,253)	–	–	(103,253)
Losses (gains) on disposals						
– investment properties	–	(14,610)	–	–	–	(14,610)
– investments held for trading	–	–	18,746	–	–	18,746
– convertible instruments designated at financial assets at fair value through profit or loss	–	–	(562)	–	–	(562)

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

	Computer telephony HK$'000	Properties investments HK$'000	Securities trading HK$'000	Loan financing HK$'000	Unallocated HK$'000	Consolidated HK$'000
Interest revenue	–	(11)	(142)	(10)	(21)	(184)
Income tax expenses	–	6,902	2,923	2,902	–	12,727

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**49,160**	36,766	**59,460**	97,262
PRC	**92**	–	**253,572**	189,322
	49,252	36,766	**313,032**	286,584

Information about major customers

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

	2011	2010
	HK$'000	HK$'000
Customer A[1]	**8,100**	5,312

1 Revenue from loan financing.

8. OTHER INCOME AND GAINS

The analysis of the Group's other income and gains are as follows:

	2011	2010
	HK$'000	HK$'000
Bank interest income	**191**	184
Reversal of impairment loss on trade receivables	**112**	143
Dividend income	**668**	630
Deposit forfeited	**–**	1,000
Reversal of write-down of inventories	**2,300**	–
Others	**617**	246
	3,888	2,203

9. FINANCE COSTS

	2011	2010
	HK$'000	HK$'000
Interest on bank borrowings not wholly repayable within five years	**224**	–

10. (LOSS) PROFIT BEFORE TAX

(Loss) profit before tax has been arrived at after charging (crediting):

	2011 HK$'000	2010 HK$'000
Staff costs including directors' emoluments:		
Salaries and allowances	19,499	14,957
Contributions to retirement benefits schemes	557	306
	20,056	15,263
Auditors' remuneration	730	725
Depreciation of plant and equipment	2,719	2,441
Share of tax of a jointly controlled entity	465	2,866
Minimum lease payments under operating leases	2,969	2,931
Cost of inventories recognised as an expense	3,126	4,068
Write-down of inventories (included in other expenses)	–	2,300
Impairment of the trade receivables	117	–
Impairment on available-for-sale financial assets	240	–
Gross rental income	(1,455)	(288)
Less: outgoings (included in cost of sales)	941	59
Net rental income	(514)	(229)

11. INCOME TAX EXPENSE

	2011 HK$'000	2010 HK$'000
Current tax:		
Hong Kong	105	10,414
Deferred taxation *(Note 32)*	498	2,313
	603	12,727

11. INCOME TAX EXPENSE *(Continued)*

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

	2011 HK$'000	2010 HK$'000
(Loss) profit before tax	**(325,071)**	192,927
Tax at the domestic income tax rate of 16.5% (2010: 16.5%)	**(53,637)**	31,833
Tax effect of share of result of a jointly controlled entity	**(2,246)**	(1,736)
Tax effect of expenses not deductible for tax purpose	**2,219**	33,300
Tax effect of income not taxable for tax purpose	**(8,335)**	(56,220)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**547**	1,223
Tax effect of tax loss not recognised	**26,402**	3,777
Tax effect of deductible temporary differences not recognised	**36,822**	805
Utilisation of tax losses previously not recognised	**(608)**	(255)
Utilisation of deductible temporary differences previously not recognised	**(561)**	–
Tax charge for the year	**603**	12,727

11. INCOME TAX EXPENSE *(Continued)*

The principal components of the Group's deferred tax assets not provided for, on the cumulative temporary differences at the end of the reporting period are as follows:

	Other temporary differences HK$'000	Estimated tax losses HK$'000	Total HK$'000
At 1 January 2010	78	5,446	5,524
Movement for the year	805	3,522	4,327
At 31 December 2010 and 1 January 2011	883	8,968	9,851
Movement for the year	36,261	25,794	62,055
At 31 December 2011	**37,144**	**34,762**	**71,906**

No deferred tax assets attributable to other temporary differences and tax losses of the Group have been recognised for both years due to unpredictability of future profit streams. At the end of the reporting period, the Group had unexpired estimated tax losses available for off-setting future taxable profits and deductible temporary differences of approximately HK$173,656,000 (2010: HK$53,733,000) and HK$141,936,000 (2010: HK$4,165,000) respectively.

During the year ended 31 December 2011, tax loss and deductible temporary differences of approximately HK$3,689,000 (2010: HK$1,547,000) and HK$3,400,000 (2010: nil) respectively for which no deferred tax asset were recognised previously was utilised.

12. DIRECTORS' EMOLUMENTS

	2011 **HK$'000**	2010 HK$'000
Executive Directors:		
Fees	**–**	–
Salaries and other benefits *(note 1)*	**2,152**	1,920
Discretionary bonus *(note 2)*	**–**	480
Contributions to retirement benefits scheme	**24**	24
	2,176	2,424
Independent Non-Executive Directors:		
Fees	**738**	720
	2,914	3,144

notes:

1. Other benefits include housing allowance.

   No directors waived their emoluments for each of year ended 31 December 2011 and 2010. No emoluments have been paid to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31 December 2011 and 2010.

2. For the year ended 31 December 2010, discretionary bonus is determined by individual performance.

12. DIRECTORS' EMOLUMENTS *(Continued)*

The details of directors' remuneration of each director for the two years ended 31 December 2011 and 2010 are set out below:

For the year ended 31 December 2011

Name of directors	Directors' fees HK$'000	Directors' salaries HK$'000	Discretionary bonus HK$'000	Contributions to retirement benefits schemes HK$'000	Total HK$'000
Yeung Sau Han, Agnes	–	1,076	–	12	1,088
Chan Shui Sheung, Ivy	–	1,076	–	12	1,088
Yuen Wai Man *(note)*	246	–	–	–	246
Lam Ka Wai, Graham *(note)*	246	–	–	–	246
Wang Chin Mong, Jimmy *(note)*	246	–	–	–	246
	738	2,152	–	24	2,914

note: The independent non-executive directors.

For the year ended 31 December 2010

Name of directors	Directors' fees HK$'000	Directors' salaries HK$'000	Discretionary bonus HK$'000	Contributions to retirement benefits schemes HK$'000	Total HK$'000
Yeung Sau Han, Agnes	–	960	240	12	1,212
Chan Shui Sheung, Ivy	–	960	240	12	1,212
Yuen Wai Man *(note)*	240	–	–	–	240
Lam Ka Wai, Graham *(note)*	240	–	–	–	240
Wang Chin Mong, Jimmy *(note)*	240	–	–	–	240
	720	1,920	480	24	3,144

note: The independent non-executive directors.

13. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included two directors (2010: two directors) of the Company, whose emoluments have been included in Note 12 above. The emoluments of the remaining three individuals for the year ended 31 December 2011 (2010: three individuals) were as follows:

	2011 **HK$'000**	2010 HK$'000
Salaries and allowances	**2,904**	2,539
Contributions to retirement benefits schemes	**55**	36
	2,959	2,575

Their emoluments were within the following bands:

	2011 **No. of** **employees**	2010 No. of employees
Below HK$1,000,000	**1**	3
HK$1,000,001 to HK$1,500,000	**2**	–

14. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the end of the reporting period (2010: nil).

15. (LOSS) EARNINGS PER SHARE

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

	2011 **HK$'000**	2010 HK$'000
(Loss) profit		
(Loss) profit for the year attributable to owners of the Company	**(328,184)**	178,252

	2011	2010
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**637,457,836**	563,814,000
	637,457,836	563,814,000

The computation of diluted (loss) earnings per share for the two years ended 31 December 2011 and 31 December 2010 does not assume the exercise of the Company's share options and non-listed warrants because the respective exercise prices of the Company's share options and non-listed warrants were higher than the average market price of the Company's shares for the two years ended 31 December 2011 and 31 December 2010.

16. PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Equipment on lease to customers HK$'000	Equipment for development HK$'000	Motor vehicles HK$'000	Vessel HK$'000	Total HK$'000
Cost								
At 1 January 2010	72	2,121	4,153	68	366	1,099	14,010	21,889
Exchange adjustment	–	–	2	–	–	–	–	2
Additions	306	316	45	15	54	650	–	1,386
Write-off	–	–	(1,623)	–	–	–	–	(1,623)
At 31 December 2010 and 1 January 2011	378	2,437	2,577	83	420	1,749	14,010	21,654
Exchange adjustment	–	5	13	–	–	–	–	18
Additions	13	985	65	–	32	730	451	2,276
Write-off	–	–	–	(40)	–	–	–	(40)
Transfer to inventories	–	–	–	–	(10)	–	–	(10)
At 31 December 2011	391	3,427	2,655	43	442	2,479	14,461	23,898
Depreciation								
At 1 January 2010	25	1,141	3,303	68	329	257	1,474	6,597
Exchange adjustment	–	–	1	–	–	–	–	1
Charge for the year	73	234	249	1	29	462	1,393	2,441
Eliminated on write-off	–	–	(1,623)	–	–	–	–	(1,623)
At 31 December 2010 and 1 January 2011	98	1,375	1,930	69	358	719	2,867	7,416
Exchange adjustment	–	1	10	–	–	–	–	11
Charge for the year	114	376	218	5	40	543	1,423	2,719
Eliminated on write-off	–	–	–	(40)	–	–	–	(40)
Transfer to inventories	–	–	–	–	(3)	–	–	(3)
At 31 December 2011	**212**	**1,752**	**2,158**	**34**	**395**	**1,262**	**4,290**	**10,103**
Net carrying values								
At 31 December 2011	**179**	**1,675**	**497**	**9**	**47**	**1,217**	**10,171**	**13,795**
At 31 December 2010	280	1,062	647	14	62	1,030	11,143	14,238

16. PLANT AND EQUIPMENT *(Continued)*

The above items of plant and equipment are depreciated on a straight-line method at the following rates per annum:

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Computer equipment	30%
Equipment on lease to customers	30%
Equipment for development	30%
Motor vehicles	30%
Vessel	10%

17. INVESTMENT PROPERTIES

	2011 **HK$'000**	2010 HK$'000
At 1 January	**118,887**	142,246
Additions	**40,108**	24,253
Disposal	**(19,000)**	(63,000)
Increase in fair value	**5,695**	12,840
Exchange adjustment	**3,026**	2,548
At 31 December	**148,716**	118,887
Investment properties held under medium-term leases		
– Hong Kong	**18,600**	37,203
– PRC	**130,116**	81,684
	148,716	118,887

17. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties located in Hong Kong at 31 December 2011 have been arrived at on the basis of a valuation carried out on that date by Jointgoal Surveyors Limited ("Jointgoal Surveyors"), an independent firm of professional property valuers not connected with the Group. Jointgoal Surveyors has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

For the Group's investment properties located in the PRC, the valuation was carried out by Malcolm & Associates Appraisal Limited ("Malcolm & Associates"), an independent firm of professional property valuers not connected with the Group. Malcolm & Associates has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

For properties situated in Hong Kong and the PRC, the valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

As at 31 December 2011, HK$18,600,000 (2010: nil) of the Group's investment properties have been pledged to secure banking facilities granted to the Group.

18. INTEREST IN AN ASSOCIATE

	2011 **HK$'000**	2010 HK$'000
Cost of investment in an unlisted associate in the PRC	**377**	377
Share of post acquisition losses	**(377)**	(377)
	–	–

18. INTEREST IN AN ASSOCIATE *(Continued)*

As at 31 December 2011, the Group had interest in the following associate:

Name	Form of business structure	Place of incorporation and operations	Particulars of issued/paid-up capital	Percentage of effective equity interest attributable to the Group	Principal activity
Beijing Teletron System Integration Company Limited ("Beijing Teletron")	Limited liability company	PRC	Paid-up capital	40%	Inactive

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

	2011 HK$'000	2010 HK$'000
Total assets	204	197
Total liabilities	(2,668)	(2,530)
Net liabilities	(2,464)	(2,333)
Group's share of net liabilities of the associate	–	–
Revenue	–	–
Loss for the year	(46)	(90)
Group's share of result of the associate for the year	–	–

18. INTEREST IN AN ASSOCIATE *(Continued)*

The Group has discontinued recognising its share of result of Beijing Teletron since the Group's share of result of the associate has exceeded its investment in Beijing Teletron. The amount of unrecognised share of the associate, extracted from the summarised financial information in respect of the Group's associate is set out below:

	2011	2010
	HK$'000	HK$'000
Unrecognised share of losses of for the year	**18**	36
Accumulated unrecognised share of losses	**803**	785

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2011	2010
	HK$'000	HK$'000
Cost of investment in an unlisted jointly controlled entity in the PRC	**96,719**	96,719
Share of post acquisition profits	**20,106**	6,492
Share of post acquisition other comprehensive income	**6,388**	3,111
	123,213	106,322

19. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

As at 31 December 2011, the Group had interest in the following jointly controlled entity:

Name	Form of business structure	Place of incorporation and operations	Particulars of paid-up capital	Percentage of effective equity interest attributable to the Group	Principal activity
Changsha Seg	Limited liability company	PRC	Paid up capital RMB35,000,000	44%	Wholesale and retail of IT, digital and electronic products and parts, provision of catering, entertainment services, rental of office premises, and properties management

Included in the cost of investment in the jointly controlled entity as at 31 December 2011 is goodwill of HK$17,909,000 (2010: HK$17,909,000) arising on the acquisition. There are no movements in the goodwill during each of the reporting periods.

