CHINA FORTUNE INVESTMENTS

中國幸福投資

Annual Report 2012

中國幸福投資(控股)有限公司
China Fortune Investments (Holding) Limited

CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED
(formerly known as CHINA PUBLIC HEALTHCARE (HOLDING) LIMITED)
(Incorporated in the Cayman Islands with Limited Liability)
(Stock code: 8116)

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

The GEM has been positioned as a market designed to accommodate companies to which a high 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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This report, for which the directors of China Fortune Investments (Holding) Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE PROFILE

DIRECTORS

Executive Directors

Mr. Cheng Chun Tak *(Co-chairman)*
Mr. Wan Zi Hong *(Co-chairman, Chief Executive Officer)*
Mr. Stephen William Frostick
Mr. Zhang Jie
Mr. He Ling
Mr. Chang Chun

Non-executive Director

Mr. Huang Shenglan

Independent Non-executive Directors

Mr. Lee Chi Hwa, Joshua
Mr. Tso Hon Sai, Bosco
Mr. Chang Jun
Ms. Ching Wai Han

AUTHORISED REPRESENTATIVES

Mr. Stephen William Frostick
Mr. Ang Wing Fung *CPA (Aust), CPA, ACS, ACIS, EMBA*

AUDIT COMMITTEE MEMBERS

Mr. Lee Chi Hwa, Joshua *(Chairman)*
Mr. Tso Hon Sai, Bosco
Mr. Chang Jun

NOMINATION COMMITTEE MEMBERS

Mr. Chang Jun *(Chairman)*
Mr. Tso Hon Sai, Bosco
Mr. Lee Chi Hwa, Joshua

REMUNERATION COMMITTEE MEMBERS

Mr. Lee Chi Hwa, Joshua *(Chairman)*
Mr. Chang Jun
Mr. Tso Hon Sai, Bosco

COMPLIANCE OFFICER

Mr. Stephen William Frostick

COMPANY SECRETARY

Mr. Ang Wing Fung *CPA (Aust), CPA, ACS, ACIS, EMBA*

AUDITORS

Ernst & Young
22/F, CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
Shanghai Commercial Bank Limited

LEGAL ADVISORS

On Hong Kong Law:

Tang Tso & Lau Solicitors

On Cayman Islands Law:

Conyers Dill & Pearman, Cayman

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681, George Town
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

Room 2204, 22/F,
MassMutual Tower
38 Gloucester Road
Wan Chai, Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Cayman Islands

Royal Bank of Canada
Trust Company (Cayman) Limited
4th Floor, Royal Bank House,
24 Shedden Road, George Town
Grand Cayman KY1-1110,
Cayman Islands

Hong Kong

Tricor Abacus Limited
26/F, Tesbury Centre
28 Queen's Road East
Wan Chai
Hong Kong

Stock Code

8116

Website of the Company

www.cfihk.com.hk

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, we are pleased to report the Group's results for the year ended 31 December 2012.

In 2012, through acquiring Million Zone Holdings Limited ("Million Zone") and engaged in the diamond and jewelry sales business operated by Beijing City-In-Love Market Limited（北京全城熱戀商場有限公司）under Million Zone in Mainland China, the Group has formally entered into the diamond retailing market in Mainland China. It is proven that this decision was wise and successful. As the Chairman of the Board of Directors, we are hereby pleased to report that the Group has successfully entered into the diamond retailing market in Mainland China and we will continue to endeavour for the sustainable result growth of the Group in the industry. As the innovative sales model pioneering the diamond sales industry, the City-in-Love Diamonds Arcade opened by Beijing City-In-Love Market Limited（北京全城熱戀商場有限公司）will facilitate the Group to become one of emerging leaders in the industry at present and also in the foreseeable future.

With its profound understanding of the future reform in the diamond industry in Mainland China, the performance achieved by the Group in the industry will further drive the rapid and sustainable growth of the Group's business, and such growth will be achieved through expanding retail shops and with sustainable attractiveness to customers. In this regard, we will continue to develop and establish new retail shops and expand into the capital cities of every province in Mainland China. At the same time, we will further increase our promotion efforts to enhance our influence on consumers community, thereby generating better sales results.

Looking forward, we believe that by leveraging on our high-quality business model and relying on our highly innovative and boldly facing challenges management team, and along with our various core advantages, we will certainly be able to achieve better development in the future.

We look forward to working sincerely with the Group's team of professionals, business partners, clients, and shareholders of the Group to continue to grow our business in 2013.

Cheng Chun Tak and Wan Zihong
Co-Chairmen

BUSINESS REVIEW AND OUTLOOK

Diamonds and gemstone business in China

On 20 January 2012, the Group agreed to acquire all of the issued share capital of Million Zone Holdings Limited and its subsidiaries from the Vendors at the consideration of HK$600,000,000 (the "Acquisition"). It engages in the retail business of diamonds, jades as well as other gemstones and related jewellery through Beijing City-In-Love Market Limited (北京全城熱戀商場有限公司) (being a principal operating company of Million Zone in Beijing, China). The Acquisition was smoothly completed on 11 May 2012. Accordingly, the Directors believe that there will be raising consumer demand for quality goods and increasing consumption desire for luxury goods in Mainland China and the prospects of diamonds will remain positive in the next few years.

