中國農業生態有限公司

China Eco-Farming Limited

(Continued into Bermuda with limited liability)
(Stock Code: 8166)

ANNUAL REPORT 2012

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

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

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

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

This report will remain on the Company's website at http://www.aplushk.com/clients/8166chinaeco-farming/index.html and the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Tsang Chi Hin *(Chief Executive)*
Mr. Chu Yu Man, Philip

Independent Non-executive Directors

Mr. Chau Chi Ming
Mr. Cheung Tak Shum
Mr. Lau Tin Cheung

AUTHORISED REPRESENTATIVES

Mr. Tsang Chi Hin
Mr. Chu Yu Man, Philip

AUDIT COMMITTEE

Mr. Chau Chi Ming *(Chairman)*
Mr. Cheung Tak Shum
Mr. Lau Tin Cheung

NOMINATION COMMITTEE

Mr. Tsang Chi Hin *(Chairman)*
Mr. Chau Chi Ming
Mr. Cheung Tak Shum
Mr. Lau Tin Cheung

REMUNERATION COMMITTEE

Mr. Cheung Tak Shum *(Chairman)*
Mr. Chau Chi Ming
Mr. Lau Tin Cheung

COMPLIANCE OFFICER

Mr. Tsang Chi Hin

COMPANY SECRETARY

Ms. Lo Oi Lan

AUDITORS

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1301, 13/F., The Centre Mark,
287-299 Queen's Road Central,
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street, Hamilton HM11,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

GEM STOCK CODE

8166

WEBSITE ADDRESS

www.aplushk.com/clients/8166chinaeco-farming/index.html

Profile of the Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tsang Chi Hin ("Mr. Tsang") (曾志謙先生), aged 54, was appointed as an executive Director on 30 September 2008 and the chief executive of the Company on 13 October 2008. Mr. Tsang is also the chairman of the nomination committee of the Company and a director of the subsidiaries of the Company. Mr. Tsang holds a bachelor degree in economics and a higher certificate in electronic engineering with over 25 years of experience in telecommunications and electronic industries. Mr. Tsang started his marketing career in 1984. He then joined Hongkong Telecom as a consultant in marketing data communication services in 1987 and his last position in Hongkong Telecom was account director.

Save as disclosed above, Mr. Tsang is not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company. Mr. Tsang does not hold any other position in the Company or its subsidiaries and does not hold any directorships in other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the date of this report, Mr. Tsang is not interested or deemed to be interested in any shares or underlying shares of the Company pursuant to Part XV of the Securities and Futures Ordinance ("SFO").

Mr. Chu Yu Man, Philip ("Mr. Chu") (朱裕民先生), aged 55, was appointed as an executive Director on 30 September 2008. He is also a director of the subsidiaries of the Company. Mr. Chu has over 28 years of extensive experience in the sales and development of electronic and telecommunication products. Mr. Chu previously served as the sales and marketing director for a United States of America based company which was then engaged in businesses in United States of America, Europe and the People's Republic of China.

Save as disclosed above, Mr. Chu is not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company. Mr. Chu does not hold any other position in the Company or any of its subsidiaries and does not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the date of this report, Mr. Chu is not interested or deemed to be interested in any shares or underlying shares of the Company pursuant to Part XV of the SFO.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Chi Ming ("Mr. Chau") (鄒志明先生), aged 49, was appointed as an independent non-executive Director on 12 May 2010. Mr. Chau is also the chairman of audit committee, members of remuneration committee and nomination committee of the Company. Mr. Chau holds a bachelor degree in business administration, majoring in finance. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Chau is currently a director, finance and treasury of Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), responsible for daily financial management and treasury functions. Mr. Chau had 10 years of corporate banking experience before joining Yue Yuen in 1993.

Save as disclosed above, Mr. Chau is not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company. Mr. Chau does not hold any other positions in the Company or any of its subsidiaries and does not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the date of this report, Mr. Chau is not interested or deemed to be interested in any shares or underlying shares of the Company pursuant to Part XV of the SFO.

Profile of the Directors and Senior Management

Mr. Cheung Tak Shum ("Mr. Cheung")（張德深先生）, aged 55, was appointed as an independent non-executive Director on 30 September 2008. Mr. Cheung is also the chairman of the remuneration committee, members of the audit committee and the nomination committee of the Company. Mr. Cheung holds a diploma in sociology and has over 23 years of experience in trading of engineering and related chemical products in the People's Republic of China.

Save as disclosed above, Mr. Cheung is not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company. Mr. Cheung does not hold any other positions in the Company or any of its subsidiaries and does not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the date of this report, Mr. Cheung is not interested or deemed to be interested in any shares or underlying shares of the Company pursuant to Part XV of the SFO.

Mr. Lau Tin Cheung ("Mr. Lau")（劉天祥先生）, aged 49, was appointed as an independent non-executive Director on 30 December 2008. Mr. Lau is also the member of the audit committee, the nomination committee and the remuneration committee of the Company. He has been educated and worked in Hong Kong and United Kingdom. He holds a bachelor of engineering degree at the University of Nottingham and a master of science degree in structural engineering at the University of Manchester Institutional of Science and Technology. Mr. Lau has over 22 years of experience in investment and project management of public and private companies in Hong Kong and the People's Republic of China. He was the investment director of Tianjin Development Holdings Limited (a company listed on the main board of the Stock Exchange).

Save as disclosed above, Mr. Lau is not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company. Mr. Lau does not hold any other positions in the Company or any of its subsidiaries and does not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the date of this report, Mr. Lau is not interested or deemed to be interested in any shares or underlying shares of the Company pursuant to Part XV of the SFO.

SENIOR MANAGEMENT

Mr. Lam Raymond Shiu Cheung ("Mr. Lam")（林兆昌先生）, the deputy chief executive officer of the Company, aged 47, graduated from the Victoria University of Melbourne, Australia, with a bachelor of business degree majoring in banking and finance. He also earned a master degree in applied finance from the Macquarie University of Australia. Mr. Lam has 21 years extensive experience in business development and corporate finance. He started his career in corporate banking, he then joined one of the biggest oil companies in the United States of America specializing in the area of business development. Mr. Lam is currently an independent non-executive director of Chinese Food and Beverage Group Limited (Stock code: 8272) and China Assurance Finance Group Limited (Stock code: 8090), both of the companies are listed on GEM of the Stock Exchange. He is also an independent non-executive director of the HongKong Building and Loan Agency Limited (Stock code: 145), a company listed on the main board of the Stock Exchange. He was an independent non-executive director of China Oriental Culture Group Limited (Stock code: 2371) for the period from January 2008 to September 2010, a company listed on the main board of the Stock Exchange.

Management Discussion and Analysis

BUSINESS OVERVIEW

The Company and its subsidiaries (collectively, the "Group") is principally engaged in the health care services, trading of ceramic products, property investment and the one-stop value chain services.

Amid the global economic uncertainties including the sovereign debt crisis in the eurozone and uncertain outlook for the U.S. economy, as well as keen competition in the markets in Hong Kong and the People's Republic of China ("PRC"), the Group recorded a revenue of approximately HK$20,798,000 (2011: HK$27,223,000) for the year ended 31 December 2012, representing a decrease of approximately 23.60% as compared to that of last year. For the year ended 31 December 2012, loss for the year and total comprehensive expense for the year amounted to approximately HK$21,046,000 (2011: HK$12,658,000), representing an increase of approximately 66.27% as compared to that of last year; and the basic loss per share of the Company was approximately HK0.79 cent (2011: HK0.52 cent). The Group had adopted a positive, but prudent approach in evaluating business opportunities in Hong Kong and the PRC which, as transpired, has been important in preserving the competitiveness of the Group and in alleviating adverse impact brought by market volatility and economic uncertainty.

Health Care Services

In respect of the management of health care services business for the year ended 31 December 2012, this business segment reported a revenue of approximately HK$17,834,000 (2011: HK$18,644,000) and a segment loss of approximately HK$4,835,000 (2011: a segment profit of approximately HK$3,309,000). The increase in loss was due to increase in rental expenses and the unstable economic environment affected the consumer's spending. The Board is putting more resources on marketing and promotion, and expanding the beauty, facial and skincare services in order to broaden the customer base so as to boost the revenue and increase profit margin.

Trading of Ceramic Products

In the fourth quarter of 2011, the Group started its trading of ceramic products in Macau. This new business segment reported a revenue of approximately HK$2,745,000 (2011: HK$5,776,000) and a segment loss of approximately HK$308,000 (2011: a segment profit of approximately HK$722,000) for this year.

The Group's current strategy and business plan is to put more resources to strengthen its current sales and marketing teams and to maintain good and close relationship with valuable customers. In addition, the Group endeavors to foster long-term co-operation with a number of suppliers in order to ensure a steady supply and better quality control for the products it delivers. By leveraging on the above strategies and established strengths and experience, the Group continues to grasp opportunities to meet the needs of markets, to explore new markets and to increase profit margin.

Property Investment

At 31 December 2012, the Group held properties in Hong Kong for investment purpose with carrying value of approximately HK$7,420,000 (2011: HK$11,500,000).

During the year, this business segment reported a rental income of approximately HK$219,000 (2011: HK$402,000), such decrease as to the rent arrears. A net increase in fair value of investment properties of approximately HK$1,320,000 (2011: HK$730,000) as a result of the property revaluation conducted by an independent professional valuer at the end of the year of 2012. A segment profit of approximately HK$1,509,000 (2011: HK$1,058,000) was recorded for this year. As the recent tenancy agreement was expired in early March 2013, the Group has been proactively identifying reliable tenants for enhancing its source of rental income. Given increase in demand of the property market in Hong Kong, the Board is confident that the rental income will continue to benefit from the growth trend.

One-stop Value Chain Services

The IT and telecommunications business of the Group has not generated any revenue for this year (2011: HK$2,401,000). This segment reported a loss of approximately HK$1,095,000 (2011: HK$1,323,000) for this year. This was mainly due to global economic downturns, fast changing technologies of the industry and keen competition among players in the PRC.

The keen competition in the manufacturing market in Hong Kong and the PRC always results in low profit margin. This together with the escalating operating costs and the need for capital expenditure pose high threats to the profitability and viability of the existing business. Therefore, the operation of this business segment has not generated any revenue for the year ended 31 December 2012. The Group will continue to take the appropriate steps to find the business opportunities in this business segment.

FINANCIAL REVIEW

For the year ended 31 December 2012, the Group recorded a revenue of approximately HK$20,798,000 (2011: HK$27,223,000), representing a decrease of approximately 23.60% as compared to that of last year. This decrease was mainly due to no revenue generated from one-stop value chain services and decrease in revenue from trading of ceramic product in 2012.

Cost of sales for the year under review was approximately HK$18,012,000 (2011: HK$22,112,000), representing a decrease of approximately 18.54% as compared to that of last year. This decrease was in line with the decrease in revenue for the year.

Administrative expenses for the year under review was approximately HK$21,465,000 (2011: HK$16,749,000), representing an increase of approximately 28.16% as compared to that of last year. This increase was mainly due to increase in professional fee and rental expenses.

Finance costs for the year under review was approximately HK$3,462,000 (2011: HK$1,739,000), representing an increase of approximately 99.08% as compared to that of last year. This increase was mainly due to an effective interest expense on convertible bond incurred for the year ended 31 December 2012 and the increase in interest expense arising on bank loans and other loans.

The Group recorded a loss attributable to owners of the Company in the amount of approximately HK$21,046,000 (2011: HK$12,658,000), representing an increase of approximately 66.27% as compared with last year. As a result, basis loss per share of the Company increased from HK0.52 cent for the year ended 31 December 2011 to HK0.79 cent for the year ended 31 December 2012.

Liquidity and Financial Resources

The Group financed its business operations mainly with its internally generated resources and borrowings during the year under review. At 31 December 2012, the bank balances and cash of the Group was approximately HK$79,000 (2011: HK$662,000).

At 31 December 2012, the net liabilities of the Group was approximately HK$17,398,000 (2011: HK$17,427,000) and the net current liabilities was approximately HK$25,292,000 (2011: HK$28,174,000).

Gearing Ratio

At 31 December 2012, the total liabilities of the Group amounted to approximately HK$31,098,000 (2011: HK$38,019,000), which mainly comprised of other payables and accruals, amounts due to a shareholder and a former fellow subsidiary, loans from a shareholder and a former fellow subsidiary and borrowings. All of these borrowings are denominated in Hong Kong dollars. The Group's banking facilities were secured by investment properties held by the Group with a carrying value of approximately HK$7,420,000 (2011: HK$11,500,000) at 31 December 2012.

At 31 December 2012, the Group had total assets of approximately HK$13,700,000 (2011: HK$20,592,000). The gearing ratio of the Group, expressed as the ratio of total liabilities to total assets, increased to 2.27 as at 31 December 2012 (2011: 1.85).

Segmental Information

An analysis of the Group's performance for the year by business segment is set out in Note 8 to the consolidated financial statements.

Employees and Remuneration Policies

As at 31 December 2012, the Group had 16 (2011: 13) full-time employees in Hong Kong. Staff costs, including directors' emoluments of the Company for the year ended 31 December 2012 were approximately HK$6,315,000 in total (2011: HK$5,738,000). The Group determines the remuneration and compensation payable to its staff based on individual performance and expertise. Apart from basic remuneration, share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution. Other benefits include retirement schemes.

Capital Structure

As at 31 December 2012, the Company's issued ordinary share capital was HK$29,317,301.20 divided into 2,931,730,120 shares of HK$0.01 each ("Shares") (2011: HK$24,245,996.90 divided into 2,424,599,690 Shares).

Convertible Preference Shares

During the year ended 31 December 2012, 227,130,430 ordinary shares of HK$0.01 each were issued pursuant to the conversion of the convertible preference shares at a conversion price of HK$0.0115 per share and all the convertible preference shares are fully converted thereafter.

Convertible Bonds

Reference is made to the announcements of the Company dated 31 January 2012, 21 February 2012, 5 March 2012, 20 March 2012, 3 April 2012, 23 April 2012, 7 May 2012, 14 May 2012, 21 May 2012, 20 June 2012, 9 July 2012 and the circular of the Company dated 28 May 2012 (the "Circular") in relation to, inter alia, the subscription of Exchangeable Bond in principal amount of HK$18 million.

Reference is also made to the announcements of the Company dated 1 November 2012, 16 November 2012 and 8 January 2013 in relation to, inter alia, the lapse of the very substantial acquisition (the "Announcements"). Unless otherwise stated, capitalised terms used above and herein shall have the same meanings as defined in the Announcements and the Circular.