The summarised of the audited financial information in respect of the Group's interest in the jointly controlled entity which are accounted for using the equity method is set out below:

	2011 HK$'000	2010 HK$'000
Non-current assets	**282,577**	254,035
Current assets	**10,009**	–
Current liabilities	**(97,580)**	(90,300)
Net assets	**195,006**	163,735
Group's share of net assets of the jointly controlled entity	**105,304**	88,413
Revenue	**18,161**	17,662
Profit for the year	**25,209**	19,481
Other comprehensive income	**6,069**	5,761
Group's share of result and other comprehensive income for the year	**16,891**	13,631

20. GOODWILL

	HK$'000
Cost	
At 1 January 2010	103,001
Deconsolidation of a subsidiary	(103,001)
At 31 December 2010 and 31 December 2011	–
Impairment	
At 1 January 2010	103,001
Deconsolidation of a subsidiary	(103,001)
At 31 December 2010 and 31 December 2011	–
Carrying values	
At 31 December 2011	–
At 31 December 2010	–

21. DEPOSITS PAID FOR ACQUISITION OF PLANT AND EQUIPMENT

	2011 **HK$'000**	2010 HK$'000
Deposits paid	**5,150**	3,121

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets comprise:

	2011 HK$'000	2010 HK$'000
Unlisted investment in funds, at fair value	**16,798**	21,916
Unlisted equity investments in Hong Kong, at cost	**2,500**	2,000
Less: impairment loss recognised	**(240)**	–
	2,260	2,000
	19,058	23,916

The Group's investment in the unlisted equity investments represented 12.5% (2010: 12.5%) equity interest in a Hong Kong private limited company engaged in the retailing of watches and clocks in Hong Kong. On 14 February 2011, the Group acquired an investment at cost of HK$500,000 by cash, represented 5% equity interest in a Hong Kong private company engaged in the investment holding. These investments are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably. Impairment loss of HK$240,000 (2010: Nil) was recognised in the profit or loss during the year ended 31 December 2011.

The Group's unlisted investment in funds are measured at fair value and are classified as Level 2 fair value measurement (see Note 6(b)). Fair value losses of HK$5,118,000 (2010: fair value gain HK$5,479,000) was recognised in other comprehensive income during the year ended 31 December 2011. Unlisted investment in funds that are denominated in currencies other than the functional currency of the relevant group entities is as follows:

	2011 '000	2010 '000
USD	**2,163**	2,819

23. LOAN RECEIVABLES

	2011 HK$'000	2010 HK$'000
Loan receivables arising from loan financing business:		
Secured loan receivables	**204,484**	231,493
Unsecured loan receivables	**207,398**	177,492
Less: impairment loss recognised	**(199,180)**	–
	212,702	408,985
Other loan receivables:		
Amount due from a former subsidiary	**151,980**	151,980
Advance to a former subsidiary	**21,100**	20,000
Other unsecured loan receivables	**3,823**	3,823
	176,903	175,803
Less: impairment loss recognised	**(155,803)**	(155,803)
	21,100	20,000
	233,802	428,985
Analysis into:		
Non-current assets	**–**	20,100
Current assets	**233,802**	408,885
	233,802	428,985

The secured loan receivables arising from loan financing business are secured by listed equity shares, convertible bonds issued by listed companies, unlisted shares and properties located in Hong Kong and bear interest at fixed interest rate ranging from 8% to 14% (2010: 7% to 14%) per annum.

23. LOAN RECEIVABLES *(Continued)*

The unsecured loan receivables arising from loan financing business bear interest at a rate ranging from 5% to 14% (2010: 10% to 14%) per annum. Included in the unsecured loan receivables of HK$133,670,000 (2010: HK$147,820,000) are guaranteed by independent third parties.

Advance to a former subsidiary of HK$21,100,000 (2010: HK$20,000,000) is unsecured, bears interest at 6% per annum and repayable on 31 July 2012. Subsequent to the year end date, the Group entered into a revised loan agreement with this former subsidiary to extend the due date of the loan to 31 July 2013.

The following table illustrates the ageing analysis, based on the loan drawn down date, of the loan receivables (net of accumulated impairment losses) outstanding at the end of the reporting period:

	2011	2010
	HK$'000	HK$'000
Within 3 months	**–**	64,587
More than 3 months but less than 6 months	**13,453**	183,246
More than 6 months but less than 12 months	**64,325**	118,007
More than 12 months	**156,024**	63,145
	233,802	428,985

The Group's financial advances to customers included in the loan receivables are due for settlement at the date specified in the respective loan agreements. Further details on the Group's credit policy are set out in Note 6.

The movement of accumulated impairment losses of the loan receivables during the reporting period is as follows:

	2011	2010
	HK$'000	HK$'000
At 1 January	**155,803**	155,803
Impairment loss recognised	**199,180**	–
At 31 December	**354,983**	155,803

23. LOAN RECEIVABLES *(Continued)*

Included in the above impairment loss recognised at 31 December 2011 was individually impaired loan receivables with a carrying amount of HK$354,983,000 (2010: HK$155,803,000) before impairment. Included in the Group's loan receivables balance are debtors with aggregate carrying amount of HK$53,560,000 (2010: nil) which are past due as at 31 December 2011 for which the Group has not provided for impairment loss. The Group holds securities or charges over properties as collateral over those balances and obtains corporate guarantee by a company listed in Stock Exchange. Management believes that no further impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

During the year ended 31 December 2011, impairment loss on loan receivables of HK$199,180,000 (2010: nil) was recognised in the consolidated statement of comprehensive income. The loan receivables impaired were related to past due loan receivables which management, after taking actions to negotiate with the borrowers, to dispose of the related collaterals and issuing writs to sue for the overdue balances, assessed that the entire amount of the relevant receivables is irrecoverable.