City-In-Love positions itself as a distributor by asset-light operation in the diamonds and gemstone industry. City-In-Love acquires diamond merchandise through low margin deposits and credit period with the ultimate sales of all diamonds at its proprietary hypermarkets, thereby able to achieve an ultra-low inventory level. City-In-Love has demonstrated its advantages as a distributor in such aspects in purchasing, products update and settlement with suppliers, including extensive merchandise sources, low purchase price, relatively low liquidity requirements and relatively high gross margin. With its more effective business development strategies and outstanding market performance, City-In-Love has attracted more attention as one of emerging sales model of jewellery products and has emerged itself the role of representing the affordable and professional diamond hypermarkets in 2012.

I. Purchases

Through the positive interaction with suppliers which is facilitated by the good sales performance, the global supply mechanism set up by City-In-Love is becoming more and more comprehensive and has established stable co-operation with nearly fifty suppliers. With the further development of its business, City-In-Love positions itself with more bargaining power to further its revolutionary purchase model of "Deposit-Leverage-Consignment" in the diamonds industry to purchase quality diamond merchandise through low margin deposits.

At the same time, with the exchangeable nature of consignment merchandise, it will also enable City-In-Love to provide more fashionable and popular diamond and jewellery products.

II. Sales

As a result of the reform in traditional jewellery sales models, City-In-Love has significantly trimmed down the sales and circulation segments under the traditional department store models through its own hypermarkets and sold jewellery products at affordable prices by cutting down intermediaries.

Each of the diamonds sold by City-In-Love is attached with a diamond examination certificate issued by authoritative inspection institutes (including GIA, IGI, HRD and NGTC), and has to the greatest extent protected the consumers in buying genuine quality diamonds.

The sales model of "loose diamonds" plus "rings" initiated by City-In-Love has transformed consumers' comprehension of diamond jewellery products represented by "diamond rings" and implemented the concept of selling diamonds at affordable prices in a more quantitative and transparent sales model. The varieties, specifications, quantities and styles of diamonds sold at its stores far exceed the traditional department stores. Besides, some hypermarkets have even expanded their merchandise to cover emeralds, jades, gemstones and pearls, thus, the merchandise sold at its stores cover nearly all of diamond jewellery products.

III. Establishment of new stores

In 2012, City-In-Love further integrated its Beijing markets with currently four stores. Besides, the Shenyang store outside of Beijing was successfully set up and put into operation, thereby commencing its implementation of the nationwide expansion plan. Furthermore, the Chengdu store under development in 2012 is expected to open in early 2013. The development of Chengdu has introduced many high-tech measures and will topple and bring different purchasing experience to customers.

IV. Development planning

Owing to the distinctive features of the business model in diamond retailing by City-In-Love, its revenue growth was mainly attributed to the expansion of sales volume. Therefore, City-In-Love will speed up the establishment of new stores with the provincial capital cities in Mainland China being the major target cities.

Besides its retail business, the Company will also focus on the development of various profit growing segments to improve its overall profitability, like the development of upstream industry chain and the jewellery wholesale business.

Meanwhile, City-In-Love will make new attempts on its online sales by leveraging on the advantages of its stores of physical presence to expand its sales regions and increase its influence.

Healthcare Information Technology (“HIT”) in the PRC

Through the sale of products and provision of services, the Group was one of the major providers of the HIT system that is in line with the requirements of the China hospital systems. Our main products and services are set out as follows:

I) Medical Imaging Database System

II) Electronic Medical Records (EMR) System

III) Regional Public Health Medical System

On 31 December 2012, the Group entered into the memorandum of understanding (“MOU”) with China Enterprises Inc. (“Purchase”) in relation to the proposed disposal by the Company of its subsidiaries engaging in HIT business contemplated under the MOU (“Proposed Disposal ”). Pursuant to the MOU, the Group and the Purchaser shall negotiate for a formal sale and purchase agreement relating to the Proposed Disposal.

As at 31 December 2012, the assets and liabilities of the HIT business were classified as held for sale on the consolidated statement of financial position. Please refer to note 12 to the consolidated financial statements for more details.

Group and other business

Apart from the acquisition of diamonds and precious stone retail and wholesales business in China as set out in the Business Review and Outlook, the Proposed Disposal and the disposals mentioned below, the Group had no other significant acquisition or disposal of investments for the year ended 31 December 2012.

The directors took the view that when comparing with other mines in the proximity in term of size and annual output, the Jiangxi mine is of relatively small scale. The management of the Group has kept monitoring the situation and assessing its business from time to time in prior years. In November 2012, in order to avoid large scale of production cost for mining operation, the directors decided to dispose the entire equity interests in the subsidiary of mining business.

Furthermore, the directors consider the self-developed radio trunking systems were lack of the demand in the PRC market. Thus, in November 2012, the Group disposed the entire equity interests in the subsidiary of radio trunking business.