In accordance with the Convertible Bond Instrument, the Company shall redeem the Convertible Bonds if (i) the Revised Option is not exercised by the Subscriber or if the Revised Option lapses, or (ii) the Issuer redeems the Exchangeable Bond. On 28 December 2012, the Revised Option lapsed thereafter the Company has early redeemed the Convertible Bonds.

Fund Raising Activities

Placing of Existing Shares and Subscription of New Shares

On 12 March 2012, Top Status International Limited (the "Vendor"), the Company and FT Securities Limited (as the placing agent) entered into a placing agreement with respect to the placing of up to 280,000,000 existing Shares owned by the Vendor at the placing price of HK$0.068 per Share (collectively, the "Placing"). Also, on the same day, the Vendor (as the subscriber) and the Company (as the issuer) entered into a subscription agreement with respect to the subscription of such number of new Shares which is equivalent to the number of the Shares actually placed by the Vendor under the Placing, at the subscription price of HK$0.068 per Share (collectively, the "Subscription"). Both the Placing and the Subscription were completed on 19 March 2012. The 280,000,000 existing Shares were fully placed to not less than six placees and 280,000,000 new Shares were issued to the Vendor. The net proceeds are approximately HK$18.4 million, out of which HK$5 million was used for the repayment of a loan and the remainder of approximately HK$13.4 million is for the general working capital of the Group. For details, please refer to the announcements of the Company dated 13 March 2012 and 19 March 2012 respectively.

Placing of Convertible Bonds

On 12 March 2012, the Company (as the issuer) entered into a conditional placing agreement with FT Securities Limited (as the placing agent) with respect to the placing of convertible bonds up to the principal amount of HK$20,000,000 due on 31 December 2015. Assuming all the convertible bonds are placed and their conversion rights are exercised in full, a maximum of 200,000,000 new Shares will be issued at the initial conversion price of HK$0.10 per Share, the maximum gross and net proceeds will be approximately HK$20 million and HK$19.4 million respectively. The Company intends to use the proceeds towards the general working capital of the Group. For details, please refer to the announcements of the Company dated 13 March 2012 and 11 May 2012. On 30 November 2012, the Company was informed by the placing agent that the placing had not been successfully completed on or before 30 November 2012, being the expiry date of the placing period for the fulfillment of the conditions in the conditional placing agreement. Accordingly, the conditional placing agreement lapsed. For details, please refer to the announcement of the Company dated 30 November 2012.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

Major Transaction in relation to the Subscription of Exchangeable Bond in Principal Amount of HK$18 million

On 20 January 2012, the Company, Prima Target Limited (the "Subscriber", a wholly-owned subsidiary of the Company) and Lion Legend Holdings Limited (the "Issuer") entered into the subscription agreement (as amended and supplemented by the supplement agreements dated 20 March 2012, 20 April 2012, 21 May 2012 and 20 June 2012 respectively) (collectively referred to as the "Subscription Agreement") with respect to the subscription of the Exchangeable Bonds in principal amount of HK$18,000,000. The subscription price shall be satisfied by the Company by way of issuance of the convertible bonds in the principal amount of HK$18,000,000 convertible into 480,000,000 new Shares at the conversion price of HK$0.0375 per Share (collectively, the "Subscription").

The Exchangeable Bonds shall be exchangeable for one share in Kingbridge Investment Limited ("KBI"), representing 10% of the existing issued share capital of KBI. The principal asset of KBI is its 67.11% interest in 兆峰陶瓷(北京)潔具有限公司 (Siu Fung Ceramics (Beijing) Sanitary Ware Company Limited*) ("Siu Fung"), a company incorporated in the PRC with limited liability, which is principally engaged in the manufacturing and trading of ceramic sanitary ware and accessories mainly in the PRC. Furthermore, upon completion of the Subscription, the Issuer shall grant to the Subscriber, at a nominal consideration of HK$1.00, an option to acquire from the Issuer all the remaining 90% equity interest in KBI, and the entire issued share capital of Hillmond International Holdings Limited, the legal and beneficial owner of 10.89% interest in Siu Fung. The exercise price of the option shall be satisfied by the Company by issuance of convertible bonds that are convertible into not more than 9,000,000,000 new Shares but not less than 71% of the entire issued share capital of the Company on the prescribed enlarged basis as set out in the Subscription Agreement.

The Subscription constitutes a major transaction for the Company and is subject to the approval of the shareholders of the Company. On 13 June 2012, the Company held a special general meeting (the "SGM") and in the SGM the ordinary resolution to ratify, confirm and approve the Subscription Agreement and the transactions contemplated thereunder and to authorise directors of the Company to do all such acts and thing and execute all such documents necessary to give effect to the Subscription Agreement and the transactions contemplated thereunder was duly passed by the shareholders of the Company by way of poll. With all the conditions of the Subscription Agreement having been fulfilled, the Subscription was completed on 9 July 2012. At completion, the Issuer issued to the Subscriber the exchangeable bonds in the principal amount of HK$18,000,000 and granted the Subscriber the option to acquire from the Issuer all (but not part of) the remaining asset.

On 31 October 2012 (after trading hours), the Company, the Issuer and the Subscriber entered into the fifth supplemental agreement (as supplemented by sixth supplemental agreement dated 20 November 2012) (collectively, the "Supplemental Agreement") to vary certain terms of the option (the "Revised Option") granted to the Subscriber in relation to, inter alia, the following key revisions: (i) upon exercising the Revised Option, the Subscriber shall acquire from the Issuer 5 KBI shares, at HK$192 million (the "Option Exercise Price"); (ii) the Option Exercise Price shall be the aggregate sum of HK$192 million, which shall be settled by the Subscriber and the Company in the ways of (a) HK$32 million of the Option Exercise Price to be settled by the Company's issuance and allotment of 800,000,000 new Shares at the issue price of HK$0.04; and (b) HK$160 million of the Option Exercise Price to be settled by the Company's issuance of the convertible bonds in the principal amount of HK$160 million convertible into 4 billion new Shares at the conversion price of HK$0.04; (iii) pre-completion events of the exercise of the Revised Option; and (iv) undertakings of the Company. The Board resolved to exercise the Revised Option of even date. The exercise of the Revised Option will constitute a very substantial acquisition for the Company and is subject to the approval of the shareholders of the Company. Since certain conditions precedent had not been fulfilled or waived, inter alia, all necessary consent and approval by regulators pursuant to the Rules Governing the Listing of Securities on the GEM Board of the Stock Exchange ("GEM Listing Rules") on or before 28 December 2012, the Supplemental Agreement lapsed on 28 December 2012. On 28 December 2012, the Revised Option lapsed thereafter the Company has early redeemed the Convertible Bonds.

On 11 January 2013, the Company completed the convertible bonds redemption in the aggregate principal amount of HK$18,000,000 pursuant to the redemption notice issued to the Issuer.

For details, please refer to the Company's announcements dated 31 January 2012, 21 February 2012, 5 March 2012, 20 March 2012, 3 April 2012, 23 April 2012, 7 May 2012, 14 May 2012, 21 May 2012, 20 June 2012, 9 July 2012, 8 January 2013 and 11 January 2013 and the circular dated 28 May 2012.

Discloseable Transaction in relation to Deemed Disposal of Equity Interest in Watson China Limited

On 19 December 2012, the Company, Grand Protection Holdings Limited, Watson China Limited (the "Issuer") and Teamedics Enterprise (Holdings) Co., Limited (the "Subscriber") entered into the share subscription agreement pursuant to which the Subscriber agreed to subscribe and the Issuer agreed to allot and issue the shares of the Issuer at the subscription price of HK$2,680,999 (the "Subscription"). The aggregate subscription price in the amount of HK$2,680,999 consists of (a) HK$999, being the consideration to be paid by the Subscriber to the Issuer; and (b) HK$2,680,000, being the premium to be paid by the Subscriber for the issuer shares. The subscription price was satisfied by the Subscriber in cash. The Subscription was completed on 21 December 2012 and hence the Issuer is no longer be a subsidiary of the Company.

Save as disclosed above, the Group did not have any other material acquisition or disposal of any of its subsidiaries or affiliated companies during the year under review.

Significant Investments

Save as disclosed in this report, the Group did not have any significant investment during the year ended 31 December 2012 (2011: Nil).

Charges on Group's Assets

Investment properties with a carrying value of approximately HK$7,420,000 (2011: HK$11,500,000) were pledged as security for the banking facilities granted to the Group.

Contingent Liabilities

At 31 December 2012, the Group did not have any significant contingent liabilities (2011: Nil).

Capital Commitments

At 31 December 2012, the Group did not have any significant capital commitments (2011: Nil).

Exposure to Fluctuation in Exchange Rates

All of the Group's assets, liabilities and transactions are mainly denominated either in Hong Kong dollars or Renminbi. The Directors do not consider that the Group is exposed to any material foreign currency exchange risk. Therefore, no hedging devices or other alternative have been implemented.

OUTLOOK AND PROSPECTS

For the health care services business, the Board is putting more resources on marketing and promotion, and expanding the beauty, facial and skincare services in order to broaden the customer base. Together with the increasing number of individual travelers from PRC, the Board believes that the income from this business segment will continue to benefit from this growth trend.

The Group believes the scale of the IT and telecommunications market and the increasing relax in regulatory framework in China in this year still unveil a potential opportunity despite the difficult market environment and competitive landscape. The Group will continue to take the appropriate steps to align its investment with objectives and review its business portfolio where it is appropriate to increase its shareholder value.

The Group seeks investment opportunities and focuses on long-term business development. It also aims to diversify the business portfolio by exploring the feasibility of expansion into other business segments. Even though the lapse of very substantial acquisition as discussed above, the Group continued its principal businesses of health care services, trading of ceramic products, property investment and provision of one-stop value chain services to telecommunications, information technology and advanced manufacturing industries in future. The Group will also keep evaluating opportunities to acquire new businesses with a view to diversify its source of revenue from different business segments and geographical locations.

The Board will continue to adopt a positive yet prudent approach in its investment strategy and will continue to seek other investment opportunities and to explore possible business development by diversifying the Group's business portfolio. It will actively explore the feasibility of expansion into other business segments with an aim to maximise the Group's profitability and the shareholders' value in the long run.

Directors' Report

The Directors present the annual report and audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 37 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 29 in this report.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2012 (2011: Nil).

ANNUAL GENERAL MEETING

The 2012 annual general meeting of the Company (the "AGM") will be held on Thursday, 16 May 2013. Shareholders should refer to details regarding the AGM in the circular of the Company dated 28 March 2013 and the notice of the AGM and form of proxy accompanying thereto.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on pages 89 to 90 in this report.

PLANT AND EQUIPMENT

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

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer accounted for approximately 13% (2011: 21%) of the Group's turnover, and the largest supplier accounted for approximately 18% (2011: 23%) of the Group's cost of sales, for the year ended 31 December 2012. To the best knowledge of the Directors, at no time during the year, any Director or his associates or any shareholder (who owned more than 5% of the Company's issued share capital) has any interest in the above-mentioned customers or suppliers.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in Note 28 to the consolidated financial statements.

REDEEMABLE CONVERTIBLE PREFERENCE SHARES

Details of movements during the year in the redeemable convertible preference shares of the Company are set out in Note 25 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group are presented in the consolidated statement of changes in equity on page 31 in this report.

DISTRIBUTABLE RESERVES

As at the end of the reporting period, the Company did not have any reserves available for cash/in special dividend distribution to shareholders of the Company.

SHARE OPTION SCHEME

The Company has adopted a new share option scheme on 6 May 2011 (the "Share Option Scheme"). During the year ended 31 December 2012 (the "Year"), there was no share option granted, exercised, cancelled or lapsed under the Share Option Scheme and there was no share option remained outstanding at the beginning and at the end of the Year under the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years from 6 May 2011 to 5 May 2021, unless terminated otherwise as in accordance with the provisions of the Share Option Scheme. The purpose of the Share Option Scheme is to enable the Group to grant options to eligible participants the Directors may at its absolute discretion select as incentives or rewards for their contribution to the Group. Eligible participants include any employee (whether full-time or part-time, including executive directors, non-executive directors and independent non-executive directors), shareholder, customer, supplier of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest; any person or entity that provides research, development or other technological support, any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the Shareholders' approval in general meeting of the Company. Where any grant of options to a substantial Shareholder or an independent non-executive director of the Company or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (i) representing in aggregate over 0.1% of the shares in issue; and (ii) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million; such further grant of options must be approved by the Shareholders in general meeting.

SHARE OPTION SCHEME (continued)

An option may be exercised at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

A nominal consideration of HK$1 is payable on acceptance of the grant of an option. The subscription price for shares under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the higher of (i) the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

At the AGM, the Company was also authorised to issue up to 270,459,969 shares upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group, being 10% of the shares in issue on 22 June 2012 (the "General Mandate"). The Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Mandate to participants specifically identified by the Company before such approval is sought. Notwithstanding the foregoing, the maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

As at the date of this report, no option has been granted under the General Mandate, as such, a maximum of 170,459,969 shares is available for issuance under the Share Option Scheme.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year were:

Executive Directors

Mr. Tsang Chi Hin *(Chief Executive)*
Mr. Chu Yu Man, Philip

Independent Non-executive Directors

Mr. Chau Chi Ming
Mr. Cheung Tak Shum
Mr. Lau Tin Cheung

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (continued)

Each independent non-executive Director has signed an appointment letter with the Company for a fixed term of two years and may be terminated by not less than three months prior notice in writing served by either party to the other in accordance with the provisions set out in the respective appointment letter.

Each of the executive Directors has entered into a service agreement dated 6 October 2008 with the Company for an initial fixed term of two years commencing from 30 September 2008 and will continue thereafter until terminated by not less than six months' notice in writing served by either party to the other in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by the Board at its absolute discretion having regard to the operation results of the Company and performance of the Directors.

None of the Directors who are proposed for re-election at the AGM has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors; namely, Mr. Chau Chi Ming, Mr. Cheung Tak Shum and Mr. Lau Tin Cheung, 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.

DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2012.

EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND FIVE HIGHEST PAID INDIVIDUALS

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

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

As at 31 December 2012, none of the Directors or the chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed under the sections "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" and "SHARE OPTION SCHEME" above, at no time during the year ended 31 December 2012 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement whose objects are, or whose object is, to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware of and having made due enquiries, as at 31 December 2012, the following parties, other than the Directors or the chief executive of the Company, had interests or short positions directly or indirectly in the shares and underlying shares of the Company disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the shares and underlying shares of the Company:

		Shares		Underlying Shares	
Name	**Capacity**	**Number of Shares**	**Approximate percentage of the issued share capital** *(Note 1)*	**Number of underlying Shares**	**Approximate percentage of the issued share capital** *(Note 1)*
China Railway Logistics Limited	Interest of controlled corporation	737,906,430 (L) *(Note 2)*	25.17%	–	–
Top Status International Limited	Beneficial owner	737,906,430 (L) *(Note 2)*	25.17%	–	–
Lion Legend Holdings Limited	Beneficial owner	–	–	480,000,000 (L) *(Note 3)*	16.37%

* *The Letter "L" denotes a long position in the Shares or the underlying Shares.*

Notes:

1. As at 31 December 2012, the Company's issued ordinary share capital was HK$29,317,301.20 divided into 2,931,730,120 Shares of HK$0.01 each.