24. CONVERTIBLE INSTRUMENTS DESIGNATED AT FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	notes	2011 HK$'000	2010 HK$'000
Unlisted instrument issued by Hong Kong listed companies			
China Agrotech Holdings Ltd convertible bond ("CAHL")	(a)	–	23,469
New Environmental Energy Holdings Limited ("NEE") convertible bond	(b)	**11,612**	12,678
CEF convertible preference shares	(c)	**12,583**	31,619
		24,195	67,766
Unlisted instrument issued by Hong Kong private companies			
High Step Investment Limited convertible notes	(d)	**37,921**	–
The Incorporation of Financial Technician Limited convertible bonds	(e)	**45,483**	–
		83,404	–
		107,599	67,766

notes

(a) During the year ended 31 December 2009, the Group acquired a two-year 3% coupon rate convertible bond with a principal amount of HK$21,600,000 issued by CAHL, a company listed on the Main Board of the Stock Exchange. The convertible bond can be converted, in an amount of not less than HK$3,000,000, into new ordinary shares of CAHL at any time within a period of two years following the date of issue at a conversion price of HK$0.90 per share. As at 31 December 2010, the Group had investments in the convertible bond of CAHL in principal amount of HK$21,600,000. The fair value of the convertible bond of CAHL in 2010 was HK$23,469,000 as at 31 December 2010. During the year, the bonds were redeemed on 25 July 2011 with the conversion price of HK$22,248,000 including the bonds interest of HK$648,000.

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

(b) During the year ended 31 December 2010, a five-year zero coupon rate convertible bond (the "NEE CBs") with a principal amount of $39,000,000 issued by New Environmental Energy Holdings Limited ("NEE"), a company listed on the Main Board of the Stock Exchange, was transferred to the Group for settlement of a deposit of HK$70,000,000 paid by the Group. The fair value of the NEE CBs at the date of transfer is approximately HK$70,000,000. The NEE CBs can be converted, in an amount of not less than HK$1,000,000, into new ordinary shares of NEE at any time within a period of five years following the date of issue at a conversion price of HK$1.18. During the year ended 31 December 2010, NEE CBs with principal amounts of HK$11,000,000 and HK$12,000,000 were disposed of for a cash consideration of HK$20,400,000 (after related transaction costs) and converted into 10,168,000 shares of NEE at a conversion price of HK$1.18 per share, respectively. The carrying amounts of the relevant batch of NEE CBs at the date of disposal and conversion were HK$19,838,000 and HK$8,196,000, respectively. As at 31 December 2011, the fair value of the remaining NEE CBs with principal amount of HK$16,000,000 was HK$11,612,000 (2010: HK$12,678,000).

(c) During the year ended 31 December 2010, upon the Group lost control over CEF, the Group's investment in the 23,913,000 5-year 3% coupon rate convertible preference shares in CEF (the "CP Shares") was classified as convertible instruments designated at financial assets at FVPTL. The CP Shares can be converted into 10 new ordinary shares of CEF at any time before the maturity date, 5 November 2012. Subsequent to the Group losing control over CEF, during the year ended 31 December 2010, 1,200,000 CP Shares with a carrying amount of approximately HK$5,341,000 were converted into 12,000,000 ordinary shares of CEF. The Group holds 22,713,000 CP Shares at 31 December 2011 and 2010. The fair value of the CP shares was HK$12,583,000 as at 31 December 2011 (2010: HK$31,619,000).

(d) During the year ended 31 December 2011, the Group acquired convertible notes with principal amount HK$30,000,000 which were issued by High Step Investment Limited ("HSI"), a private company incorporated in Hong Kong with limited liability which is engaged mainly in investment holding on luxurious residential house. The conversion price is HK$300,000 per share of HSI. If not previously converted, the convertible notes will be matured on 24 October 2012. The fair value of the convertible notes of HSI as at 31 December 2011 was HK$37,921,000 (2010: nil).

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

(e) During the year ended 31 December 2011, the Group acquired the convertible bonds with principal amount HK$28,000,000 which were issued by The Incorporation of Financial Technician Limited ("IFT"), private company incorporated in Hong Kong with limited liability which is engaged mainly in financial services. The conversion price is HK$0.65 per share of IFT. If not previously converted, the convertible bonds will be matured on 31 October 2012. The fair value of the convertible bonds of IFT as at 31 December 2011 was HK$45,483,000 (2010: nil).

A fair value gain on the convertible bonds, at financial asset designed at financial assets at fair value through profit or loss of approximately HK$5,302,000 in aggregate was recorded for the year ended 31 December 2011 (2010: loss of HK$103,253,000).

The fair values of the convertible instruments designated at financial assets at fair value through profit or loss were valued by Grant Sherman Appraisal Limited ("Grant Sherman") using the binominal option pricing model. The inputs into the model of each convertible bond as at 31 December 2011 and 2010 were as follows:

	2011	2010
NEE		
Stock price	**HK$0.38**	HK$0.73
Conversion price	**HK$1.18**	HK$1.18
Volatility	**39.23%**	46.79%
Dividend yield	**0%**	0%
Option life (years)	**2.94**	3.94
Risk free rate	**0.394%**	1.37%
CEF		
Stock price	**HK$0.55**	HK$1.14
Conversion price	**HK$0.0115**	HK$0.0115
Volatility	**92.91%**	96.86%
Dividend yield	**0%**	0%
Option life (years)	**0.85**	1.85
Risk free rate	**0.145%**	0.56%

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

	2011	2010
HSI		
Stock price*	**HK$609,646**	N/A
Conversion price	**HK$300,000**	N/A
Volatility	**10.4%**	N/A
Dividend yield	**0%**	N/A
Option life (years)	**0.81**	N/A
Risk free rate	**0.245%**	N/A
IFT		
Stock price*	**HK$0.8583**	N/A
Conversion price	**HK$0.65**	N/A
Volatility	**66.52%**	N/A
Dividend yield	**0%**	N/A
Option life (years)	**0.83**	N/A
Risk free rate	**0.245%**	N/A

* The information are extracted from the valuation report performed by Grant Sherman.

25. INVENTORIES

	2011 **HK$'000**	2010 HK$'000
Inventories consisted of:		
Merchandise	–	17,313
Telecommunication and computer telephony hardware products	**646**	156
	646	17,469

As at 31 December 2011, the Group's merchandise is carried at its net realisable value.

During the year ended 31 December 2011, inventories which had been written down to net realisable value in prior years had been sold to an independent third party. As a result, a reversal of write-down of inventories of approximately HK$2,300,000 (2010: nil) is recognised in the profit or loss and included in other income.