The directors believe that the Group's financial position will be improved subsequent to the aforesaid disposals because the disposals will enable the Group to focus its diamond and jewellery business in the future and at the same time the Group can further seek for new business opportunities to broaden its income base.

Furthermore, the Group continues to explore any other new potential investment opportunities to improve the Group's standard performance and returns to its shareholders.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2012, the consolidated turnover of the Group from continuing operations was approximately HK$236 million and HK$Nil (re-presented) in 2011. Gross profit for the continuing operations in 2012 is approximately HK$82 million (2011: HK$ Nil (re-presented) and gross margin is 35%.

The entire turnover HK$236 million is from the diamond and jewellery business.

Other revenues

The Group earned approximately HK$3.9 million other revenue which mainly represented gain from disposal of fixed assets of approximately HK$3.4 million.

Selling and distribution expenses

Selling and distribution expenses is approximately HK$37 million, mainly representing advertisement expenses and rental expenses for the diamond and jewellery business.

Administrative expenses

Administrative expenses is approximately HK$73 million. It was mainly consisted of share based payment of approximately HK$21.36 million from 800 million new share options granted during the year and the consulting and professional fee of approximately HK$20 million incurred for the Acquisition.

Finance costs

Finance costs for the year of approximately HK$14 million were convertible bonds imputed interest and interest in bank loans. During the year, the convertible bonds of HK$208 million were issued as consideration for the Acquisition with imputed compound interest rate of 4.77% per annum. Also, the Group has proceeded the placing of convertible bonds amounting to HK$100 million with imputed compound interest rate of 4.91% per annum, for financing the Acquisition and the Group's general working capital.

Results of group operations

As a result, the Group recorded the loss attributable to shareholders of the Company of approximately HK$748 million for the year 2012, and in the last year we recorded loss of HK$257 million. The directors do not recommend the payment of a dividend for the year ended 31 December 2012 (2011: Nil).

During the year, goodwill and intangible assets related to HIT business recognised impairment losses of approximately HK$393 million and HK$183 million respectively.

LIQUIDITY AND FINANCIAL RESOURCES

The bank balances and cash of the Group was amounting to HK$17 million as at 31 December 2012. This represented a decrease of 79% as compared with the position as at 31 December 2011 of HK$80 million.

CAPITAL STRUCTURE

Convertible bonds in the original principal amount of HK$465 million ("CB I") was issued by the Company in prior years of which HK$262.80 million were converted in previous years, and HK$118.74 million were converted during 2012. As at 31 December 2012, a principal amount of HK$83.46 million of CB I were still outstanding with a conversion price of HK$0.4 per share, after taking into account the Share Consolidation effect as detailed in note 45(a).

During 2012, the Group issued convertible bonds in the original principal amount of HK$100 million ("CB II") and HK$208 million ("CB III") for the placing and for acquisition of diamond and jewellery business respectively. For the CB II and CB III, approximately HK$50 million and HK$10 million were converted during the year. As at 31 December 2012, principal amounts of HK$50 million and HK$198 million of CB II and CB III were outstanding with conversion prices of HK$0.49 per share and HK$0.49 per share respectively, after taking into account the Share Consolidation effect as detailed in 45(a).

As at 31 December 2012, the Group's gearing ratio is 82% (2011: 26%). Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

CHARGE ON GROUP ASSETS

As at 31 December 2012, the Group's motor vehicles with carrying value amounting to HK$2.61 million were pledged to the financial institution. Saving as disclosed above, no other group assets were charged or pledged to secure any loans or borrowings.

FOREIGN EXCHANGE EXPOSURE

Since the Group's sales, purchases and loans were substantially denominated in either Renminbi or Hong Kong Dollar, the Directors of the Company consider that the potential foreign exchange exposure of the Group is limited.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 31 December 2012, the Group employed a workforce with head count of approximately 250, the majority of whom were employed in the PRC. Employee benefit expenses from continuing operations, including directors' emoluments, amounted to approximately HK$39 million. The Group's remuneration policy has been in line with the prevailing market practice including discretionary bonus and remunerates its employees based on their performance and contribution. Other benefits include contributions to retirement scheme and medical insurance.

ACQUISITIONS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed above, the Group had no other acquisitions or disposals of subsidiaries and affiliated companies for the year ended 31 December 2012.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed above, the Group did not have any future plans for material investments or capital assets as at 31 December 2012.

SIGNIFICANT INVESTMENT

Save as disclosed above, the Group did not have any significant investment as at 31 December 2012.

INTRODUCTION

The Code on Corporate Governance Practices (the "CG") contained in Appendix 15 of the GEM Listing Rules was introduced on 1 January 2005. It sets out the principles of good corporate governance and the Company is required to comply with the code provisions of the CG. The Company is fully admitted that good corporate governance, as part of the Company's culture, can create values to the Group and our shareholders. The Board is committed to continue to enhance the standards of corporate governance within the Group and to ensure that the Group conducts its businesses in an honest and responsible manner. Except for disclosed in this report, the Group has adopted practices which meets the code provisions of the CG.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the Directors of the Company, all Directors have complied with the required standard of dealings and code of conduct regarding securities transactions by Directors as set out in the code of conduct for the year 2012.