2. Pursuant to the corporate substantial shareholder notices filed by Top Status International Limited ("Top Status") and China Railway Logistics Limited (Stock code: 8089) ("China Railway"), these Shares are held by Top Status and China Railway. Top Status, which is a company incorporated in the British Virgin Islands with limited liability, is wholly-owned by Rich Best Asia Limited ("Rich Best"), a company incorporated in the British Virgin Islands. Rich Best is in turn wholly-owned by China Railway, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on GEM of the Stock Exchange. As such, each of Rich Best and China Railway is deemed to be interested in these shares.

3. Pursuant to a subscription agreement entered into on 20 January 2012 with respect of the subscription of the exchangeable bond in principal amount of HK$18,000,000, the Company issued convertible bonds in principal amount of HK$18,000,000 convertible into 480,000,000 new shares at conversion price of HK$0.0375 per share. Details are set out in section under "Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies" in "Management Discussion and Analysis".

   Following the lapse of the Supplemental Agreement on 28 December 2012, the Revised Option lapsed thereafter the Company early redeemed the convertible bonds by the transfer or assignment of exchangeable bond to Lion Legend Holdings Limited. Pursuant to the corporate substantial shareholder notices filed by Lion Legend Holdings Limited filed on 15 January 2013, these underlying Shares has been ceased.

Save as disclosed above, the Company is not aware of any other person, other than a director or the chief executive of the Company, who held interests or short positions in the shares and underlying shares of the Company as at 31 December 2012 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

REPURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2012, neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

RELATED PARTY TRANSACTIONS

Details of the related party transactions during the year ended 31 December 2012 and after the reporting period are set out in Note 35 to the consolidated financial statements, certain of which constituted connected transactions that are exempt from the reporting, announcement and independent shareholders' approval requirements of Chapter 20 of the GEM Listing Rules.

COMPETING INTERESTS

None of the Directors or controlling shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business or interest that compete with the business of the Group or has or may have any other conflict of interest with the Group during the year ended 31 December 2012.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes are set out in Note 33 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section of this report.

EMOLUMENT POLICY

The emolument policy of the employees and senior management of the Group is set up by the remuneration committee of the Company on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to market competitiveness, individual performance and achievement.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out under the section headed "Share Option Scheme" above and also in Note 32 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the GEM Listing Rules during the year and up to the date of this report.

EVENTS AFTER THE REPORTING PERIOD

Issue of Convertible Bonds

On 22 February 2013, (i) the Company and Top Status International Limited ("Top Status") entered into a legal-binding subscription agreement (the "CB Subscription Agreement") in connection with the issue by the Company of convertible bonds (the "Convertible Bonds") to Top Status in the aggregate principal amount of HK$34.5 million, on the terms and conditions set out in the CB Subscription Agreement. As of 22 February 2013, Top Status was a wholly-owned subsidiary of China Railway Logistics Limited, substantial shareholder of the Company and thus, a connected person of the Company and the CB Subscription Agreement constituted a connected transaction under the GEM Listing Rules. Upon full conversion of the Convertible Bonds at the conversion price of HK$0.01 per conversion share (the "Conversion Price"), up to a maximum of 3,450,000,000 new conversion shares (the "Conversion Shares") shall be issued, representing approximately 117.68% of the existing issued share capital of the Company and approximately 54.06% of the issued share capital of the Company as enlarged by the issue of such Conversion Shares at the Conversion Price.

The estimated net proceeds from the subscription for the Convertible Bonds as contemplated under the CB Subscription Agreement (the "Subscription") will be approximately HK$33.72 million (after deducting all relevant expenses), representing a net conversion price of approximately HK$0.0098 per Conversion Share. The Board intends to apply the net proceeds from the Subscription (i) of which HK$11 million to set off against part of the outstanding indebtedness due and owing by the Company to Top Status; and (ii) the balance of which as general working capital of the Company.

As of 22 February 2013, the authorised share capital of the Company was HK$50,000,000 consisting of (i) HK$32,608,695.70 divided into 3,260,869,570 Shares, of which 2,931,730,120 Shares had been issued and allotted as fully paid or credited as fully paid; and (ii) HK$17,391,304.30 being the nominal amount of the convertible preference shares of the Company.

In order to facilitate the possible issue of the Conversion Shares and provide for future expansion in the share capital of the Company, the Directors propose that the authorised share capital of the Company be increased from HK$50,000,000 to HK$100,000,000 (divided into 8,260,869,570 Shares and 173,913,043 convertible preference shares of the Company at par values of HK$0.01 and HK$0.10 respectively) by the creation of an additional 5,000,000,000 new ordinary shares of the Company. For details, please refer to the announcement of the Company dated 22 February 2013. It is expected that the circular and notice of the special general meeting with respect to this connected transaction involving issue of convertible bonds and increase in authorised share capital will be dispatched to the shareholders of the Company as soon as practicable.

In addition, a loan facility confirmation letter has been signed by Top Status on 18 March 2013, an irrevocable standby loan facility of HK$31,000,000 has been granted from Top Status to the Company if the Subscription shall not be or fails to be completed.

More information regarding the events after the reporting period are set out in Note 39 to the consolidated financial statements.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 31 July 2001 with written terms of reference in compliance with GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee currently comprises three independent non-executive Directors; namely, Mr. Chau Chi Ming (Chairman of the Audit Committee), Mr. Cheung Tak Shum and Mr. Lau Tin Cheung.

The audited financial results of the Group for the year ended 31 December 2012 have been reviewed by the Audit Committee.

AUDITORS

SHINEWING (HK) CPA Limited ("SHINEWING") was appointed as auditors of the Company on 18 December 2008 and subsequently re-appointed as auditors of the Company at the last three annual general meetings of the Company held on 7 May 2010, 6 May 2011 and 22 June 2012. The consolidated financial statements for the years ended 31 December 2009, 2010 and 2011 of the Company were audited by SHINEWING. A resolution for the re-appointment of SHINEWING as auditors of the Company will be proposed at the forthcoming AGM.

By Order of the Board
Tsang Chi Hin
Chief Executive and Executive Director

Hong Kong, 19 March 2013

Corporate Governance Report

INTRODUCTION

The board of Directors (the "Board") and the management of the Company are committed to the maintenance of good corporate governance practices and procedures.

The corporate governance principles of the Company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders of the Company.

The Company has complied with the applicable code provisions on Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 15 to the GEM Listing Rules throughout the year under review except for the following deviation:

The code provision A.2.1 of the Code provides, among others, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Throughout the year, the Company did not appoint a chairman.

The Board will keep reviewing the structure of the Board from time to time. If candidate with suitable knowledge, skills and experience is identified, the Company will make appointment to fill the post of chairman as appropriate.

Under code provision A.2.7 of the Code, the chairman of board should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. As the Company does not have the Chairman, no such meeting was held in this regard for the year ended 31 December 2012.

The Board has approved the adoption of the revised Code effective from 1 April 2012.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in such code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2012.

BOARD OF DIRECTORS

The Board currently comprises five Directors, two are executive Directors and three are independent non-executive Directors.

The Board members for the year ended 31 December 2012 and up to the date of this report are:

Executive Directors

Mr. Tsang Chi Hin *(Chief Executive)*
Mr. Chu Yu Man, Philip

Independent Non-executive Directors

Mr. Chau Chi Ming
Mr. Cheung Tak Shum
Mr. Lau Tin Cheung

The Directors' biographical information are set out on pages 3 to 4 in this report. 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. There is no relationship among the members of the Board.

Throughout the year ended 31 December 2012, the Board consisted of three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of the shareholders of the Company. One of the independent non-executive Directors have appropriate professional qualification or accounting or related financial management expertise as required by Rule 5.05(2) of the GEM Listing Rules. Each independent non-executive Director has signed an appointment letter with the Company for an initial fixed term of two years and may be terminated by not less than three months prior notice in writing served by either party to the other or in accordance with the provisions set out in the respective appointment letter.

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

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

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

We have acquired insurance coverage on Directors' and officers' liabilities in respect of any legal actions which may be taken against our Directors and officers in the execution and discharge of their duties or in relation thereto.

BOARD MEETINGS AND DIRECTORS' ATTENDANCE

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

Details of the attendance record of each Director at the meetings of the Board and general meetings of the Company are as follows:

	Attendance of Board Meetings	General Meetings
Executive Directors		
Mr. Tsang Chi Hin *(Chief Executive)*	20/20	2/2
Mr. Chu Yu Man, Philip	20/20	2/2
Independent Non-executive Directors		
Mr. Chau Chi Ming	19/20	2/2
Mr. Cheung Tak Shum	20/20	2/2
Mr. Lau Tin Cheung	19/20	2/2

BOARD PRACTICES

Apart from the above mentioned regular Board meetings of the year ended 31 December 2012, the Board will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision in advance of each Board meeting. The Directors will receive detailed documents prior to the meetings of the Board to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings so that they may receive accurate, timely and clear information. All Directors may access the advice, regulatory updates on governance and regulatory matters from the professional parties.

The Company Secretary and the company secretarial team are responsible to take and keep minutes of all Board meetings and committee meetings and provide any compliance with the procedures of the Board meetings and general meetings of the Company. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version, which is open for Directors' inspection.

TRAINING FOR DIRECTORS

Each newly appointed director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the relevant statutes, laws, rules and regulations.

The Company provides regular updates and presentations on changes and developments relating to the Group's business and the legislative and regulatory environments to the Directors at the Board meetings. Trainings conducted by professional services provider regarding Listing Rules' updates on corporate governance have been provided to the Directors to ensure a high standard of corporate governance is upheld and that the Directors possess up-to-date information to discharge their duties.

The Directors are committed to complying with Code Provision A.6.5 of the CG Code which came into effect on 1 April 2012 on Directors' training. All Directors have participated in continuous professional development to develop and refresh their knowledge and skills and provided a record of training they received for the year ended 31 December 2012 to the Company.

The individual training record of each Director received for the year ended 31 December 2012 is summarised below:

Directors	Type of continuous professional development programmes
Executive Directors	
Mr. Tsang Chi Hin	A
Mr. Chu Yu Man, Philip	A
Independent Non-executive Directors	
Mr. Chau Chi Ming	A
Mr. Cheung Tak Shum	A
Mr. Lau Tin Cheung	A

Notes:

A: attending seminars/forums/workshops/conferences relevant to the business or directors' duties

B: reading regulatory updates

CHAIRMAN AND CHIEF EXECUTIVE

The positions and roles of chairman of the Board and chief executive of the Company should be held and performed separately by two individuals to ensure their respective independence, accountability and responsibility. The chief executive, being Mr. Tsang Chi Hin, is responsible for the day-to-day management of the Group's business. During the year, the Company did not appoint a chairman.

The Board will keep reviewing the current structure from time to time. If candidate with suitable knowledge, skills and experience is identified, the Company will make appointment to fill the post as appropriate.

REMUNERATION OF DIRECTORS

The remuneration committee of the Company (the "Remuneration Committee") had been formed in 2005 pursuant to a resolution passed by the Board. Following the re-domicile of the Company from the Cayman Islands into Bermuda in October 2007, it was re-established pursuant to a resolution passed by the Board on 15 February 2008 and specific terms of reference were adopted. As at the date of this report, the Remuneration Committee comprises three members, all are independent non-executive Directors, namely Mr. Chau Chi Ming, Mr. Cheung Tak Shum and Mr. Lau Tin Cheung. Mr. Cheung Tak Shum is the chairman of the Remuneration Committee.

The role and function written in the terms of reference of the Remuneration Committee are no less exacting terms than the 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 and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee also reviews and recommends the Board on its proposals relating to the remuneration of the executive Directors with reference to the Board's corporate goal and objectives. No Directors or any of his/her associates can be involved in deciding his/her own remuneration. 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 are considered by the Remuneration Committee to determine the remuneration package of individual executive Directors including benefits in kind, pension rights and compensation payments including any compensation payable for loss or termination of their office or appointment; or relating to dismissal or removal for misconduct to ensure that it is consistent with contractual terms and is otherwise fair, not excessive, reasonable and appropriate.

Frequency of Meetings and Attendance

For the year ended 31 December 2012, the remuneration committee of the Company held one meeting to review the remuneration packages of all Directors and senior management and update the terms of reference of the Remuneration Committee pursuant to the revised Code. Details of the attendance of the meeting is as follows:

Name of member	Number of attendance
Mr. Cheung Tak Shum *(Chairman)*	1/1
Mr. Chau Chi Ming	1/1
Mr. Lau Tin Cheung	1/1

NOMINATION OF DIRECTORS

The nomination committee of the Company (the "Nomination Committee") had been formed in 2005 pursuant to a resolution passed by the Board. Following the re-domicile of the Company from the Cayman Islands into Bermuda in October 2007, the Nomination Committee was re-established pursuant to a resolution passed by the Board on 15 February 2008 and specific terms of reference were adopted. As at the date of this report, the Nomination Committee comprises four members, of which majority are independent non-executive Directors, namely Mr. Tsang Chi Hin, Mr. Chau Chi Ming, Mr. Cheung Tak Shum and Mr. Lau Tin Cheung. Mr. Tsang Chi Hin is the chairman of the Nomination Committee.

The functions of the Nomination Committee are reviewing and supervising the structure, size and composition of the Board, identifying qualified individuals to become members of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors.

Where vacancies on the Board exist, the Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, including the independence status in the case of an independent non-executive Director, the Company's needs and other relevant statutory requirements and regulations.

Frequency of Meetings and Attendance

For the year ended 31 December 2012, the Nomination Committee held one meeting to review the composition, size and structure of the Board, assess the independence of the independent non-executive Director and update the terms of reference of the Nomination Committee pursuant to the revised Code. Details of the attendance of the meeting is as follows:

Name of member	Number of attendance
Mr. Tsang Chi Hin *(Chairman)*	1/1
Mr. Chau Chi Ming	1/1
Mr. Cheung Tak Shum	1/1
Mr. Lau Tin Cheung	1/1

AUDIT COMMITTEE

The Company established the Audit Committee on 31 July 2001. It has written terms of reference in compliance with the code provisions of the Code. The Audit Committee currently comprises Mr. Chau Chi Ming, Mr. Cheung Tak Shum and Mr. Lau Tin Cheung, who are the independent non-executive Directors. The chairman of the Audit Committee is Mr. Chau Chi Ming.