26. TRADE RECEIVABLES

	2011 HK$'000	2010 HK$'000
Account receivables	1,115	5,098
Retention receivables	149	258
	1,264	5,356
Less: Impairment loss recognised	(790)	(785)
	474	4,571

The Group normally grants to its customers credit period ranging from 30 days to 180 days. The Group does not hold any collateral over these balances. The following is an aged analysis of trade receivables, net of accumulated impairment loss, presented based on the invoice date at the reporting date.

	2011 HK$'000	2010 HK$'000
Within 90 days	474	4,529
91 – 180 days	–	17
181 – 365 days	–	25
	474	4,571

As at 31 December 2010, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$42,000 (2011: nil) which are past due as at the reporting date and for which the Group has not provided for impairment loss.

26. TRADE RECEIVABLES *(Continued)*

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

	2011 HK$'000	2010 HK$'000
1 to 3 months past due	–	17
Over 3 months past due	–	25
Total	–	42

The Group's neither past due nor impaired trade receivables mainly represent sales made to creditworthy customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience and the financial standings of these customers, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable.

The movements in provision for impairment losses of trade receivables were as follows:

	2011 HK$'000	2010 HK$'000
At 1 January	**785**	928
Provision for the year	**117**	–
Reversal of impairment loss made in prior years	**(112)**	(143)
At 31 December	**790**	785

At the end of each reporting period, the Group's trade debtors were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, individual impairment loss was recognised.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Deposits paid for acquisition of potential investments	**108,795**	41,779
Accumulated impairment loss on the investment deposit paid	**(26,286)**	–
	82,509	41,779
Prepayments	**854**	1,012
Rental and utility deposits	**944**	999
Other receivables	**23,473**	3,619
Deposit with a securities broker	**1,049**	9,649
	108,829	57,058

Management considers that the recoverabiliity of certain deposits paid for acquisition of potential investment is low and impairment loss of HK$26,286,000 (2010: nil) has recognised in profit or loss for the year ended 31 December 2011. Legal action has been taken by the Group in respect of the two deposits paid of HK$32,914,000 in aggregate and HK$20,000,000, details are set out in Note 40.

28. INVESTMENTS HELD FOR TRADING

Investments held for trading consisted of:

	2011 HK$'000	2010 HK$'000
Listed securities held for trading, at fair value		
– Equity securities listed in Hong Kong	**88,124**	202,352
Unlisted investment in funds, at fair value	**3,615**	3,637
	91,739	205,989

28. INVESTMENTS HELD FOR TRADING *(Continued)*

The fair values of the above listed securities and unlisted funds are determined based on the quoted market bid prices available on the relevant exchanges and quoted prices provided by the financial institutions, respectively.

The Group's unlisted investment in funds that are denominated in currencies other than the functional currency of the relevant group entities is as follows:

	2011	2010
	'000	'000
USD	**466**	468

29. BANK BALANCES AND CASH

Bank balances carry interest at market rates at 0.01% (2010: 0.01%) per annum.

The bank balances are deposited with creditworthy banks with no recent history of default.

Included in bank balances and cash are the following amounts which are subject to foreign exchange control regulations or not freely transferable:

	2011	2010
	'000	'000
Amounts denominated in:		
RMB	**1,129**	21,749

The Group's material bank balances that are denominated in currencies other than the functional currency of the relevant group entities is as follows:

	2011	2010
	'000	'000
USD	**140**	780

30. TRADE PAYABLES

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

	2011 HK$'000	2010 HK$'000
Within 60 days	383	324
61 to 120 days	775	24
Over 1 year	47	46
	1,205	394

The average credit period on purchases of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

31. BANK BORROWING

	2011 HK$'000	2010 HK$'000
Secured loans	7,725	–
Carrying amount repayable:		
On demand or within one year	332	–
More than one year but not exceeding two years	703	–
More than two years but not more than five years	1,108	–
More than five years	5,582	–
	7,725	–
Less: Amount due within one year shown under current liabilities	(332)	–
Amount due after one year shown under non-current liabilities	7,393	–

31. BANK BORROWING *(Continued)*

The Group's bank borrowing are all denominated in Hong Kong Dollar. As at 31 December 2011, the bank borrowing were secured by Group's two investment properties with the carrying value of HK$18,600,000 (2010: nil). The bank borrowing bear interest at HIBOR+1.75% per annum. The range of effective interest rates (which are also equal to contracted interest rates) due in the Group's borrowing for the year ended 31 December 2011 are from 1.75% to 1.97%.

32. DEFERRED TAXATION

The following are the major deferred tax liability recognised and movements thereon during the reporting period:

	Fair value changes in investment properties HK$'000
At 1 January 2010	5,665
Charge to profit or loss for the year	2,313
Exchange adjustment	77
At 31 December 2010 and 1 January 2011	8,055
Charge to profit or loss for the year *(Note 11)*	498
Exchange adjustment	278
At 31 December 2011	**8,831**

The tax rate used is 16.5% in 2011 (2010: 16.5%).

33. NON-LISTED WARRANTS

On 10 June 2009, the Company and Fortune (HK) Securities Limited entered into a placing agreement in respect of the placement of 110,000,000 warrants of the Company to independent investors at a price of HK$0.05 per warrant. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.001 each at a subscription price of HK$1.40. Pursuant to the supplement agreement dated 8 September 2009, the warrants price was amended from HK$0.05 to HK$0.03 per warrant and the exercise price was amended from HK$1.40 to HK$0.80 per warrant. The placement was completed on 20 November 2009 with the warrants expiring on 19 November 2012. Details of the above are set out in the Company's announcements dated 10 June 2010, 8 September 2009, 9 November 2009 and 20 November 2009.

No warrant had been exercised during the year ended 31 December 2011 and 2010.

At 31 December 2011, 110,000,000 (2010: 110,000,000) warrants remain outstanding and can be exercised at any time on or before 19 November 2012. Exercise in full of such warrants would result in the issue of approximately 110,000,000 (2010: 110,000,000) additional ordinary shares of HK$0.001 each, which represents 14.00% (2010: 16.32%) of the enlarged share capital of the Company after full exercise of the warrants.