BOARD COMPOSITION

The Board of Directors ("Board") of the Company is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the Chairman and Chief Executive Officer and the management.

The Board comprises a total of 11 Directors, with 6 Executive Directors, namely, Mr. Cheng Chun Tak (Co-chairman), Mr. Wan Zihong (Co-chairman, Chief Executive Officer), Mr. Stephen William Frostick, Mr. Zhang Jie, Mr. He Ling, Mr. Chang Chun, and 1 Non-executive Director namely Mr. Huang Shenglan, and 4 Independent Non-executive Directors, namely, Mr. Chang Jun, Mr. Tso Hon Sai, Bosco and Mr. Lee Chi Hwa, Joshua and Ms. Ching Wai Han. One Independent Non-executive Director has appropriate professional qualifications, accounting and financial management expertise.

Before the resignation of Mr. Stephen William Frostick ("Mr. Frostick") as the chairman of the Company, roles of chairman and chief executive officer are separately held by Mr. Frostick and Mr. Lu Chunming, who resigned as chief executive officer and executive director with effect from 6 July, 2012, respectively. Starting from 5 November 2012, the posts of Chairman and Chief Executive Officer are not separated. As the Company's size is still relatively small and thus is not justified in separating the roles of chairman and chief executive officer of the Company. The Group has in place internal control system to perform the check and balance function. In addition, the Board comprises 11 directors, the balance of power and authority between the Board and management will not be compromised.

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

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been updated on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. There is a procedure agreed by the Board to ensure Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Directors confirmed that they have complied with the Code Provision A.6.5 of the Code effective on 1 April 2012 on Directors' training.

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

The Board meets regularly over the Company's affairs and operations. Details of the attendance of each member of the Board at the meetings of the Board, its respective committees and the general meetings during the year ended 31 December 2012 are as follows:

Name of Directors	Board Meeting Attended/ Eligible to attend	Audit Committee Meeting Attended/ Eligible to attend	Remuneration Committee Meeting Attended/ Eligible to attend	Nomination Committee Meeting Attended/ Eligible to attend	General Meeting Attended/ Eligible to attend
Number of meetings held during the financial year	35	4	8	7	4
Executive Directors					
Mr. Cheng Chun Tak *(Co-chairman)* (Appointed on 6 January 2012)	34/34	3/3*	6/6*	5/5*	2/4
Mr. Wan Zihong *(Co-chairman)* (Appointed on 18 June 2012)	12/13	1/1*	2/2*	2/2*	0/1
Mr. Chang Chun (Appointed on 18 June 2012)	12/13	2/2*	3/3*	3/3*	0/1
Mr. Zhang Jie (Appointed on 26 October 2012)	5/5	N/A	N/A	N/A	N/A
Mr. He Ling (Appointed on 15 November 2012)	4/4	N/A	N/A	N/A	N/A
Mr. Stephen William Frostick	35/35	4/4*	7/7*	6/6*	2/4
Mr. Lu Chuming (Resigned on 6 July 2012)	22/23	2/2*	4/4*	3/3*	0/3
Non-executive Director					
Mr. Huang Shenglan (Appointed on 19 September 2012)	8/8	1/1*	2/2*	2/2*	0/1
Independent Non-executive Directors					
Mr. Lee Chi Hwa, Joshua	34/35	4/4	8/8	7/7	0/4
Mr. Tso Hon Sai, Bosco	35/35	4/4	8/8	7/7	1/4
Mr. Chang Jun	34/35	3/4	7/8	6/7	0/4
Ms. Ching Wai Han (Appointed on 24 December 2012)	1/1	N/A	N/A	N/A	N/A

* In attendance by invitation

Except Mr. Tso Hon Sai, Bosco who attended the annual general meeting held on 31 May 2012, all of the Independent Non-executive Directors were unable to attend the Company's annual general meeting and extraordinary general meetings held during the year due to other prior business engagements.

NON-EXECUTIVE DIRECTORS

The Non-executive Directors are subject to retirement by rotation in accordance with the articles of association of the Company (the "Articles").

All the existing Non-executive Directors are appointed for an initial term of three years and the term of office shall continue after the expiration of the initial term until at least 1 month's prior written notice is given by the Director. The remuneration packages for Non-executive directors are determined by the Board of Directors. They are reimbursed for reasonable expenses incurred during the performance of their duties to the Company and are eligible to be granted share options under the Share Option Scheme.

REMUNERATION OF DIRECTORS

A Remuneration Committee was formed on 30 October 2005 for, inter alia, the following purposes:–

(a) to make recommendations to the Board on policies and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to determine the remuneration packages for Executive Directors and senior management and to make recommendations to the Board on the remuneration of Non-executive Directors.