The responsibilities of the Audit Committee include making recommendations to the Board on the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the quarterly, interim and annual reports and accounts of the Group; and supervising the financial reporting process and effectiveness of internal control system of the Group. The Audit Committee had during the year performed such functions and reviewed the unaudited quarterly and interim results and audited annual results during the year ended 31 December 2012.

Frequency of Meetings and Attendance

For the year ended 31 December 2012, the audit committee of the Company held four meetings to review and supervise the financial reporting process and internal control review, make recommendation to the Board on reappointment of the external auditor and update the terms of reference of the Audit Committee. They had, in conjunction with the external auditor of the Company, reviewed the annual results of the Group and recommended to the Board for their consideration and approval. The audit committee of the Company was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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

Name of member	**Number of attendance**
Mr. Chau Chi Ming *(Chairman)*	4/4
Mr. Cheung Tak Shum	4/4
Mr. Lau Tin Cheung	4/4

CORPORATE GOVERNANCE FUNCTION

The Board is also responsible for performing the corporate governance duties with its written terms of reference as set out below:

a) to develop and review the Company's policies and practices on corporate governance;

b) to review and monitor the training and continuous professional development of Directors and senior management;

c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

e) to review the Company's compliance with the corporate governance code and disclosure in the Corporate Governance Report.

AUDITORS' REMUNERATION

An amount of approximately HK$420,000 (2011: approximately HK$395,000) was charged to the Group's statement of comprehensive income for the year ended 31 December 2012. There was no significant non-audit service assignment undertaken by the auditors during the year.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Group's account for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the audited consolidated financial statements for the year ended 31 December 2012, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The auditors of the Company acknowledge their responsibilities in the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2012.

COMPANY SECRETARY

For the year ended 31 December 2012, Ms. Ho Wing Yan ("Ms. Ho") has resigned as the company secretary of the Company (the "Company Secretary"), and Ms. Lo Oi Lan ("Ms. Lo") has been appointed as the Company Secretary, both with effect from 10 August 2012. Pursuant to Rule 5.15 of the GEM Listing Rules, each of Ms. Ho and Ms. Lo has taken no less than 15 hours of relevant professional training during the year ended 31 December 2012.

Ms. Lo is an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. She worked for various listed companies and leading international accounting and law firms in Hong Kong, and has extensive professional experience in company secretarial practice.

SHAREHOLDERS' RIGHTS

Right to convene special general meeting

The Directors, on the requisition of shareholder(s) of the Company holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the rights, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company in Bermuda and its principal place of business in Hong Kong for the attention of the Company Secretary.

If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of two months from the said date.

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the head office of the Company in Hong Kong or the registered office in Bermuda, or by e-mail to info@chinaeco-farming.com for the attention of the Company Secretary.

Right to put forward proposals at general meetings

On the requisition in writing of either (i) any number of shareholder(s) of the Company representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than 100 shareholders, the Company shall, at the expense of the requisitionists: (a) to give to shareholders of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; (b) to circulate to shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition must be signed by the requisitionists and deposited at the head office and principal place of business in Hong Kong of the Company for the attention of the Company Secretary.

INVESTORS AND SHAREHOLDERS RELATIONS

The Board recognises 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 which include (i) the publication of the Company's latest business developments and financial performance through its annual, interim and quarterly reports, notices, announcements and circulars; (ii) the general 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 investors.

There was no significant change in the Company's constitutional documents for the year ended 31 December 2012.

INTERNAL CONTROL

The Board and the Audit Committee have conducted a review of the effectiveness of the Group's internal control system. The internal control system is 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 unauthorised 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 system on an ongoing basis.

The Board considered that the internal control system of the Group is effective and the Audit Committee have found no material deficiencies on the internal control system.

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 ECO-FARMING LIMITED

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

We have audited the consolidated financial statements of China Eco-Farming Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 88, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the presentation 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 judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report

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 2012 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.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that the Group had incurred loss of approximately HK$21,046,000 for the year ended 31 December 2012 and the Group had net current liabilities and capital deficiency of approximately HK$25,292,000 and HK$17,398,000 respectively as at 31 December 2012. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as going concern.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong, 19 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Revenue	6	**20,798**	27,223
Cost of sales		**(18,012)**	(22,112)
Gross profit		**2,786**	5,111
Other revenue	7	**14**	11
Reclassification adjustments for the cumulative gain included in profit or loss upon early redemption of convertible bonds	19	**790**	–
Increase in fair value of investment properties, net	17	**1,320**	730
Gain on early redemption of convertible bonds	26	**272**	–
Administrative expenses		**(21,465)**	(16,749)
Finance costs	9	**(3,462)**	(1,739)
Loss on disposal of partial interest in a subsidiary	34	**(688)**	–
Impairment loss on available-for-sale investments	19	**(500)**	–
Impairment loss on investment in an associate	18	**(1)**	–
Change in fair value of embedded conversion option of exchangeable bond	19	**(112)**	–
Loss before taxation		**(21,046)**	(12,636)
Taxation	10	**–**	(22)
Loss for the year	11	**(21,046)**	(12,658)
Other comprehensive expense for the year:			
Change in fair value of available-for-sale investments	19	**790**	–
Reclassification adjustments for the cumulative gain included in profit or loss upon early redemption of convertible bonds	19	**(790)**	–
Other comprehensive expense for the year		**–**	–
Total comprehensive expense for the year		**(21,046)**	(12,658)
Loss per share	15		
Basic and diluted (HK cents)		**(0.79)**	(0.52)

Consolidated Statement of Financial Position

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Plant and equipment	16	470	1,946
Investment properties	17	7,420	11,500
Investment in an associate	18	–	1
Available-for-sale investments	19	4	500
		7,894	13,947
Current assets			
Trade and other receivables	20	4,527	4,783
Deposit paid for operating right		1,200	1,200
Bank balances and cash	21	79	662
		5,806	6,645
Current liabilities			
Other payables and accruals		4,820	2,292
Amount due to a former fellow subsidiary	22	600	660
Amount due to a shareholder	22	306	518
Income tax payable		22	22
Borrowings	23	9,050	8,850
Loan from a former fellow subsidiary	24	12,000	12,000
Loan from a shareholder	24	4,300	8,000
Convertible preference shares	25	–	2,477
		31,098	34,819
Net current liabilities		(25,292)	(28,174)
Total assets less current liabilities		(17,398)	(14,227)
Non-current liabilities			
Borrowings	23	–	3,200
		–	3,200
		(17,398)	(17,427)
Capital and reserves			
Share capital	28	29,317	24,246
Reserves		(46,715)	(41,673)
		(17,398)	(17,427)

The consolidated financial statements on pages 29 to 88 were approved and authorised for issue by the board of directors on 19 March 2013 and are signed on its behalf by:

Tsang Chi Hin	**Chu Yu Man, Philip**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital HK$'000 *(Note 28)*	Share premium HK$'000	Equity component of convertible preference shares HK$'000 *(Note 25)*	Equity component of convertible bonds HK$'000 *(Note 26)*	Investment revaluation reserve HK$'000	Special reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	24,246	11,066	538	–	–	6,026	(46,645)	(4,769)
Loss for the year, representing total comprehensive expense for the year	–	–	–	–	–	–	(12,658)	(12,658)
At 31 December 2011 and 1 January 2012	24,246	11,066	538	–	–	6,026	(59,303)	(17,427)
Loss for the year	–	–	–	–	–	–	(21,046)	(21,046)
Other comprehensive income								
– Change in fair value of available-for-sale investments	–	–	–	–	790	–	–	790
– Reclassification adjustments for the cumulative gain included in profit or loss upon early redemption of convertible bonds	–	–	–	–	(790)	–	–	(790)
Total comprehensive income (expense) for the year	–	–	–	–	–	–	(21,046)	(21,046)
Placing of new shares *(Note 28)*	2,800	16,240	–	–	–	–	–	19,040
Transaction costs attributable to placing of new shares	–	(592)	–	–	–	–	–	(592)
Recognition of equity component of convertible bonds *(Note 26)*	–	–	–	986	–	–	–	986
Early redemption of convertible bonds *(Note 26)*	–	–	–	(971)	–	–	–	(971)
Transfer to accumulated losses upon early redemption of convertible bonds *(Note 26)*	–	–	–	(15)	–	–	15	–
Issue of shares upon conversion of convertible preference shares *(Note 28)*	2,271	879	(538)	–	–	–	–	2,612
At 31 December 2012	**29,317**	**27,593**	**–**	**–**	**–**	**6,026**	**(80,334)**	**(17,398)**

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES		
Loss before taxation:	**(21,046)**	(12,636)
Adjustments for:		
Depreciation for plant and equipment	**1,440**	1,606
Loss on disposal of plant and equipment	**4**	–
Finance costs	**3,462**	1,739
Interest income	**(1)**	–
Loss on disposal of partial interest in a subsidiary	**688**	–
Gain on early redemption of convertible bonds	**(272)**	–
Reclassification adjustments for the cumulative gain included in profit or loss upon early redemption of convertible bonds	**(790)**	–
Change in fair value of embedded conversion option of exchangeable bond	**112**	–
Impairment loss on plant and equipment	**160**	–
Impairment loss on investment in an associate	**1**	–
Impairment loss on available-for-sale investments	**500**	–
Impairment loss on trade receivables	**328**	–
Increase in fair value of investment properties, net	**(1,320)**	(730)
Operating cash flows before movements in working capital	**(16,734)**	(10,021)
Increase in trade and other receivables	**(127)**	(2,528)
Increase in other payables and accruals	**2,611**	1,138
NET CASH USED IN OPERATING ACTIVITIES	**(14,250)**	(11,411)
INVESTING ACTIVITIES		
Purchase of an available-for-sale investment	**–**	(500)
Purchase of plant and equipment	**(128)**	(79)
Net cash inflow from disposal of partial interest in a subsidiary *(Note 34)*	**2,680**	–
Interest received	**1**	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**2,553**	(579)
FINANCING ACTIVITIES		
New borrowings raised	**5,600**	9,650
Interest paid	**(2,333)**	(402)
Repayment of loan to a shareholder	**(3,700)**	–
Repayment of borrowings	**(6,600)**	–
Proceeds from issue of new shares	**19,040**	–
Transaction costs from issue of convertible bonds	**(301)**	–
Expenses of issue of new shares	**(592)**	–
NET CASH FROM FINANCING ACTIVITIES	**11,114**	9,248
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(583)**	(2,742)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**662**	3,404
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**79**	662

1. GENERAL

China Eco-Farming Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Company Law of the Cayman Islands on 30 November 2000.

The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 5 February 2002. The addresses of the registered office is Clarendon House, 2 Church Street, Hamiton HM11, Bermuda and the principal place of business of the Company is Room 1301, 13/F., The Centre Mark, 287-299 Queen's Road Central, Hong Kong. The directors of the Company do not consider any company to be the ultimate holding company and parent company of the Company.

During the year ended 31 December 2007, the Company re-domiciled from the Cayman Islands into Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda. The change of domicile was approved by the shareholders of the Company on 15 October 2007 and the Company was continued into Bermuda with limited liability with effect from 29 October 2007.

The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the business of one-stop value chain services, health care services, property investment and trading of ceramic products.

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

2. BASIS OF PREPARATION

At 31 December 2012, the Group had net current liabilities and capital deficiency of approximately HK$25,292,000 and HK$17,398,000 respectively. The Group had incurred loss of approximately HK$21,046,000 for the year ended 31 December 2012. These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern. Nevertheless, these consolidated financial statements of the Group have been prepared on a going concern basis.

In the opinion of the directors of the Company, the Group is able to operate as a going concern in the coming year after taking into consideration the followings:

(i) On 31 January 2013, the Company entered into an agreement with The Building And Loan Agency (Asia) Limited for a new loan of HK$600,000. The loan carries interest fixed at 9% per annum with maturity date on 30 September 2014.

(ii) On 22 February 2013, the Company entered into an agreement with Luck Bloom International Limited ("Luck Bloom"), a wholly-owned subsidiary of China Railway Logistics Limited ("CRLL") and Top Status International Limited ("Top Status"), a shareholder of the Company and a wholly-owned subsidiary of CRLL, for an extension of the loans payable of approximately HK$6,300,000 and any interest accrued thereon to Luck Bloom and Top Status with maturity date extended to 30 September 2014.

2. BASIS OF PREPARATION (continued)

(iii) On 22 February 2013, the Company entered into a legal-binding subscription agreement with Top Status to raise a sum of approximately HK$34,500,000 by way of issuing convertible bonds, in which Top Status will be the sole subscriber and convertible up to a maximum of 3,450,000,000 conversion shares. The maturity date will be on 31 December 2016.

(iv) On 22 February 2013, the Group entered into an agreement with The Building And Loan Agency (Asia) Limited for a new secured loan of HK$4,200,000. The loan carries interest fixed at 10% per annum with maturity date on 30 September 2014. The principal amount shall be drawn down by two installments. First installment of HK$700,000 was drawn down on 22 February 2013 while second installment of HK$3,500,000 shall be drawn down during the period from 20 May to 5 June 2013, both days inclusive. This loan is secured by an investment property of the Group.

(v) On 23 February 2013, the Company entered into an agreement with The Building And Loan Agency (Asia) Limited for the extension of an aggregate other loans of HK$5,600,000 and any interest accrued thereon to 30 September 2014. The loan interest shall be revised to 10% per annum thereafter.

(vi) An irrevocable standby loan facility of HK$31,000,000 has been granted from Top Status to the Group, in case the subscription agreement as stated in (iii) above cannot be executed on or before 30 May 2013 with drawdown period from 31 May 2013 to 31 December 2014, both days inclusive, per a loan facility confirmation letter signed on 18 March 2013. The loan carries interest fixed at 8% per annum with maturity date on 31 March 2015.

The directors of the Company are of the opinion that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for a period of not less than the next twelve months from 31 December 2012. Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare these consolidated financial statements for the year ended 31 December 2012 on a going concern basis. The consolidated financial statements do not include any adjustments that would result from the failure of the Group to obtain sufficient future funding. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to reduce the carrying amounts of the assets of the Group to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities.

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"):

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets; and
Amendments to HKAS 1	As part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in 2012

The application of the amendments to 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.