34. SHARE CAPITAL

	Number of shares '000	**Nominal value** HK$'000
Authorised:		
Ordinary shares of HK$0.001 each at 1 January 2010, 31 December 2010 and 31 December 2011	100,000,000	100,000
Issued and fully paid ordinary shares of HK$0.001 each		
At 1 January	563,814	564
Issue of shares on placing *(note)*	112,000	112
At 31 December	675,814	676

note: On 5 May 2011, pursuant to a placing and subscription agreement, the Company entered into with the existing shareholders, the Company placed 112,000,000 new ordinary share of HK$0.001 each in the Company at the price of HK$0.43 per share. Net amount approximately HK$46,960,000 being proceeds of HK$48,160,000 after deducting related expenses of approximately HK$1,200,000, was raised and used as working capital of the Group. The share rank pari passu in all respect with other shares in issue.

35. SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme on 3 May 2000 ("Share Option Scheme"), pursuant to which it may grant options to employees (including executive directors) and consultants of the Group to subscribe for shares in the Company. Pursuant to the Share Option Scheme, options were granted on 30 June 2000 to executive directors and other employees of the Group to subscribe for an aggregate of 19,420,000 shares in the Company at a price of HK$1.30 per share, during the exercise period from 1 July 2003 to 30 June 2010.

Pursuant to resolutions passed at a special general meeting of the shareholders held on 13 November 2002, the Company terminated the Share Option Scheme and adopted a new share option scheme ("New Share Option Scheme") in order to comply with the new requirements of Chapter 23 of GEM Listing Rules effective on 1 October 2001. Under the terms of the New Share Option Scheme, the board of directors of the Company may, at their discretion, grant options to the participants fall within the definition prescribed in the New Share Option Scheme including the employees, non-executive directors of the Company or its subsidiaries etc., to subscribe for shares in the Company at a price determined by the Company's board of directors, and will not be less than the highest of (i) the nominal value of the shares; (ii) the average closing price of the shares quoted on the GEM on the five trading days immediately preceding the date of grant; and (iii) the closing price of the shares quoted on the GEM on the date of grant, subject to a maximum of 10% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue and with an aggregate value (based on the closing price of the shares on the date of grant) in excess of HK$5,000,000 must be approved by the Company's shareholders.

The New Share Option Scheme will remain in force for a period of 10 years from 13 November 2002. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

35. SHARE OPTION SCHEME *(Continued)*

Exercise of share options

No share options had been granted or exercised during the year ended 31 December 2011 and 2010 under the New Share Option Scheme.

Details of the share options outstanding during the year ended 31 December 2011 and 2010 were:

	Date of grant	Exercisable period	Subscription Price per share HK$
Employees	3/4/2007	3/4/2007-2/4/2017	7.35
Consultants	3/4/2007	3/4/2007-2/4/2017	7.35

As at 1 January 2010, 31 December 2010 and 31 December 2011, there were 2,200,000 outstanding share options granted to the employees and the consultants of the Group respectively. No share options were granted or lapsed during each of the reporting periods.

36. COMMITMENTS

Operating leases

The Group as lessor

The Group had contracted with tenants for the following future minimum lease payments:

	2011 HK$'000	2010 HK$'000
Within one year	**1,085**	1,032
In the second to fifth year inclusive	**634**	774
	1,719	1,806

Operating lease receipts represent rentals receivable by the Group for certain of its equipment and investment properties. Leases are negotiated and rentals are fixed for one to five (2010: two) years.

36. COMMITMENTS *(Continued)*

The Group as lessee

The Group had commitments for future minimum lease payments in respect of premises under various non-cancellable operating leases which fall due as follows:

	2011 **HK$'000**	2010 HK$'000
Within one year	**2,580**	2,201
In the second to fifth year inclusive	**1,093**	2,033
	3,673	4,234

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Leases are negotiated and rentals are fixed for an average of three years.

Capital commitments

	2011 **HK$'000**	2010 HK$'000
Capital expenditure contracted but not provided for	**288**	2,391

37. RETIREMENT BENEFITS SCHEMES

The Group maintains various retirement schemes for its employees. The retirement scheme for employees of the PRC representative office is a mandatory central pension scheme organised by the PRC government, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries are charged as expenses when the employees have rendered services entitling to them to the contribution. The employer contributions vest fully once they are made. The Group's Hong Kong employees are covered by the mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each make monthly contributions to the scheme at 5% of the employees' income with the maximum contribution by each of the Group and the employees limited to HK$1,000 per month.

During the year, the aggregate contributions made by the Group to the retirement schemes were approximately HK$557,000 (2010: HK$306,000). There were no material forfeitures available to offset the Group's future contributions for the two years ended 31 December 2011 and 2010.

38. RELATED PARTY TRANSACTIONS

(a) Compensation of directors and key management personnel

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

	2011	2010
	HK$'000	HK$'000
Short-term benefits	**7,389**	5,659
Post-employment benefits	**79**	60
	7,468	5,719

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

(b) Save as disclosed elsewhere in these consolidated financial statements, the Group had not entered into any significant related party transactions during the two years ended 31 December 2011 and 31 December 2010.

39. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 December 2011:

(a) Loan receivable of HK$7,000,000 was settled by certain listed shares with fair value of HK$7,000,000 by the borrower.

For the year ended 31 December 2010:

(a) As disclosed in Note 24(b), deposit of HK$70,000,000 as at 31 December 2009 was settled by the NEE CBs.

(b) Convertible bonds of Asia Energy Logistics Group Limited ("AELG") with a carrying amount of HK$18,219,000 was converted into 100,000,000 new ordinary shares of AELG.

(c) As disclosed in Note 24(b), NEE CBs with a carrying amount of HK$8,196,000 was converted into 10,168,000 new ordinary shares of NEE.

(d) As disclosed in Note 24(c), 1,200,000 CP Shares with a carrying amount of HK$5,431,000 was converted into 12,000,000 new ordinary shares of CEF.

40. LITIGATION

Up to the reporting date, the litigations listed below are related to the Group.

(i) On 11 November 2011, Charm State International Limited ("Charm State") an indirectly held wholly-owned subsidiary of the Company, entered into a provisional sales and purchases agreement with Worldsky Limited ("Worldsky"), an independent third party, in relation to the acquisition of a property located in House 42 and garden space adjoining thereto, Strawberry Hill Phase II, No. 8 Plunkett's Road, the Peak at a consideration of HK$170,980,000. The deposits in aggregate of HK$25,500,000 and stamp duty of HK$7,200,000 were paid by the Group in November 2011.

Pursuant to the agreement, as the proposed acquisition was not approved by shareholders of the Company at the special general meeting held on 9 January 2012. The transaction was then lapsed. Worldsky Limited shall return Charm State the deposit paid upon signing of a cancellation agreement. However, Worldsky Limited failed to sign the cancellation agreement and return the deposit.