The Remuneration Committee is made up of the Company's Independent Non-executive Directors, namely, Mr. Chang Jun, Mr. Tso Hon Sai, Bosco and Mr. Lee Chi Hwa, Joshua. Mr. Lee Chi Hwa, Joshua is the Chairman of the Remuneration Committee.

Meetings have been held in 2012 to review the remuneration packages of Executive Directors, which are nominal by market standards. The Directors' fees of the Company's Independent Non-executive Directors have not been changed during the year according to market levels. The Remuneration Committee held 8 meetings during the year to consider and approve (a) bonus payments to employees of the Group, (b) salary increases of senior management of the Group and (c) range of salary increase for employees of the Group.

The Remuneration Committee will meet and determine the emolument policy and long-term incentive schemes as well as the basis of determining the emolument payable to the Company's Directors in 2012.

NOMINATION OF DIRECTORS

A Nomination Committee was formed on 31 October 2007 for, inter alia, the following purposes:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board;

(b) to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorship; and

(c) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for Directors.

The Nomination Committee is made up of the Company's Independent Non-executive Directors, namely, Mr. Chang Jun, Mr. Tso Hon Sai, Bosco and Mr. Lee Chi Hwa, Joshua. Mr. Chang Jun is the Chairman of the Nomination Committee. The Nomination Committee held 7 meetings during the year to review the structure, size and composition of the Company's Board of Directors. The Nomination Committee was satisfied with the existing composition of the Company's Board of Directors and recommended no change in the near term.

The Nomination Committee will meet and determine the nomination procedures and the process and criteria to select and recommend candidates for directorship in 2013.

AUDITORS' REMUNERATION

The remuneration in respect of audit provided by the auditors, Messrs. Ernst & Young, to the Company for the year 2012 amounted to HK$2.5 million. No non-audit services were provided by Messrs. Ernst & Young during the year.

AUDIT COMMITTEE

The Company's Audit Committee was formed on 13 July 2000 and is currently composed of three Independent Non-executive Directors of the Company, namely, Mr. Lee Chi Hwa, Joshua, Mr. Tso Hon Sai, Bosco and Mr. Chang Jun. Mr. Lee Chi Hua, Joshua is the Chairman of the Audit Committee. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements, interim reports and quarterly reports, (b) to provide advice and comments thereon to the Board and (c) to review and supervise the financial reporting process and internal control procedures of the Group.

In 2012, the Audit Committee held 4 meetings. The Audit Committee has carefully reviewed the Company's quarterly, half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Audit Committee also carried out and discharged its duties set out in the CG. In the course of doing so, the Audit Committee has met the Company's management, qualified accountant and external auditors in 2012.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view. The Auditors are responsible for forming an independent opinion, based on the audit, on the financial statements prepared by the Directors and reporting the opinion solely to the shareholders of the Company.

INTERNAL CONTROL

The Board is responsible for the maintenance of a sound and effective internal control system of the Group and has established the Group's internal control policies and procedures for monitoring the internal control system. The internal control system of the Group is designed for the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure maintenance of proper books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations. The management and various departments conduct periodic self-assessment of the effectiveness of the internal control policies and procedures. Besides, the Board reviews at least annually the overall effectiveness of the Group's internal control system.

The Board is of the view that the Group's internal control system is effective to achieve the Group's internal control objectives and will continue to assess the effectiveness of internal controls by considering reviews performed by the Audit Committee and the management.

COMPANY SECRETARY

Mr. Ang Wing Fung ("Mr. Ang") is the Company Secretary of the Company. He is responsible for ensuring that the board policy and procedures are followed and that the Board is briefed on legislative, regulatory and corporate governance developments.

Up to the date of this report, Mr. Ang has undertaken not less than 15 hours of relevant professional training.

INVESTOR RELATIONS

The Company has disclosed all necessary information to the shareholders and established a range of communication channels between itself, its shareholders and investors which in compliance with the GEM Listing Rules. During the year under review, there is no change in the Company's constitutional documents.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, shareholders are requested to follow article 58 of the Articles, general meetings shall be convened on the written requisition of any one or more members holding at the date of 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 right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The provisions for a shareholder to propose a person for election as a director of the Company are laid down in article 88 of the Articles. No person other than a Director retiring at the meeting shall, unless recommended by the Board for election, be eligible for election to as a Director at any general meeting unless a notice in writing of the intention to propose such person for election as a Director, signed by a shareholder (other than the person to be proposed for election as a Director) duly qualified to attend and vote at the meeting for which such notice is given, and a notice in writing signed by such person of his willingness to be elected shall have been lodged at the head office or at the Registration Office. The minimum length of the period during which such notices are given shall be at least seven days and the period for lodgement of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

Shareholders may send written enquiries to the Company, for the attention of Company Secretary, by mail to Room 2204, 22/F., MassMutual Tower, 38 Gloucester Road, Wan Chai, Hong Kong.