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

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
Amendments to HKFRS 1	First-time Adoption of HKFRSs – Government Loans[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009-2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

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

Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012 (continued)

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors of the Company do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors of the Company anticipate that the amendments to HKAS 32 will have no material effect on the Group's consolidated financial statements as the Group does not have any distribution to holders of equity instrument and the transaction cost of equity transaction are accounted for accordance with HKAS 12 Income Taxes.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial asset and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendment to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

HKFRS 9 – Financial Instruments

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

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

HKFRS 9 – Financial Instruments (continued)

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are 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 their fair values at the end of subsequent reporting 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.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, the directors of the Company have not provided 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.

3. 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 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK (SIC) – Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. 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 consolidation.

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

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 Consolidated and Separate Financial Statements and HK(SIC) – Int 12 Consolidation – Special Purpose Entities. HKFRS 10 replaces the portion of HKAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC) – Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

The directors of the Company anticipate that the application of these five standards may not have significant impact on the amounts reported in the consolidated financial statements under the current group structure.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities.

Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

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 to 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 of the Company anticipate that the application of the new standard may affect the disclosure in the consolidated financial statements, as more extensive disclosure for fair value measurements of investment properties will be included.

3. 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 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. 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 items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

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.

The directors of the Company anticipate that the application of other new or revised HKFRSs will have no material impact on the results and the financial position of the Group.

4. 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 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 that are measured at fair values, 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 goods.

The principle accounting policies are set out below.

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.

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in the Group's ownership interests in existing subsidiaries

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 Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Investments in subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less accumulated impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Investment in an associate

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. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate 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. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate (continued)

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 is tested for impairment in accordance with HKAS 36 Impairment of Assets 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 its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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, if any.

Depreciation is recognised so as to write off the cost of items of plant and equipment over their estimated useful lives using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair values. 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 and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

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.

4. 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

(i) Financial assets

The Group's financial assets are classified into one of two categories, including 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 time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments (other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses).

Financial assets at fair value through profit or loss

Financial assets at FVTPL are designated as at FVTPL on initial recognition.

A financial asset 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

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 is included in the "change in fair value of embedded conversion option of exchangeable bond" in the consolidated statement of comprehensive income. Fair value is determined in the manner described in Note 30(c).

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated the debt portion of the exchangeable bond as available-for-sale investment on initial recognition of the financial asset.

Debt portion of the exchangeable bond held by the Group that are classified as available-for-sale are measured at fair value at the end of each reporting period. Any changes in fair value of available-for-sale financial assets are recognised in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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 are measured at cost less any identified impairment loss at the end of the reporting period (see accounting policy on impairment of financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Impairment of financial assets

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Impairment of financial assets (continued)

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 into bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

The carrying amount of the financial assets are reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables and deposit paid for operating right, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Impairment of financial assets (Continued)

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income. 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 in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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 other payables and accruals, amounts due to a former fellow subsidiary and a shareholder, borrowings and loan from a former fellow subsidiary and a shareholder, are subsequently measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Financial liabilities and equity instruments (continued)

Convertible preference shares

Convertible preference shares issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definition of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible preference shares and the fair value assigned to the liability component, representing the conversion option for the holder to convert the preference shares into equity, is included in equity (equity component of convertible preference shares).

In subsequent periods, the liability component of the convertible preference shares is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in equity component of convertible preference shares until the embedded option is exercised (in which case the balance stated in equity component of convertible preference shares will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in equity component of convertible preference shares will be released to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible preference shares are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible preference shares using the effective interest method.

Equity instruments

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

Convertible bonds contain liability and equity components

Convertible bonds issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Financial liabilities and equity instruments (continued)

Convertible bonds contain liability and equity components (continued)

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (equity component of convertible bonds).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in equity component of convertible bonds until the embedded option is exercised (in which case the balance stated in equity component of convertible bonds will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in equity component of convertible bonds will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

(iii) Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all risks and rewards of ownership of the asset to another entity.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts; and the host contracts are measured at fair value with changes recognised in other comprehensive income.

Revenue recognition

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

Revenue from the sales of goods is recognised when the goods are delivered and legal titles have passed.

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

Service income is recognised when 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 measure 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.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before taxation 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 bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, 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.

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.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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 lease 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.

Retirement benefits scheme contributions

Payments to the Mandatory Provident Fund Scheme ("MPF") are recognised as an expense when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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. When 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.

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

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

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

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, 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.

Critical judgment in applying the entity's accounting policies

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

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Going concern and liquidity

As explained in Note 2, the consolidated financial position of the Group indicates the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern. The assessment of the going concern assumptions involves making judgement by the directors of the Company, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors of the Company consider that the Group has ability to continue as a going concern and the major conditions that may cast significant doubt about the going concern assumptions are set out in Note 2.

Key sources of estimation uncertainty

The followings 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.

Allowance for doubtful debts

Allowance for doubtful debts is made based on the assessment of the recoverability of trade and other receivables. The identification of doubtful debts requires the directors of the Company to make judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of trade and other receivables and doubtful debt expenses/written back in the period in which the estimate has been changed. As at 31 December 2012, the carrying amounts of trade receivables and other receivables were approximately HK$128,000 (net of allowance for doubtful debts of approximately HK$328,000) and HK$2,356,000 (net of allowance for doubtful debts of nil) respectively (2011: carrying amount of trade receivables of HK$3,279,000 (net of allowance for doubtful debts of nil) and carrying amount of other receivables of HK$282,000 (net of allowance for doubtful debts of nil)). Impairment loss on trade receivables recognised for the year ended 31 December 2012 amounting to approximately HK$328,000 (2011: Nil).

Fair value of investment properties

Investment properties are carried in the consolidated statement of the financial position at 31 December 2012 at their fair value of approximately HK$7,420,000 (2011: HK$11,500,000). The fair value was based on a valuation on these properties conducted by an independent firm of professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the consolidated statement of comprehensive income.

Estimated impairment loss on available-for-sale investment

The Group follows the guidance of HKAS 39 to determine whether an available-for-sale investment is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance and operational and financing cash flow.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Valuation of available-for-sale debt investment and embedded conversion option

The fair values of available-for-sale debt investment and embedded conversion option that are not traded in an active market are estimated by management based on the valuation performed by independent qualified valuer. The fair values of available-for-sale debt investment and embedded conversion option are valued using discounted cash flow analysis and binomial model respectively based on assumptions supported, where possible, by observable market prices or rates. The fair values of the available-for-sale debt investment as at issuance date, 9 July 2012 and early redemption date, 28 December 2012, were HK$16,790,000 and HK$17,580,000 respectively. The fair values of embedded conversion option as at issuance date, 9 July 2012, and early redemption date, 28 December 2012, were HK$506,000 and HK$394,000 respectively. Further details are given in Note 19.

6. REVENUE

Revenue represents service income arising on one-stop value chain services and health care services, rental income and sales of ceramic products.

An analysis of the Group's revenue for the year is as follows:

	2012 **HK$'000**	2011 HK$'000
Revenue:		
One-stop value chain services	**–**	2,401
Health care services	**17,834**	18,644
Rental income *(Note)*	**219**	402
Trading of ceramic products	**2,745**	5,776
	20,798	27,223

Note:

	2012 **HK$'000**	2011 HK$'000
Gross rental income	**219**	402
Less: outgoings (included in cost of sales)	**(31)**	(17)
Net rental income	**188**	385

7. OTHER REVENUE

	2012 **HK$'000**	2011 HK$'000
Other rental income	**10**	11
Interest income	**1**	–
Sundry income	**3**	–
	14	11

8. SEGMENT INFORMATION

The Group's operation segments, based on information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

1. One-stop value chain services – provision of total solution services including trading, packaging and logistic solutions

2. Health care services – provision of health care services

3. Property investment – generated rental income from operating leases of Group's investment properties

4. Trading of ceramic products – trading of ceramic sanitary ware products

Trading of ceramic products is a new reportable segment of the Group for the year ended 31 December 2011.

Segment revenues and results

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

For the year ended 31 December

	One-stop value chain services		Health care services		Property investment		Trading of ceramic products		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
REVENUE										
External sales	**–**	2,401	**17,834**	18,644	**219**	402	**2,745**	5,776	**20,798**	27,223
Segment (loss) profit	**(1,095)**	(1,323)	**(4,835)**	3,309	**1,509**	1,058	**(308)**	722	**(4,729)**	3,766
Unallocated corporate revenue									**1,076**	11
Unallocated corporate expenses									**(13,931)**	(14,674)
Finance costs									**(3,462)**	(1,739)
Loss before taxation									**(21,046)**	(12,636)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment (loss) profit represents the (loss from) profit earned by each segment without allocation of central administration costs, directors' emoluments, other revenue, gain on change in fair value of available-for-sale investments, impairment loss on available-for-sale investments, gain on early redemption of convertible bonds, finance costs and change in fair value of embedded conversion option of exchangeable bond. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

8. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	2012 HK$'000	2011 HK$'000
Segment assets		
One-stop value chain services	15	279
Health care services	3,255	3,875
Property investment	7,437	11,696
Trading of ceramic products	500	3,034
Total segment assets	11,207	18,884
Unallocated corporate assets	2,493	1,708
Consolidated assets	13,700	20,592
Segment liabilities		
One-stop value chain services	120	108
Health care services	2,318	970
Property investment	–	55
Trading of ceramic products	23	–
Total segment liabilities	2,461	1,133
Unallocated corporate liabilities	28,637	36,886
Consolidated liabilities	31,098	38,019

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

- all assets are allocated to operating segments other than certain plant and equipment, available-for-sale investments, certain other receivables and bank balances and cash; and

- all liabilities are allocated to operating segments other than certain other payables and accruals, amounts due to a former fellow subsidiary and a shareholder, income tax payable, loans from a former fellow subsidiary and a shareholder, borrowings and liability component of convertible preference shares.

8. SEGMENT INFORMATION (continued)

Other segment information

	One-stop value chain services 2012 HK$'000	One-stop value chain services 2011 HK$'000	Health care services 2012 HK$'000	Health care services 2011 HK$'000	Property investment 2012 HK$'000	Property investment 2011 HK$'000	Trading of ceramic products 2012 HK$'000	Trading of ceramic products 2011 HK$'000	Unallocated 2012 HK$'000	Unallocated 2011 HK$'000	Total 2012 HK$'000	Total 2011 HK$'000
Amounts included in the measure of segment profit or loss or segment assets:												
Additions to non-current assets *(Note)*	–	–	100	79	–	–	–	–	28	–	128	79
Increase in fair value of investment properties, net	–	–	–	–	1,320	730	–	–	–	–	1,320	730
Depreciation for plant and equipment	120	120	1,161	1,355	9	10	–	–	150	121	1,440	1,606
Impairment loss on trade receivables	–	–	–	–	328	–	–	–	–	–	328	–

	One-stop value chain services 2012 HK$'000	One-stop value chain services 2011 HK$'000	Health care services 2012 HK$'000	Health care services 2011 HK$'000	Property investment 2012 HK$'000	Property investment 2011 HK$'000	Trading of ceramic products 2012 HK$'000	Trading of ceramic products 2011 HK$'000	Unallocated 2012 HK$'000	Unallocated 2011 HK$'000	Total 2012 HK$'000	Total 2011 HK$'000
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:												
Investment in an associate	–	1	–	–	–	–	–	–	–	–	–	1
Interest income	–	–	–	–	–	–	–	–	1	–	1	–
Reclassification adjustments for the cumulative gain included in profit or loss upon early redemption of convertible bonds	–	–	–	–	–	–	–	–	790	–	790	–
Gain on early redemption of convertible bonds	–	–	–	–	–	–	–	–	272	–	272	–
Loss on disposal of partial interest in a subsidiary	–	–	–	–	(688)	–	–	–	–	–	(688)	–
Impairment loss on plant and equipment	(160)	–	–	–	–	–	–	–	–	–	(160)	–
Impairment loss on available-for-sale investments	–	–	–	–	–	–	–	–	(500)	–	(500)	–
Impairment loss on investment in an associate	(1)	–	–	–	–	–	–	–	–	–	(1)	–
Loss on disposal of plant and equipment	–	–	–	–	(4)	–	–	–	–	–	(4)	–
Change in fair value of embedded conversion option of exchangeable bond	–	–	–	–	–	–	–	–	(112)	–	(112)	–
Interest expense	–	–	–	–	–	–	–	–	(3,462)	(1,739)	(3,462)	(1,739)
Taxation	–	–	–	–	–	–	–	22	–	–	–	22

Note: Non-current assets excluded available-for-sale investments.

Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers. Information about the Group's non-current assets other than available-for-sale investments are presented based on the geographical location of the assets.

	Revenue from external customers For the year ended 31 December 2012 HK$'000	 2011 HK$'000	Non-current assets 2012 HK$'000	 2011 HK$'000
Hong Kong	18,053	21,447	7,890	13,447
Macau	2,745	5,776	–	–
	20,798	27,223	7,890	13,447

8. SEGMENT INFORMATION (continued)

Information about major customers

Revenue from customers of the corresponding years contributing over 13% of the total sales of the Group are as follows:

	For the year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Customer A[1]	**2,745**	5,776

[1] *Revenue from trading of ceramic products*

9. FINANCE COSTS

	2012	2011
	HK$'000	HK$'000
Interest on bank loans, wholly repayable within five years	**743**	210
Interest on other loans	**212**	92
Effective interest expense on convertible preference shares *(Note 25)*	**213**	237
Effective interest expense on convertible bonds *(Note 26)*	**1,266**	–
Interest on loan from a former fellow subsidiary *(Note 24)*	**720**	720
Interest on loan from a shareholder *(Note 24)*	**308**	480
	3,462	1,739

10. TAXATION

	2012	2011
	HK$'000	HK$'000
Hong Kong Profits Tax – current	**–**	22

Hong Kong Profits Tax has not been provided for in the financial statements as the Group did not derive any assessable profit for the year ended 31 December 2012. For the year ended 31 December 2011, Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

10. TAXATION (continued)

The tax charge for the years can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000
Loss before taxation	(21,046)	(12,636)
Tax at the domestic income tax rate of 16.5% (2011: 16.5%)	(3,473)	(2,085)
Tax effect of expenses not deductible for tax purpose	1,653	806
Tax effect of income not taxable for tax purpose	(348)	(120)
Tax effect of temporary differences not recognised	15	–
Utilisation of temporary differences previously not recognised	–	(12)
Tax effect of tax losses not recognised	2,153	1,433
Tax charge for the year	–	22

Details of deferred taxation are set out in Note 27.