40. LITIGATION *(Continued)*

The Group announced on 1 March 2012 that, Charm State had issued a writ of summons in the Court of First Instance of the High Court of Hong Kong against Worldsky Limited, claiming for refund of the deposit paid in the sum of HK$25,647,000 in aggregate and the sum of HK$7,267,000 being stamp duty paid. For more details, please refer to the announcement on 1 March 2012.

The directors of the Company, after consider the legal advice rendered to the Charm State, are of the opinion that the Group has a good prospect of success in the merit of the claims of Charm State. Relevant deposit of HK$32,914,000 was included in the deposits paid for acquisition of potential investments (Note 27) and, no impairment is considered necessary by the directors of the Company to be recognised in profit or loss for the year ended 31 December 2011.

(ii) On 7 September 2011, King Perfection Limited ("King Perfection"), an indirectly held wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Peak Prosper Holdings Limited ("PPH"), an independent third party, for a conditional purchase of the convertible bonds in the principal amount of HK$110,040,000, which are convertible into 70 shares in the share capital of Precise Billion Limited ("PBL"), a wholly owned subsidiary of PPH, for a total consideration of HK$220,000,000. Deposit on HK$20,000,000 was paid by the Group to PPH in September 2011.

However, the conditions of the agreement had not been fulfilled before the long stop date and PPH is entitled to the refund of the deposit paid pursuant to the agreement.

On 2 February 2012, King Perfection duly presented a cheque to the Group for payment but the cheque was subsequently found to be dishonoured.

After servicing the notice of the said dishonour to PPH and thereby demanding the payment with no reply, on 9 March 2012, King Perfection and the Group issued a writ of summons in the Court of First Instance of Hong Kong against PPH, claiming for the refund of the deposit in the sum of HK$20,000,000. Management considers that the recoverability of the deposit paid is low and impairment loss on the full amount of the deposit paid was made of HK$20,000,000 as at 31 December 2011 (Note 27).

For more details, please refer to the announcement on 9 March 2012.

40. LITIGATION *(Continued)*

(iii) On 28 March 2012, Fameway Finance Limited ("Fameway"), a wholly-owned subsidiary of the Group, issued writ of summons in the High Court of Hong Kong against certain borrowers, claiming for on repayment of the loan receivables of HK$199,180,000 as at 31 December 2011. Management considers that the recoverability of the loan receivables is low and impairment loss of HK$199,180,000 was recognised in profit and loss for the year ended 31 December 2011 (Note 23).

41. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2010

On 11 November 2010, the Group disposed of Fortune Business Group Limited ("Fortune Business") and its subsidiaries to Fortune Financial (Holdings) Limited, an independent third party, in consideration of HK$10,000.

The consolidated net liabilities of Fortune Business at the date of disposal was as follows:

Net liabilities disposed of:

	HK$'000
Prepayments, deposits and other receivables	12
Accruals and other payables	(40)
	(28)
Gain on disposal	38
Total consideration	10
Satisfied by:	
Cash and net cash inflow arising on disposals	10

The disposal of the subsidiaries did not result in significant impact on the Group's cash flows or operating results for the year ended 31 December 2010.

42. DECONSOLIDATION OF A SUBSIDIARY

On 28 January 2010, the Group lost control over CEF and CEF was deconsolidated subsequent thereto.

The consolidated net assets of CEF at the date control was lost were as follows:

	HK$'000
Net assets disposed of:	
Assets classified as held for sale*	28,444
Goodwill	–
Liabilities directly associated with assets classified as held for sale	(3,859)
Non-controlling interests	(2,657)
	21,928
Gain on deconsolidation	414,302
	436,230
Satisfied by:	
Investments held for trading**	239,088
Convertible instruments designated at financial assets at FVTPL***	106,437
Loan receivables from CEF	12,000
Cash consideration	78,705
	436,230

* Included bank balances and cash of HK$23,985,000.
** Being market value of the shares at 28 January 2010.
*** The fair value of the instruments were appraised by Grant Sherman using the binominal option pricing model with the following inputs:

Stock price	HK$0.4450
Conversion price	HK$0.0115
Volatility	99.59%
Dividend yield	0%
Option life (years)	2.77
Risk free rate	0.949%

	HK$'000
Net cash inflow arising on deconsolidation:	
Cash consideration	78,705
Bank balances and cash disposal of	(23,985)
	54,720

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 HK$'000	2010 HK$'000
Non-current assets		
Investments in subsidiaries	4,502	8,002
Current assets		
Prepayments, deposits and other receivables	462	448
Amounts due from subsidiaries*	339,307	1,023,114
Investments held for trading	4,047	4,247
Bank balances and cash	9,813	6,037
	353,629	1,033,846
Current liabilities		
Other payables and accruals	1,019	963
Amounts due to subsidiaries*	17,089	2,588
Secured bank loan – current portion	332	–
	18,440	3,551
Net current assets	335,189	1,030,295
Non-current liabilities		
Secured bank loan – non-current portion	7,393	–
Net assets	332,298	1,038,297
Capital and reserves		
Share capital	676	564
Reserves	331,622	1,037,733
Total equity	332,298	1,038,297

* Unsecured, interest-free and repayable on demand.

44. SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2011 are as follows:

Name	Place of incorporation/ operations	Class of shares held	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Asiaciti Management Limited	Hong Kong	Ordinary	HK$100	100%	Investment holdings
Best Core International Limited	British Virgin Islands ("BVI")	Ordinary	USD1,000	100%	Holding of investment properties
Fameway Finance Limited	Hong Kong	Ordinary	HK$1	100%	Provision of financing services
First Champion Worldwide Limited	BVI	Ordinary	USD1,000	100%	Trading of securities
Forever Success International Limited	Hong Kong	Ordinary	HK$1	100%	Provision of management services
Gold Wide Holdings Limited	Hong Kong	Ordinary	HK$160,000	75%	Investment holdings
Luck Bloom International Limited	Hong Kong	Ordinary	HK$1	100%	Cash management
Proactive Technology Limited	Hong Kong	Ordinary	HK$1,000,000	100%	Provision of telecommunications and computer telephony solutions
Top Status International Limited	BVI	Ordinary	USD1	100%	Investment holdings
深圳市盛世富強科技有限公司*	PRC	Ordinary	USD5,000,000 (2010: USD3,000,000)	100%	Investment in properties for rental income purpose

44. SUBSIDIARIES *(Continued)*

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

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

* 深圳市盛世富強科技有限公司 is a wholly foreign owned enterprise.

45. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the financial statements, the Group had the following events after the reporting period.