EXECUTIVE DIRECTORS

Mr. Cheng Chun Tak, aged 51, is the Co-Chairman of the Company. He was graduated from Xidian University (formerly known as Xi Bei Institute of Telecommunications Engineering（西北電訊工程學院）) in 1983 majored in Computer Engineering and obtained a Bachelor Degree in Computer Engineering. In 1986, he obtained a Master Degree in Engineering (Computer Science) from the Institute of Microelectronics of Shanxi（陝西微電子學研究所）.

Mr. Cheng has been worked as the general manager of Proxim Wireless Corporation (OTCQX: PRXM) from 2002 to 2004. Listed in United States, Proxim Wireless Corporation is a global leading provider for products and services in end-to-end broadband wireless system that provides integrated services in data transmission, acoustic frequency, audio frequency and mobile networks for all companies. Mr. Cheng is mainly responsible for the sales and after-sales services of that company in the Greater China region, being Hong Kong, Mainland China, Macau and Taiwan.

Mr. Cheng has extensive experience in the sales and customer services of communication industry in which he has over 20 years of experience in sales and customer services.

Mr. Wan Zihong, aged 48, is the Co-Chairman and Chief Executive Officer of the Company. He has over 10 years' experience in project management and marketing in retail sales in The People's Republic of China ("PRC"). He has been responsible for launching a large scale shopping arcade for women in Beijing and similar projects in Hebei and Tianjin, PRC. Mr. Wan had also been actively engaged in the retail sales of luxury products such as gold and diamonds in the PRC. Mr. Wan is currently a director of various subsidiaries of the Company engaging in diamond sales in the PRC.

Mr. Chang Chun, aged 48, has over 20 years' experience in the wholesale and trading of diamonds in Japan and the PRC. Prior to joining the Group, Mr. Chang worked for a Japanese corporation in its diamond wholesale business in the PRC. Mr. Chang is currently a director of various subsidiaries of the Company engaging in diamond sales in the PRC.

Mr. Stephen William Frostick, aged 63, he obtained a Juris Doctorate at Old College School of Law, Nevada, United States in 1984, a Master of Public Administration and a Bachelor of Science in Business Administration at the University of Nevada, Las Vegas, United States in 1976 and 1974 respectively. Mr. Frostick has over 35 years of experience in leading capacities in the State Government of Nevada, United States, large corporations and international consulting organisations.

Mr. Frostick is well experienced in strategic planning, operational management and organisational development and has about 36 years of senior management experience. He joined the Group in 2007. He is currently the Executive Director of Code Agriculture (Holdings) Limited (formerly known as China Chief Cable TV Group Limited) which is listed on the Stock Exchange of Hong Kong Limited.

Mr. Zhang Jie, aged 53, was graduated from Beijing Institute of Technology in 1983 and obtained a Bachelor degree of Engineering. In 1988, he obtained a professional engineer qualification in computer technology from Beijing Municipal Bureau of scientific and technical cadres.

Mr. Zhang has over 10 years' experience in risk management, electronic engineering, fund management and marketing. Mr. Zhang is the director of Fortman Fund. He works as Technical Director in Beijing Lian Jin Medical Technology Company Limited and Chief Engineer in King Dynasty Holdings Limited which are the subsidiaries of the Company since 2010.

Mr. He Ling, aged 48, he founded and operated various trading companies and large scale retailing malls. He has engaged in the investment of various sectors such as film, television, real estate and culture over 10 years. Currently, Mr. He is the chairman of Ru Yi Ji Xiang Film & Television Planning Company (如意吉祥影視策劃公司) and an executive director of Beijing Shi Ji Jing Rong Investment Advisory Co., Ltd. (北京世紀京融投資顧問有限公司).

NON-EXECUTIVE DIRECTOR

Mr. Huang Shenglan, aged 62, holds a diploma in Arts from Huazhong Normal University, a master degree in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University. He also took the Advanced Management Programme from the Business School of Harvard University, USA. Mr. Huang was an executive director and the deputy governor of China Everbright Bank, Head Office and was an executive director and the general manager of China Everbright Technology Limited. He is also an Independent Non-executive Director of China LotSynergy Holdings Limited, Symphony Holdings Limited and Burwill Holdings Limited. All Companies are listed in Hong Kong Stock Exchange. Apart from the above, he did not hold any directorship in other listed companies in Hong Kong or overseas in the last three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Chi Hwa, Joshua, aged 40, is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has extensive experience in the fields of auditing, accounting and finance. He joined the Group in 2007. He is currently the Independent Non-executive Director of Code Agriculture (Holdings) Limited (formerly known as China Chief Cable TV Group Limited) and King Stone Energy Group Limited which are listed on the Stock Exchange of Hong Kong Limited.

Mr. Tso Hon Sai, Bosco, aged 48, is currently a partner with Messrs. Tso Au Yim&Yeung, Solicitors and has been a Hong Kong practising solicitor since 1990. Mr. Tso received his Bachelor of Laws degree from King's College, London. He joined the Group in 2007.