11. LOSS FOR THE YEAR

	2012 HK$'000	2011 HK$'000
Loss for the year has been arrived at after charging:		
Directors' emoluments *(Note 12)*	2,578	2,574
Other staff costs (excluding directors' emoluments)	3,630	3,069
Retirement benefits scheme contributions (excluding directors)	107	95
	6,315	5,738
Auditors' remuneration	420	395
Depreciation for plant and equipment	1,440	1,606
Loss on disposal of plant and equipment	4	–
Impairment loss on plant and equipment	160	–
Impairment loss on trade receivables	328	–
Minimum lease payments paid under operating leases in respect of office premises	6,348	4,380

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 5 (2011:5) directors and the chief executive of the Company were as follows:

	2012			
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:				
Tsang Chi Hin	–	1,066	14	1,080
Chu Yu Man, Philip	–	884	14	898
Independent non-executive directors:				
Cheung Tak Shum	240	–	–	240
Lau Tin Cheung	180	–	–	180
Chau Chi Ming	180	–	–	180
Total	600	1,950	28	2,578

	2011			
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:				
Tsang Chi Hin	–	1,066	12	1,078
Chu Yu Man, Philip	–	884	12	896
Independent non-executive directors:				
Cheung Tak Shum	240	–	–	240
Lau Tin Cheung	180	–	–	180
Chau Chi Ming	180	–	–	180
Total	600	1,950	24	2,574

Mr. Tsang Chi Hin is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

No director waived or agreed to waive any emoluments paid by the Group during the two years ended 31 December 2012 and 2011.

During the two years ended 31 December 2012 and 2011, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2011: two) were directors of the Company whose emoluments are included in the disclosures in Note 12 above. The emoluments of the remaining three (2011: three) individuals were as follows:

	2012 HK$'000	2011 HK$'000
Basic salaries and allowances	1,515	1,755
Retirement benefits scheme contributions	32	36
	1,547	1,791

The emoluments of each of the above employees were less than HK$1,000,000 during the two years ended 31 December 2012 and 2011.

During the two years ended 31 December 2012 and 2011, no emoluments were paid by the Group to the highest paid individuals (including directors of the Company and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDEND

No dividend was paid or proposed during 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

15. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2012 HK$'000	2011 HK$'000
Loss		
Loss for the year attributable to owners of the Company	(21,046)	(12,658)

	2012	2011
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	2,680,300,331	2,424,599,690

Diluted loss per share for the years ended 31 December 2012 and 2011 are the same as the basic loss per share. The computation of diluted loss per share for the year ended 31 December 2012 does not assume the conversion since there is no convertible preference shares as at 31 December 2012. The computation of diluted loss per share for the year ended 31 December 2011 does not assume the conversion of the Company's outstanding convertible preference shares since their exercise would result in a decrease in the loss per share.

16. PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Computer, network and related equipment HK$'000	Motor vehicle HK$'000	Total HK$'000
COST						
At 1 January 2011	2,593	598	508	112	352	4,163
Additions	–	–	79	–	–	79
At 31 December 2011	2,593	598	587	112	352	4,242
Additions	–	–	105	23	–	128
Disposals	–	–	(28)	–	–	(28)
At 31 December 2012	**2,593**	**598**	**664**	**135**	**352**	**4,342**
DEPRECIATION AND IMPAIRMENT LOSS						
At 1 January 2011	249	199	47	43	152	690
Provided for the year	1,275	120	115	26	70	1,606
At 31 December 2011	1,524	319	162	69	222	2,296
Provided for the year	1,069	119	153	27	72	1,440
Written back on disposals	–	–	(24)	–	–	(24)
Impairment loss recognised in profit or loss	–	160	–	–	–	160
At 31 December 2012	**2,593**	**598**	**291**	**96**	**294**	**3,872**
CARRYING VALUES						
At 31 December 2012	**–**	**–**	**373**	**39**	**58**	**470**
At 31 December 2011	1,069	279	425	43	130	1,946

The above items of plant and equipment are depreciated over their estimated useful lives using the straight-line basis at the following rates per annum:

Leasehold improvements	Over the term of lease
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Computer, network and related equipment	20%
Motor vehicle	20%

17. INVESTMENT PROPERTIES

	2012 HK$'000	2011 HK$'000
FAIR VALUE		
At 1 January	11,500	10,770
Derecognition upon disposal of partial interest in a subsidiary *(Note 34)*	(5,400)	–
Net increase in fair value recognised in consolidated statement of comprehensive income	1,320	730
At 31 December	7,420	11,500

(a) The fair value of the Group's investment properties at 31 December 2012 and 2011 and on the disposal date of a subsidiary have been arrived at on the basis of a valuation carried out on that date by J.R. West (Hong Kong) Limited (2011: Avista Valuation Advisory Limited ("Avista")), independent qualified professional valuer not connected with the Group. The valuation was arrived at by taking into account the net rental income of the property derived from the existing lease and/or achievable in the existing market with due allowance for the reversionary income potential of the leases.

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

(c) The above investment properties are located in Hong Kong and held under long-term leases.

(d) At 31 December 2012, the Group's investment properties with a carrying value of approximately HK$7,420,000 (2011: HK$11,500,000) was pledged to secure the banking facilities granted to the Group *(Note 23)*.

18. INVESTMENT IN AN ASSOCIATE

	2012 HK$'000	2011 HK$'000
Cost of unlisted investment in an associate	1	1
Less: Provision for impairment loss	(1)	–
	–	1

18. INVESTMENT IN AN ASSOCIATE (continued)

As at 31 December 2012 and 2011, the Group had interest in the following associate:

Name of entity	Form of entity	Place of incorporation and operation	Class of shares held	Proportion of nominal value of issued capital held by the Group 2012	2011	Principal activity
FDC Limited	Limited Liability	Samoa	Ordinary shares	49%	49%	Inactive

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

	2012 HK$'000	2011 HK$'000
Current asset, representing net asset	–	1
Group's share of net asset of an associate	–	1

No result of the associate is presented for the years ended 31 December 2012 and 2011 as no income was earned and no expense was incurred. Accordingly, no share of profit or loss of associate for the year is accounted for.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2012 HK$'000	2011 HK$'000
Unlisted equity investments – cost *(Note a)*	500	500
Less: Provision for impairment loss	(500)	–
Unlisted equity investments – cost *(Note b)*	4	–
Unlisted debt investments – fair value *(Note c)*	–	–
	4	500

Notes:

(a) The above unlisted equity investments represents investment in unlisted equity securities issued by a private entity incorporated in Hong Kong. They are measured at cost less accumulated impairment losses 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 its fair value cannot be measured reliably.

19. AVAILABLE-FOR-SALE INVESTMENTS (continued)

Notes: (continued)

(b) On 19 December 2012, Grand Protection Holdings Limited, a wholly-owned subsidiary of the Group, entered into a sale and purchase agreement with an independent third party to dispose of the 99.9% equity interest in Watson China Limited at a cash consideration of HK$2,680,000. The remaining 0.1% equity interest in Watson China Limited is classified as an available-for-sale investment of the Group since then.

(c) On 9 July 2012, Prima Target Limited ("Prima Target"), a wholly-owned subsidiary of the Group, subscribed for an exchangeable bond ("Exchangeable Bond") in a principal amounting to HK$18,000,000 issued by Lion Legend Holdings Limited ("Lion Legend"), an independent third party. Lion Legend is an unlisted company incorporated in the BVI with limited liability. The subscription was satisfied by the Company by way of issuance of convertible bonds in the principal amount of HK$18,000,000 *(Note 26)*. The Exchangeable Bond will mature on 1 April 2013 (the "Maturity Date"). Prima Target is entitled to convert the whole Exchangeable Bond into one ordinary share of Kingbridge Investment Limited ("KBI") at an initial conversion price of HK$18,000,000 per share, representing 10% of the equity interest in KBI, on any business day and from time to time, after the issue date and up to and including the fifth business day before the Maturity date. Details are disclosed in the Company's announcement dated 31 January 2012 and circular dated 28 May 2012.

The Exchangeable Bond was transferred to Lion Legend to fully satisfy the early redemption of convertible bonds on 28 December 2012. The Exchangeable Bond contains the following two components that are required to be separately accounted for:

(i) debt portion of the Exchangeable Bond, which was designated as available-for-sale debt investment on initial recognition, was stated at fair value at approximately HK$16,790,000 on 9 July 2012 and HK$17,580,000 on 28 December 2012 respectively. The change in fair value of the debt portion of the Exchangeable Bond of approximately HK$790,000 has been recognised in the consolidated statement of other comprehensive income for the year ended 31 December 2012 and later reclassified to the profit or loss upon derecognition of the available-for-sale debt investment; and

(ii) embedded conversion option of the Exchangeable Bond which was designated as financial asset at FVTPL, was stated at fair value at approximately HK$506,000 on 9 July 2012 and HK$394,000 on 28 December 2012 respectively. The change in fair value of embedded conversion option of Exchangeable Bond of approximately HK$112,000 has been recognised in the profit or loss for the year ended 31 December 2012.

The fair value of the debt portion and embedded conversion option of the Exchangeable Bond was valued by Avista, an independent qualified professional valuer not connected with the Group, using discounted cash flow analysis and the binomial model. The inputs into the model of the Exchangeable Bond as at 9 July 2012 and 28 December 2012 are as follows:

	As at 9 July 2012	As at 28 December 2012
Risk free rate	0.13%	0.04%
Expected volatility	47.30%	50.41%
Discount rate	9.76%	9.45%

19. AVAILABLE-FOR-SALE INVESTMENTS (continued)

Notes: (continued)

In addition, Prima Target Limited is granted an option ("Option") to acquire further convertible bond ("Further Convertible Bond") by Lion Legend on 9 July 2012. The Option will be convertible to five ordinary shares of KBI. The Option exercise consideration shall be settled by the Company by way of issuance and allotment of the followings before 28 December 2012:

(i) 800,000,000 ordinary shares of the Company at a price of HK$0.04, amounting to HK$32,000,000; and

(ii) further convertible bond in a principal amount of HK$160,000,000 which is convertible to 4,000,000,000 new conversion shares of the Company at a conversion price of HK$0.04 each.

KBI is a company incorporated in the BVI with limited liability. As the Option is out of the money, it is not optimal for the Group to exercise the Option. The directors of the Company are of the opinion that the fair value for the Option is minimal and not meaningful to disclose.

If the Exchangeable Bond is not converted or if the Option is lapsed, it will be redeemed at a redemption amount equal to 100% of the principal amount. Pursuant to the subscription agreement, the Exchangeable Bond shall be transferred to Lion Legend to fully satisfy the redemption requirement of convertible bonds *(Note 26)* upon expiry of Option. Following an amendment to the Subscription Agreement on 31 October 2012, the option exercise completion date is amended to 28 December 2012. No Option is exercised up to 28 December 2012, the Option is lapsed and the Exchangeable Bond is transferred to Lion Legend to fully satisfy the early redemption requirement of convertible bonds accordingly.

The movements of the components of the Exchangeable Bond for the year are set out below:

	Debt portion HK$'000	Embedded conversion option HK$'000	Total HK$'000
Fair value on the issuance date	16,790	506	17,296
Change in fair value of available-for-sale investment –in other comprehensive income	790	–	790
Change in fair value of embedded conversion option of exchangeable bond –in profit or loss	–	(112)	(112)
Derecognition upon early redemption of convertible bonds	(17,580)	(394)	(17,974)
At 31 December 2012	–	–	–

20. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	456	3,279
Less: allowance for doubtful debts	(328)	–
	128	3,279
Deposit and other receivables	3,844	429
Prepayments	555	1,075
	4,527	4,783

The credit period granted to the Group's trade customers generally ranges from 0 days to 90 days. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice dates at the end of the reporting period.

	2012 HK$'000	2011 HK$'000
0 to 30 days	119	3,136
31 to 90 days	9	125
91 to 180 days	–	18
	128	3,279

The Group does not hold any collateral over these balances.

As at 31 December 2012, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$9,000 (2011: HK$3,214,000) which are past due as at the end of the reporting date for which the Group has not provided for impairment loss.

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

	2012 HK$'000	2011 HK$'000
Past due but not impaired:		
0 to 30 days	9	3,071
31 to 90 days	–	143
	9	3,214

20. TRADE AND OTHER RECEIVABLES (continued)

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, the directors of the Company believe 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 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.

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

	2012 HK$'000	2011 HK$'000
At 1 January	–	–
Recognised during the year	328	–
At 31 December	328	–

Included in the provision for impairment loss of trade receivables are individually impaired trade receivables with an aggregate balance of approximately HK$328,000 (2011: Nil). The individually impaired trade receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss is recognised.

The Group's trade and other receivables that are denominated in currency other than the functional currency of the relevant group entity is set out below:

	2012 HK$'000	2011 HK$'000
Renminbi ("RMB")	–	3,034

21. BANK BALANCES AND CASH

Bank balances carry interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2012, the Group's bank balances and cash originally denominated in RMB is nil (2011: HK$10,000).

22. AMOUNTS DUE TO A FORMER FELLOW SUBSIDIARY / A SHAREHOLDER

The amounts represent amounts due to Luck Bloom and Top Status. The amounts are unsecured, non-interest bearing and repayable on demand.

23. BORROWINGS

	2012 HK$'000	2011 HK$'000
Bank loans	**3,450**	5,850
Other loans	**5,600**	6,200
	9,050	12,050
Analysed as:		
Secured bank loans	**3,450**	5,850
Secured other loans	**–**	3,200
Unsecured other loans	**5,600**	3,000
	9,050	12,050

	2012 HK$'000	2011 HK$'000
Carrying amount repayable *(Note)*:		
On demand or within one year	**9,050**	5,400
More than one year, but not exceeding two years	**–**	6,650
	9,050	12,050
Less: Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**–**	(3,450)
Less: Amounts due within one year shown under current liabilities	**(9,050)**	(5,400)
Amounts shown under non-current liabilities	**–**	3,200

Note: These amounts due are based on the scheduled repayment dates set out in the loan agreements.

23. BORROWINGS (continued)

The exposure of the Group's loans is as follows:

	2012 HK$'000	2011 HK$'000
Fixed rate loans		
On demand or within one year	5,600	3,000
More than one year, but not exceeding two years	–	3,200
Variable rate loans		
On demand or within one year	3,450	2,400
More than one year, but not exceeding two years	–	3,450
	9,050	12,050

For the year ended 31 December 2012, the Group's secured bank loans carry interests at the Hong Kong Dollars Prime Rate plus a margin (2011: Hong Kong Dollars Prime Rate plus or minus a margin) and other loan carries fixed interest at 9% (2011: 8%-9%).

The ranges of effective interest rates (which are also equal to the contracted interest rates) on the Group's loans are as follows:

	2012	2011
Fixed rate loans	9%	8% to 9%
Variable rate loans	P+4%	P-1.75% to P+1%

At 31 December 2012 and 2011, the Group's secured bank loans and other loans are secured by the Group's investment properties as set out in Note 17.