(i) On 20 January 2012, Sina Winner Investment Limited (the "Sina Winner"), an indirect wholly-owned subsidiary of the Group, entered into an agreement with the vendor, Ng Wai Huen, an independent third party, pursuant to which Sina Winner agreed to acquire and the vendor agreed to sell the sale shares, being 30% of the entire issued share capital of Fortune Lead Holdings Limited (the "Fortune Lead") for a consideration of HK$40,000,000. The consideration was settled by way of issuance of promissory note by Sina Winner to vendor.

The principal amount of promissory note is HK$40,000,000 with no interest bearing. The repayment shall take place on the fifth business day following the satisfaction or fulfillment of the above conditions precedent above in any event no later than 10 January 2013. The promissory note is not transferable. The acquisition was completed on 31 January 2012.

Details of the acquisition were set out in the Group's announcements dated 26 January 2012 and 31 January 2012.

45. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(ii) On 12 March 2012, Top Status International Limited ("Top Status"), an indirect wholly owned subsidiary of the Group, entered into the placing agreement among CEF and the Placing Agent for the purchase of up to 280,000,000 shares owned by Top Status, representing approximately 11.55% of the issued share capital of CEF with the placing share price of HK$0.068, per share of CEF.

On the same day, a subscription agreement was entered into between Top Status and CEF. CEF has agreed to allot and issue and Top Status has agreed to subscribe for up to 280,000,000 new shares with aggregate nominal value of HK$2,800,000, representing approximately 11.55% of the issued share capital of CEF with the placing share price of HK$0.068, per share of CEF.

Further details of the share placing and share subscription were set out in the Group's announcement dated 13 March 2012.

(iii) On 14 March 2012, the Company entered into a supplemental placing agreement with the placing agent to amend the placing period and placing price in respect of the placing of 135,000,000 new shares under generate mandate.

Further details of the share placing and share subscription were set out in the Company's announcement dated 14 March 2012.

(iv) On 26 March 2012, Best Marvel Investment Limited ("Best Marvel"), a wholly-owned subsidiary of the Group, and Sun Famous Investment Limited ("Sun Famous"), an independent third party, entered into a subscription agreement pursuant to which Sun Famous agreed to issue and Best Marvel agreed to subscribe for the subscription shares at the subscription price of HK$999 per share. Upon completion of the subscription, 999 subscription shares will be allotted and issued to Best Marvel, representing 99.9% of the enlarged issued share capital of Sun Famous.

Best Marvel has agreed to make available to Sun Famous a loan in the principal amount of HK$7,000,000, subject to the terms and conditions of the loan agreement.

Further details of subscription agreement and loan agreement were set out in the Company's announcement dated 26 March 2012.

(v) Subsequent to the balance sheet date, the Group has issued writs of summons in the Court of First Instance of High Court of Hong Kong claiming for repayment of certain deposits and loan receivables. Details are set out in Note 40.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**94,752**	68,435	8,916	21,856	11,338
Revenue	**49,252**	36,766	8,916	21,856	11,338
Cost of sales	**(4,067)**	(4,127)	(3,104)	(14,984)	(5,742)
Gross profit	**45,185**	32,639	5,812	6,872	5,596
Other income and gains	**3,888**	2,203	4,685	28,625	26,529
Distribution and selling expenses	**(18)**	(23)	(20)	(28)	(25)
Administrative expenses	**(48,198)**	(33,406)	(36,424)	(61,961)	(100,835)
Gain on disposal of an investment property	**880**	14,610	15,123	–	–
Fair value changes in investment properties	**5,695**	12,840	27,432	–	–
Loss arising from fair value changes of investments held for trading	**(100,151)**	(137,021)	(13,048)	–	–
Loss on disposal of investments held for trading	**(23,709)**	(18,746)	–	–	–
(Loss) gain on disposal of convertible instruments designated at financial assets at fair value through profit or loss	**(1,869)**	562	–	–	–

FIVE-YEAR FINANCIAL SUMMARY

RESULTS *(Continued)*

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Gain (loss) arising from fair value changes of convertible instruments designated at financial assets at fair value through profit or loss	**5,302**	(103,253)	17,529	–	–
Gain on deconsolidation of a subsidiary	**–**	414,302	–	–	–
Impairment loss on goodwill	**–**	–	–	(103,001)	(1,621,794)
Impairment loss on loan receivables	**(199,180)**	–	–	(151,980)	–
Impairment loss on investment deposits paid	**(26,286)**	–	–	–	–
Gain on disposal of subsidiaries	**–**	–	205	–	–
Gain on disposal of an associate	**–**	–	94	–	–
Other expenses	**–**	(2,300)	(3,823)	–	–
Share of result of an associate	**–**	–	(23)	–	–
Share of result of a jointly controlled entity	**13,614**	10,520	(4,028)	–	–
Finance costs	**(224)**	–	(3)	(22)	(108)
(Loss) profit before tax	**(325,071)**	192,927	13,511	(281,495)	(1,690,637)
Income tax expense	**(603)**	(12,727)	(8,084)	(83)	–
Loss for the year from discontinued operations	**–**	–	(10,872)	–	–
(Loss) profit for the year	**(325,674)**	180,200	(5,445)	(281,578)	(1,690,637)
Attributable to:					
Owners of the Company	**(328,184)**	178,252	(5,512)	(281,578)	(1,690,637)
Non-controlling interests	**2,510**	1,948	67	–	–
	(325,674)	180,200	(5,445)	(281,578)	(1,690,637)

ASSETS AND LIABILITIES

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	**309,932**	286,584	266,666	46,077	158,813
Total current assets	**587,192**	875,315	695,135	875,724	968,460
Total current liabilities	**21,716**	19,282	11,263	(17,081)	(4,752)
Total non-current liabilities	**16,224**	8,055	5,665	–	(654)
Equity attributable to owners of the Company	**838,865**	1,117,360	927,538	904,720	1,121,867
Non-controlling interest	**20,319**	17,202	17,335	–	–

SUMMARY OF INVESTMENT PROPERTIES

Address	Lot number	Tenure	Existing use
PRC			
The Whole of 33rd Floor, Shidai-Caifu Building, Futian District, Shenzhen City, Guangdong Province, The PRC	–	Medium-term lease (A term of 50 years expiring on 25 June 2050)	Commercial Office
G17102-16, Shui Tou Sha Village, Nanao Town, Longgang District, Shenzhen, The PRC	–	Medium-term lease (A term of 50 years expiring on 1 January 2043)	Residential