Mr. Chang Jun, aged 44, is currently a partner of Messrs, Allbright Law Office-Shenzhen and has been a Chartered lawyer of Chinese Ministry of Law since 2000. Mr. Chang received his Bachelor of Laws degree from Southwest University of Polities & Law, Chongqing and master degree in Economic & Commercial Law in People's University of China, Beijing. Mr. Chang has more than 15 years' experience in Chinese legal profession and extensive experience in legal advisory to public and multinational enterprise in PRC. He joined the Group in 2007.

Ms. Ching Wai Han, aged 37, she obtained a Master of Commerce in International Business at the University of New South Wales in 2001 and a Bachelor of Social Science at the Chinese University of Hong Kong in 1999. Ms. Ching has extensive experience in the field of public relation over 10 years.

SENIOR MANAGEMENT

Mr. ANG Wing Fung, aged 40, is the Company Secretary and Chief Financial Officer of the Company, who holds a degree of Master of Business Administration (Executive) from the City University of Hong Kong and a Bachelor degree in Accounting and Finance from The University of New South Wales, Australia. He is an associate member of Hong Kong Institute of Certified Public Accountants, a qualified member in CPA Australia and an association member of the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He has over 10 years of experience in financial management, auditing and accounting in an international accounting firm and a listed company in Hong Kong. He is currently the Executive Director of Inno-Tech Holdings Limited which is listed on the GEM of Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the independent non-executive director of UKF (Holdings) Limited, a company listed on the GEM of the Stock Exchange.

REPORT OF DIRECTORS

The Directors of the Company ("Directors") submit herewith their annual report together with the audited consolidated financial statements for the year ended 31 December 2012.

CHANGE OF NAME

Pursuant to a special resolution passed at the annual general meeting held on 31 May 2012 and approved by the Registrars of Company of Hong Kong on 29 June 2012, the name of the Company was changed from China Public Healthcare (Holding) Limited to China Fortune Investments (Holding) Limited.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's segment information is set out in note 4 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2012 and the state of the affairs of the Group at that date are set out in the consolidated financial statements on pages 27 to 116.

The Directors do not recommend the payment of a dividend for the year.

PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2012 are set out in note 18 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 14 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the statement of changes in equity on page 30 and note 35 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company has no reserves available for distribution to shareholders (2011: Nil) in accordance with the Companies Law of the Cayman Islands and the Company's Articles of Association.

CONVERTIBLE BONDS

Details of movements in the convertible bonds of the Company during the year are set out in note 31 to the consolidated financial statements.

DONATION

The Group's charitable and other donations during the year amounted to approximately HK$0.13 million (2011: approximately to HK$1 million). No donations were made to political parties.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 33 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 117 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
– the largest supplier	17%
– five largest suppliers combined	46%
Sales	
– the largest customer	12%
– five largest customers combined	40%

To the best of the Directors' knowledge, none of the Directors, their associates or any shareholder who owns more than 5% of the Company's share capital had an interest in any of the major customers or suppliers above.

EVENTS AFTER THE REPORTING PERIOD

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

DIRECTORS

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

Mr. Cheng Chun Tak *(Co-chairman)*(Appointed on 6 January 2012)
Mr. Wan Zihong *(Co-chairman)* (Appointed on 18 June 2012)
Mr. Stephen William Frostick
Mr. Zhang Jie (Appointed on 26 October 2012)
Mr. He Ling (Appointed on 15 November 2012)
Mr. Chang Chun (Appointed on 18 June 2012)
Mr. Huang Shenglan# (Appointed on 19 September 2012)
Mr. Lee Chi Hwa, Joshua*
Mr. Tso Hon Sai, Bosco*
Mr. Chang Jun*
Ms. Ching Wai Han (Appointed on 24 December 2012)*

\# *Non-executive Director*
* *Independent Non-executive Director*

One-third of the Directors shall retire at the forthcoming annual general meeting in accordance with Article 87 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests and short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the ordinary shares of HK$0.01 each of the Company

Name of the Shareholders	Type of interest	Number of shares	Number of underlying shares	Approximate percentage of issued share capital
Mr. Stephen William Frostick *(Note 1)*	Beneficial	–	10,000,000	0.07%
Mr. Cheng Chun Tak *(Note 2)*	Beneficial	–	35,000,000	0.24%
Mr. Zhang Jie *(Note 3)*	Beneficial	567,142,857	–	3.67%

Notes:

1. Mr. Stephen William Frostick, an Executive Director of the Company, has interest in the Company.
2. Mr. Cheng Chun Tak, an Executive Director of the Company, has interest in the Company.
3. Mr. Zhang Jie, an Executive Director of the Company, deemed to have interest in the Company which is held by GLORYWIDE GROUP LIMITED.

Long positions in the underlying shares

On 31 March 2010, share options of 10,000,000 shares and 35,000,000 shares at exercise price of HK$0.186 were granted to two directors of the Company, Mr. Stephen William Frostick and Mr. Cheng Chun Tak (who previously was consultant and appointed as executive director on 6 January 2012), under the Share Option Scheme. These share options are exercisable for a period of 3 years from the date of granted unconditionally.