24. LOANS FROM A FORMER FELLOW SUBSIDIARY / A SHAREHOLDER

The loan from a former fellow subsidiary represents loan with principal amount of HK$12,000,000 (2011: HK$12,000,000) from Luck Bloom. The loan carries interest fixed at 6% (2011: 6%) per annum.

The loan from a shareholder represents loan with principal amount of HK$4,300,000 (2011: HK$8,000,000) from Top Status. The loan carries interest fixed at 6% (2011: 6%) per annum.

At 31 December 2012, both of the loans are unsecured and repayable on 31 July 2013 and are classified under current liabilities in the consolidated statement of financial position.

At 31 December 2011, both of the loans are unsecured and repayable on 31 July 2012 and are classified under current liabilities in the consolidated statement of financial position.

The loans from a former fellow subsidiary and a shareholder are denominated in HK$.

25. CONVERTIBLE PREFERENCE SHARES

	Number of shares	Amount HK$'000
Authorised:		
At 1 January 2011, 31 December 2011 and 31 December 2012, HK$0.10 each	173,913,043	17,391
Issued and fully paid:		
At 1 January 2011 and 31 December 2011	22,713,043	2,271
Conversion of convertible preference shares	(22,713,043)	(2,271)
At 31 December 2012, HK$0.01 each	–	–

The principal terms of the Convertible Preference Shares ("CP Shares") on the date of issue include the following:

(i) Dividend

A dividend of HK$78,000 calculated at 3% of par value of CP Shares was accrued for the year ended 31 December 2012 (2011: HK$78,000). No dividends accrued or paid upon the CP Shares until 31 December 2007.

(ii) Capital

On a return of capital on liquidation or otherwise (but not on conversion), the holders of the CP Shares ("CP Shareholders") shall have the right to be paid, in priority to any return of assets in respect of any other class of shares in the capital of the Company up to an amount equal to the aggregate notional value of HK$20 million (equivalent to approximately HK$0.115 per CP Share *(Note)*).

(iii) Redemption

The Company shall redeem all of the CP Shares at par plus the accrued and unpaid dividends at the maturity date falling five years from the date of allotment and issue of CP Shares. The CP Shares was mature on 6 November 2012.

As at 2 November 2012, all the CP shares are converted into ordinary shares, no redemption during the current year.

25. CONVERTIBLE PREFERENCE SHARES (continued)

(iv) Conversion rights

Each CP Shareholder shall have the right to convert at any time any CP Share, which shall be deemed to have a value equal to the notional value thereof, into ordinary shares at the conversion price of HK$0.115 per share *(Note)*, subject to adjustment provisions which are standard terms for convertible securities of similar type.

Each CP Shareholder shall exercise the conversion right attaching to the CP Shares only if it has been confirmed by the Company in writing that the allotment and issue of the ordinary shares to such CP Shareholder and the Company will only issue the ordinary shares pursuant to an exercise of such conversion right if such issue will not cause the Company to be in breach of the minimum public float requirement of not less than 25% as stipulated under Rule 11.23 of the GEM Listing Rules.

(v) Transferability

The CP Shares may be freely transferable subject to the provision of the Company's Bye-laws relating to the transfer of shares and share certificates and provided that no transfer of a CP Share shall be effected within a period of six months commencing on the date of issue of such CP Share.

(vi) Voting

The CP Shareholders shall not have the right to receive notice of, or to attend and vote at, general meetings of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or which if passed would vary or abrogate the rights or privileges of the CP Shareholders.

Note:

Following the share subdivision took effect on 13 October 2009, the conversion price of the CP Shares was adjusted from HK$0.115 per share to HK$0.0115 per share.

The net proceeds received from the issue of the CP Shares contain two components:

(i) Liability component represents the present value of the contractually determined stream of future cash flows discounted at the effective interest rate of 10.27% per annum.

(ii) Equity component represents the difference between the proceeds of issue of the CP Shares and the fair value assigned to the liability component.

25. CONVERTIBLE PREFERENCE SHARES (continued)

The movement of the CP Shares for the year is as follows:

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
At 1 January 2011	2,318	538	2,856
Interest charge *(Note 9)*	237	–	237
3% CP dividend	(78)	–	(78)
At 31 December 2011	2,477	538	3,015
Interest charge *(Note 9)*	213	–	213
3% CP dividend	(78)	–	(78)
Conversion during the year	(2,612)	(538)	(3,150)
At 31 December 2012	**–**	**–**	**–**

During the year ended 31 December 2012, 227,130,430 ordinary shares of HK$0.01 each were issued pursuant to the conversion of the convertible preference shares at a conversion price of HK$0.0115 per share.

26. CONVERTIBLE BONDS

On 9 July 2012, the Company issued zero coupon convertible bonds (the "CBs") in a principal amount of HK$18,000,000 to Lion Legend to subscribe the Exchangeable Bond issued by Lion Legend *(Note 19)*. The CBs will mature on 1 April 2013 (the "Maturity Date"). If the Option (details of which are set out in *Note 19)* is not exercised or if the Option lapses, or if Lion Legend redeems the Exchangeable Bond, the CBs will be redeemed at par. The redemption amount of CBs shall be fully satisfied and discharged by the transfer or assignment of the Exchangeable Bond to Lion Legend.

Lion Legend is entitled to convert the whole or part of the principal amount of the CBs into ordinary share capital of the Company on any business day and from time to time, after the issue date up to and including the fifth business day before the Maturity Date, at an initial conversion price of HK$0.0375 per share. Following an amendment to the Subscription Agreement on 31 October 2012, the Option Exercise Completion Date is amended to 28 December 2012. Details are disclosed in the Company's announcement dated 31 January 2012 and circular dated 28 May 2012.

The Company is not entitled to early redeem the CBs at any time before the Maturity Date. Transaction costs that are directly attributable to issue of CBs amounting to approximately of HK$301,000 are allocated to liability and equity components on initial recognition.

The CB contains the following components that are required to be separately accounted for:

(i) Liability component for the CBs represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at the date of issue with reference to the market rate for instruments of comparable credit status taking into account the credit risk of the Company as well as the amount of the CBs without conversion option, plus allocated transaction costs. The effective interest rate of the liability component is 17.52%.

(ii) Equity component represents the difference between the gross proceeds of the issue of the CBs and the fair values assigned to the liability components less allocated transaction costs.

26. CONVERTIBLE BONDS (continued)

On 28 December 2012, the Option is lapsed and the Company early redeemed the whole CBs with a principal amount of HK$18,000,000 by the transfer or assignment of the Exchangeable Bond to Lion Legend. This gave rise to a debt extinguishment gain of approximately HK$272,000 for the year ended 31 December 2012.

The movements of the CBs are set out below:

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
At 9 July 2012	16,009	986	16,995
Effective interest expense *(Note 9)*	1,266	–	1,266
Gain on early redemption of CBs	(272)	–	(272)
Early redemption of CBs	(17,003)	(971)	(17,974)
Transfer to accumulated losses upon early redemption of CBs	–	(15)	(15)
At 31 December 2012	**–**	**–**	**–**

27. DEFERRED TAXATION

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2011	–	–	–
Charged (credited) to consolidated statement of comprehensive income for the year	133	(133)	–
At 31 December 2011	133	(133)	–
Charged (credited) to consolidated statement of comprehensive income for the year	(127)	127	–
At 31 December 2012	**6**	**(6)**	**–**

27. DEFERRED TAXATION (continued)

At the end of the reporting period, the Group has unused tax losses of approximately HK$44,578,000 (2011: HK$32,299,000) available for offset against future profits. A deferred tax has been recognised in respect of approximately HK$37,000 of such losses (2011: HK$808,000). No deferred tax asset has been recognised in respect of the remaining tax loss of approximately HK$44,541,000 (2011: HK$31,491,000) due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$833,000 (2011: HK$741,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

28. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2011, 31 December 2011 and 31 December 2012	3,260,869,570	32,609
Issued and fully paid:		
At 1 January 2011 and 31 December 2011, HK$0.01 each	2,424,599,690	24,246
Placing of new shares *(Note a)*	280,000,000	2,800
Conversion of convertible preference shares *(Note b)*	227,130,430	2,271
At 31 December 2012, HK$0.01 each	**2,931,730,120**	**29,317**

Note:

(a) On 12 March 2012, the Company entered into a placing agreement with Top Status. Pursuant to which, Top Status has agreed to place for a placement of 280,000,000 shares of HK$0.010 each in the Company, at a price of HK$0.068 per share. 280,000,000 shares of HK$0.010 each in the Company were allotted to Top Status on 19 March 2012. Details are disclosed in the Company's announcement dated 19 March 2012.

The placement was completed on 19 March 2012. The gross proceeds and net proceeds, after deducting all related expenses, were approximately HK$19,040,000 and HK$18,448,000, respectively. The net proceeds were used to repay total outstanding loans and interest payable to Luck Bloom and Top Status totaling approximately HK$3,700,000. The remaining net proceeds of approximately HK$14,748,000 were used to provide additional general working capital for the Company. These new shares were issued under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 6 May 2011 and rank pari passu with other shares in issue in all respects.

(b) During the year ended 31 December 2012, 227,130,430 ordinary shares of HK$0.01 each were issued pursuant to the conversion of the convertible preference shares at a conversion price of HK$0.0115 per share and rank pari passu with other shares in issue in all respects. Details of which are set out in Note 25.

29. 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 shareholders 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 consists of debts, which includes borrowings, loan from a former fellow subsidiary, loan from a shareholder, the liability component of convertible preference shares and convertible bonds as disclosed in Notes 23 to 26 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of existing debt.

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	5,251	5,570
Available-for-sale investments, at cost	4	500
Financial liabilities at amortised cost		
Other financial liabilities	31,076	37,997

30. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, deposit paid for operating right, trade and other receivables, bank balances and cash, other payables and accruals, amounts due to a former fellow subsidiary and a shareholder, loans from a former fellow subsidiary and a shareholder, liability component of convertible preference shares and convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

A subsidiary of the Company has foreign currency revenue, which expose the Group to foreign currency risk. During the year ended 31 December 2012, approximately 100% (2011: 100%) of the Group's sales revenue and approximately 100% (2011: 100%) of the Group's purchases arising from the trading of ceramic products segment are denominated in currencies other than the functional currency of the group entity.

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

	Assets	
	2012	2011
	HK$'000	HK$'000
RMB	**–**	3,044

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

30. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in HK$ against RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax loss where HK$ strengthen 5% against the relevant currency. For a 5% weakening of HK$ against the relevant currency, there would be an equal and opposite impact on the loss, and the balances below would be negative. The analysis is performed on the same basis for the year ended 31 December 2011.

	RMB	
	2012	2011
	HK$'000	HK$'000
Impact on loss for the year	**–**	127

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings arising from other loans, loans from a former fellow subsidiary and a shareholder and the liability component of convertible preference shares as set out in Notes 23 to 25, respectively. The Group is also exposed to cash flow interest rate risk in relation to its variable-rate bank balances and bank loans as detailed in Notes 21 and 23 respectively. It's the Group's policy to keep its loan at floating rate of interest so as to minimise the fair value interest rate risk. The Group historically has not used any financial instrument to hedge potential fluctuations in interest rates.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Hong Kong Dollars Prima Rate arising from the Group's HK$ denominated bank loans. The Group's exposure to cash flow interest rate risk is minimal.

The Group's bank balances are short-term in nature and the exposure of the interest rate is minimal.

30. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk

As at 31 December 2012, 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, mainly deposit paid for operating right, trade and other receivables and bank balances, as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the directors of the Company 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 debt at the end of the 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.

As at 31 December 2011, the Group's concentration of credit risk by geographical locations is mainly in Macau, which accounted for 93% (2012: Nil) of the total trade receivables.

As at 31 December 2011, the Group has concentration of credit risk as 93% (2012: Nil) of the total trade receivables were due from the Group's largest customer within the trading of ceramic products segment.

However, the directors of the Company consider the credit risk is under control since the directors of the Company exercise due care in granting credit and check the financial background of these debtors 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.

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 directors of the Company to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The directors of the Company monitor the utilisation of bank borrowings.

The Group is exposed to liquidity risk as the Group had net current liabilities of approximately HK$25,292,000 and capital deficiency of approximately HK$17,398,000 as at 31 December 2012. The liquidity of the Group primarily depends on the future funding being available and the ability of the Group to meet its financial obligations as they fall due. Details of which are set out in Note 2.

30. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Total undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	Carrying amounts HK$'000
2012			
Non-derivative financial liabilities			
Other payables and accruals	**4,820**	**4,820**	**4,820**
Amount due to a former fellow subsidiary	**600**	**600**	**600**
Amount due to a shareholder	**306**	**306**	**306**
Borrowings	**9,963**	**9,963**	**9,050**
Loan from a former fellow subsidiary	**12,420**	**12,420**	**12,000**
Loan from a shareholder	**4,451**	**4,451**	**4,300**
	32,560	**32,560**	**31,076**

	Total undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Carrying amounts HK$'000
2011				
Non-derivative financial liabilities				
Other payables and accruals	2,292	2,292	–	2,292
Amount due to a former fellow subsidiary	660	660	–	660
Amount due to a shareholder	518	518	–	518
Borrowings	13,126	9,766	3,360	12,050
Loan from a former fellow subsidiary	12,420	12,420	–	12,000
Loan from a shareholder	8,280	8,280	–	8,000
Convertible preference shares	2,677	2,677	–	2,477
	39,973	36,613	3,360	37,997

30. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Bank loans with a repayment on demand clause are included in the "within 1 year or on demand" time band in the above maturity analysis. As at 31 December 2011, the aggregate undiscounted principal amounts of these bank loans amounted to HK$3,450,000 (2012: nil). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans in amounts of HK$3,450,000 (2012: nil) will be repaid within one year after the end of the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$3,756,000 (2012: nil).

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

(c) Fair value

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

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

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

The directors of the Company consider that the fair value of the loan from a former fellow subsidiary and loan from a shareholder approximates to their carrying amounts as the impact of discounting is not significant.

31. OPERATING LEASES

Commitments under operating lease

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	8,424	1,404
In the second to fifth year inclusive	9,873	58
	18,297	1,462

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms of one to two years and rentals are fixed over the terms of the leases.

The Group as lessor

Property rental income earned during the year was approximately HK$219,000 (2011: HK$402,000). The properties are expected to generate rental yields of 3.0% (2011: 3.5%) on an on-going basis.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2012 HK$'000	2011 HK$'000
Within one year	–	364
In the second to fifth year inclusive	–	36
	–	400

32. SHARE OPTIONS

The Company has adopted a share option scheme on 24 January 2002 (the "Scheme 2002"). Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 6 May 2011, the Scheme 2002 was terminated and a new share option scheme (the "Scheme 2011") was adopted.

Under the Scheme 2002, the Company may only grant share options to the directors of the Company or any person who is an employee of members of the Group or any entity in which the Group holds any equity interests. However, the Scheme 2011 provides a broadened basis of and scope of eligible participation and enables the Group to reward the employees, the directors of the Company and other selected participants for their contributions to the Group. The Scheme 2002 was expired on 23 January 2012 and the directors of the Company consider that it is appropriate to adopt the new scheme.

The purpose of the Scheme 2002 and Scheme 2011 is to enable the Company to grant options to selected employees to subscribe for shares of the Company as incentives or rewards for their contributions to the Group. The board of directors of the Company may, at its discretion, invite any full-time or part-time employees of the Company or any member of the Group, including any executive and non-executive directors of the Company, advisors, consultants of the Company or any subsidiary of the Company to take up options to subscribe for shares of the Company. The total number of shares of the Company available for issue under the Scheme 2002 and Scheme 2011 was initially 10% of the issued share capital as at the date of adoption of the Share Option Scheme.

The total number of shares of the Company available for issue under the Scheme 2002 and Scheme 2011 (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time. An option may be exercised at any time during a period to be determined and notified by the Board to each participant. Upon acceptance of the option, the employee should pay HK$1.00 to the Company by way of consideration for the grant. The subscription price for the shares of the Company will be a price to be determined by the Board and will be the highest of (i) the closing price of the shares on the GEM as stated on the Stock Exchange's daily quotations sheet on the date of granting of the options; (ii) the average closing price of the shares on the GEM as stated on the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of granting of the options; and (iii) the nominal value of a share.

No share option has been granted or outstanding under the Scheme 2002 or Scheme 2011 by the Company during the year ended 31 December 2012 and 2011.

33. RETIREMENT BENEFITS SCHEMES

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

The total cost charged to income of approximately HK$135,000 (2011: HK$119,000) represents contribution payable to MPF by the Group in respect of the current accounting period.

34. DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

For the year ended 31 December 2012

On 19 December 2012, Grand Protection Holdings Limited, a wholly-owned subsidiary of the Group, entered into a sale and purchase agreement with an independent third party to dispose of the 99.9% equity interest in Watson China Limited at a cash consideration of HK$2,680,000. The remaining 0.1% equity interest in Watson China Limited classified as an available-for-sale investment of the Group since then.

	HK$'000
Consideration received:	
Cash received	2,680
Analysis of assets and liabilities over which control was lost:	
Investment properties	5,400
Other payables	(28)
Amount due to immediate holding company	(4,082)
Borrowings	(2,000)
Net liabilities disposed of	(710)
Loss on disposal of partial interest in a subsidiary:	
Available-for-sale investment	4
Consideration received	2,680
Net liabilities disposed of	710
Waiver on amount due from Watson China Limited	(4,082)
Loss on disposal of partial interest in a subsidiary	(688)
Net cash inflow arising on disposal:	
Cash consideration	2,680

During the period from 1 January to 18 December 2012, Watson China Limited contributed to the Group's revenue and loss of approximately HK$111,000 and HK$248,000 respectively.

35. RELATED PARTY TRANSACTIONS

(a) In addition to related party balances detailed in the consolidated financial statements and *Notes 22 and 24*, respectively, the Group entered into the following significant transactions with related parties during the year:

Name of company	Nature of transaction	2012 HK$'000	2011 HK$'000
Top Status	Dividend on convertible preference shares	78	78
	Loan interest expense	308	480
Luck Bloom	Loan interest expense	720	720

(b) Compensation of key management personnel

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

	2012 HK$'000	2011 HK$'000
Short-term benefits	4,065	4,305
Post-employment benefits	60	60
	4,125	4,365

The remuneration of directors of the Company and other members of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTES	2012 HK$'000	2011 HK$'000
Non-current asset			
Interests in subsidiaries		1	1
Current assets			
Other receivables		150	140
Bank balances and cash		43	146
		193	286
Current liabilities			
Other payables and accruals		1,470	474
Amounts due to subsidiaries	(a)	11,144	6,548
Amount due to a former fellow subsidiary	(b)	600	660
Amount due to a shareholder	(b)	306	518
Borrowings		5,600	3,000
Loan from a former fellow subsidiary	(b)	12,000	12,000
Loan from a shareholder	(b)	4,300	8,000
Convertible preference shares		–	2,477
		35,420	33,677
Net current liabilities		(35,227)	(33,391)
		(35,226)	(33,390)
Capital and reserves			
Share capital		29,317	24,246
Reserves	(c)	(64,543)	(57,636)
		(35,226)	(33,390)

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Notes:

(a) The amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand.

(b) Amounts due to a former fellow subsidiary / a shareholder and loans from a former fellow subsidiary/a shareholder are included in the consolidated statement of financial position. The terms are set out in *Notes 22 and 24* respectively.

(c) **Reserves**

	Share premium HK$'000	Equity component of convertible preference shares HK$'000 *(Note 25)*	Equity component of convertible bonds HK$'000 *(Note 26)*	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	11,066	538	–	28,769	(87,567)	(47,194)
Loss for the year, representing total comprehensive expense for the year	–	–	–	–	(10,442)	(10,442)
At 31 December 2011	11,066	538	–	28,769	(98,009)	(57,636)
Loss for the year, representing total comprehensive expense for the year	–	–	–	–	(22,911)	(22,911)
Placing of new shares *(Note 28)*	16,240	–	–	–	–	16,240
Transaction costs attributable to placing of new shares	(592)	–	–	–	–	(592)
Recognition of equity component of convertible bonds *(Note 26)*	–	–	986	–	–	986
Early redemption of convertible bonds *(Note 26)*	–	–	(971)	–	–	(971)
Transfer to accumulated losses upon redemption of convertible bonds *(Note 26)*	–	–	(15)	–	15	–
Issue of shares upon conversion of convertible preference shares *(Note 25)*	879	(538)	–	–	–	341
At 31 December 2012	**27,593**	**–**	**–**	**28,769**	**(120,905)**	**(64,543)**

The Company has no distribution reserves as at 31 December 2012 and 2011.

37. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Legal form of entity	Place of incorporation/ operations	Issued and fully paid share capital	Proportion ownership interest held by the Company				Principal Activities
				Directly		Indirectly		
				2012	2011	2012	2011	
Kama Business Holdings Limited	Limited liability	BVI	Ordinary shares of US$1	100%	100%	–	–	One-stop value chain services
Anson Development Limited	Limited liability	Hong Kong	Ordinary shares of HK$100	100%	100%	–	–	Group administration
Hoi Fan Investment Limited	Limited liability	BVI	Ordinary shares of US$1	–	–	100%	100%	Investment holding
Goodlink Corporation Limited	Limited liability	Hong Kong	Ordinary shares of HK$1	–	–	100%	100%	Inactive
Golden Jack Development Limited	Limited liability	BVI	Ordinary shares of US$1	100%	100%	–	–	Investment holding
Grand Protection Holdings Limited	Limited liability	BVI	Ordinary share of US$1	100%	100%	–	–	Investment holding
Alapco Company Limited	Limited liability	BVI	Ordinary share of US$1	–	–	100%	100%	Property holding
Kaley Development Limited	Limited liability	BVI	Ordinary share of US$1	–	–	100%	100%	Health care business
Cyberpress Limited[1]	Limited liability	Hong Kong	Ordinary shares of HK$100	–	100%	100%	–	Trading of ceramic products
Elite Rising Holding Limited	Limited liability	BVI	Ordinary share of US$1	100%	100%	–	–	Inactive
Prima Target Limited	Limited liability	BVI	Ordinary share of US$1	–	–	100%	100%	Inactive
Jade Cedar Enterprises Limited	Limited liability	BVI	Ordinary share of US$1	100%	–	–	–	Inactive
Joyful Grace Trading Limited	Limited liability	BVI	Ordinary shares of US$1	–	–	100%	–	Trading of ceramic products
Wide Graceful Holding Limited	Limited liability	BVI	Ordinary shares of US$1	100%	–	–	–	Trading of ceramic products
Watson China Limited[2]	Limited liability	Hong Kong	Ordinary share of HK$1	–	–	–	100%	Property holding

Note 1: 100% of equity interest in Cyberpress Limited transferred from the Company to Wide Graceful Holding Limited during the year.

Note 2: 99.9% equity interest of Watson China Limited was disposed of during the year and the remaining equity interests become an available-for-sale investment as disclosed in Note 19.

None of the subsidiaries has issued any debt securities at the end of both years.

38. MAJOR NON-CASH TRANSACTIONS

(a) During the year ended 31 December 2012, the dividend on convertible preference shares amounted to approximately HK$78,000 remained unpaid as at 31 December 2012 and included in amount due to a shareholder.

(b) During the year ended 31 December 2012, an Exchangeable Bond issued by Lion Legend in the principal amount of HK$18,000,000 was acquired by the Group. The consideration paid was fully fulfilled by the issuance of CBs in the principal amount of HK$18,000,000 by the Company. On 28 December 2012, the Company had early redeemed the whole CBs by transfer or assignment of the Exchangeable Bond to Lion Legend as full consideration.

39. EVENTS AFTER THE REPORTING PERIOD

(a) On 1 February 2013, Joyful Grace Trading Limited, a wholly-owned subsidiary of the Group, was disposed of to an independent third party at a consideration of HK$30,000.

(b) On 31 January 2013, the Company entered into an agreement with The Building And Loan Agency (Asia) Limited for a new loan of HK$600,000. The loan carries interest fixed at 9% per annum with maturity date on 30 September 2014.

(c) On 22 February 2013, the Company entered into an agreement with Luck Bloom and Top Status for an extension of the loans payable of approximately HK$6,300,000 and any interest accrued thereon to Luck Bloom and Top Status with maturity date extended to 30 September 2014.

(d) On 22 February 2013, the Company entered into a legal-binding subscription agreement with Top Status, pursuant to raise a sum of approximately HK$34,500,000 by way of issuing convertible bonds, in which Top Status will be the sole subscriber and convertible up to a maximum of 3,450,000,000 conversion shares. The maturity date will be on 31 December 2016. Details are disclosed in the Company's announcement dated 22 February 2013.

(e) On 22 February 2013, the Group entered into an agreement with The Building And Loan Agency (Asia) Limited for a new secured loan of HK$4,200,000. The loan carries interest fixed at 10% per annum with maturity date on 30 September 2014. The principal amount shall be drawn down by two installments. First installment of HK$700,000 was drawn down on 22 February 2013 while second installment of HK$3,500,000 shall be drawn down during the period from 20 May to 5 June 2013, both days inclusive. This loan is secured by an investment property of the Group.

(f) On 23 February 2013, the Company entered into an agreement with The Building And Loan Agency (Asia) Limited for the extension of an aggregate other loans of HK$5,600,000 and any interest accrued thereon to 30 September 2014. The loan interest shall be revised to 10% per annum thereafter.

(g) An irrevocable standby loan facility of HK$31,000,000 has been granted from Top Status to the Group, in case the subscription agreement as stated in Note 2 (iii) and (d) above cannot be executed on or before 30 May 2013 with drawdown period from 31 May 2013 to 31 December 2014, both days inclusive, per a loan facility confirmation letter signed on 18 March 2013. The loan carries interest fixed at 8% per annum with maturity date on 31 March 2015.

Financial Summary

The following is a summary of the consolidated results and of the assets and liabilities of the Group:

For the year ended 31 December

	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000 *(Note 1)*	HK$'000
Revenue	**20,798**	27,223	23,271	35,844	10,832
Cost of sales	**(18,012)**	(22,112)	(21,328)	(34,940)	(8,896)
Gross profit	**2,786**	5,111	1,943	904	1,936
Other revenue	**14**	11	305	3	310
Reclassification adjustments for the cumulative gain included in profit or loss upon early redemption of convertible bonds	**790**	–	–	–	–
Increase in fair value of investment properties, net	**1,320**	730	2,666	–	–
Gain on early redemption of convertible bonds	**272**	–	–	–	–
Loss on disposal of partial interest in a subsidiary	**(688)**	–	–	–	–
Gain on disposal of subsidiaries	**–**	–	–	4,812	–
Distribution costs	**–**	–	–	–	(6)
Administrative expenses	**(21,465)**	(16,749)	(19,204)	(12,474)	(8,062)
Impairment loss recognised in respect of goodwill on subsidiaries	**–**	–	–	–	(9,827)
Impairment loss recognised in respect of available-for-sale investment	**(500)**	–	–	–	(2,784)
Impairment loss on investment in an associate	**(1)**	–	–	–	–
Finance costs	**(3,462)**	(1,739)	(911)	(2,083)	(1,505)
Change in fair value of embedded conversion option of exchangeable bond	**(112)**	–	–	–	–
Loss before taxation	**(21,046)**	(12,636)	(15,201)	(8,838)	(19,938)
Taxation	**–**	(22)	–	–	(83)
Loss for the year	**(21,046)**	(12,658)	(15,201)	(8,838)	(20,021)
Other comprehensive expense for the year:					
Change in fair value of available-for-sale investments	**790**	–	–	–	–
Reclassification adjustments for the cumulative gain included in profit or loss upon early redemption of convertible bonds	**(790)**	–			
Other comprehensive expense for the year	**–**	–	–	–	–
Total comprehensive expense for the year	**(21,046)**	(12,658)	–		
Loss for the year attributable to:					
Owners of the Company	**(21,046)**	(12,658)	(15,201)	(8,838)	(20,021)
Non-controlling Interests	**–**	–	–	–	–
	(21,046)	(12,658)	(15,201)	(8,838)	(20,021)

Note 1: The consolidated results for the year ended 31 December 2009 included the results from continuing and discontinued operations.

Financial Summary

ASSETS AND LIABILITIES

As at 31 December

	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Non-current assets	**7,894**	13,947	15,444	1,124	1,251
Current assets	**5,806**	6,645	5,659	27,320	19,968
Current liabilities	**31,098**	34,819	3,554	3,910	6,738
Net current (liabilities) assets	**(25,292)**	(28,174)	2,105	23,410	13,230
Non-current liabilities	**–**	3,200	22,318	28,549	15,550
(Net liabilities) net assets	**(17,398)**	(17,427)	(4,769)	(4,015)	(1,069)

Investment Property

At 31 December 2012

Location	Type	Lease Term	Effective held
Flat C, 29/F, Tower 3, Sky Tower, No. 38 Sung Wong Toi Road, To Kwa Wan, Kowloon, Hong Kong, together with a car-parking space No. R206 on the second floor of the same building	Residential	long-term lease	100%