Save as disclosed above, as at 31 December 2012, none of the Directors or the Chief Executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for an initial term of three years and will continue thereafter until the contract is terminated by either party giving to the other party not less than one calendar months' notice in writing.

As at 31 December 2012, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which any Directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the Independent Non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executives' interests and short positions in shares, underlying shares and debentures" above and the "Share option scheme" below, at no time during the year have rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their spouse or children under 18 years of age to acquire such rights in any other body corporate.

SHARE OPTION

The Company adopted a share option scheme on 30 July 2007 ("the Scheme"), which became effective for a period of 10 years commencing on 10 August 2007. Under the Scheme, the Directors of the Company may at their discretion grant options to any eligible person to subscribe for the shares of the Company ("Share") at the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. The offer of a grant of option shall remain open for acceptance within 21 days from the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of the option. The exercise period of the option must not be more than 10 years from the date of grant of the option.

The Company operates the Scheme for the purpose of advancing the interests of the Company and its shareholders by enabling the Company to grant options to attract, retain and reward any eligible persons which include any director of the Group, any employee of the Group, any consultant, adviser, agent, supplier, customer, business partner or shareholder of the Group for their contribution or potential contribution to the Group.

The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes in force from time to time must not in aggregate exceed 30% of the shares in issue from time to time.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of shares in issue as at the date of the passing of the relevant resolution adopting the Scheme.

Pursuant to the Scheme, as at 31 December 2012, the directors, employees and consultants were granted share options to subscribe for shares of the Company, details of which were as follows:

Name or category of participant	As at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 31 December 2012	Date of granted of share options	Exercise period of share options	Exercise price of share options
Directors									
Stephen William Frostick	10,000,000	–	–	–	–	10,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK$0.186
Cheng Chun Tak	35,000,000	–	–	–	–	35,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK$0.186
	45,000,000	–	–	–	–	45,000,000			
Employees	29,220,000	–	–	(29,220,000)	–	–	10 August 2007	10 August 2007 – 9 August 2012	HK$0.380
Employees	52,000,000	–	–	–	(12,000,000)	40,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK$0.186
Employees	–	800,000,000	–	–	–	800,000,000	26 January 2012	26 January 2012 – 25 January 2015	HK$0.061
	81,220,000	800,000,000	–	(29,220,000)	(12,000,000)	840,000,000			
Consultants	58,439,900	–	–	(58,439,900)	–	–	10 August 2007	10 August 2007 – 9 August 2012	HK$0.380
Consultants	103,000,000	–	–	–	–	103,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK$0.186
Consultants	50,000,000	–	–	–	–	50,000,000	3 May 2010	3 May 2010 – 2 May 2013	HK$0.186
Consultants	20,000,000	–	–	–	–	20,000,000	9 July 2010	9 July 2010 – 8 July 2013	HK$0.186
	231,439,900	–	–	(58,439,900)	–	173,000,000			
	357,659,900	800,000,000	–	(87,659,900)	(12,000,000)	1,058,000,000			

None of the directors, employees and consultants of the Company had exercised their share options during the year ended 31 December 2012.

The total number of shares available for issue under the Scheme as at the 31 December 2012 thereof was 1,058,000,000 representing approximately 6.84% of the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 31 December 2012, the following persons (other than the director and the chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in the ordinary shares of HK$0.01 each of the Company

Name of the Shareholders	Type of interest	Number of shares	Number of underlying shares *(note d)*	Total Number of shares and underlying shares	Approximate percentage of issued share capital
Value Vibrant Investments Limited ("Value Vibrant") *(note a)*	Beneficial	–	2,768,303,521	2,768,303,521	17.90%
Mr. Lin Haibin *(note b)*	Beneficial	–	2,720,408,162	2,720,408,162	17.59%
Twin Wins Capital Limited ("Twin Wins") *(note c)*	Beneficial	–	848,979,591	848,979,591	5.49%

Notes:

(a) Value Vibrant is wholly owned by Mr. Kwok Sum Kan, Jason, who is deemed to be interested in the shares.

(b) Mr. Lin Haibin is an independent third party not connected with the directors, chief executives or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates. He is not involved in the management of the Company and its subsidiaries.

(c) Twin Wins is wholly owned by Mr. Liu Qiang who is deemed to be interested in the shares.

(d) The underlying shares of Value Vibrant and Twin Wins are in respect of the convertible bonds issued by the Company on 11 May 2012.

Save as disclosed above, as at 31 December 2012, the Directors were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

During the year ended 31 December 2012, the Company has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of GEM Listing Rules.

Significant related party transactions entered by the Group during the year, which do not constitute connected transactions under GEM Listing Rules, are disclosed in note 41 to the consolidated financial statements.

COMPETING INTERESTS

The Directors are not aware of, as at 31 December 2012, any business or interest of each Director, controlling shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company as at the date of this report, the Company has maintained the prescribed public float under the GEM Listing Rules.

AUDITORS

During the year, HLM & Co., Certified Public Accountants resigned as auditors of the Company and Messrs. Ernst & Young were appointed by the Directors to fill the casual vacancy so arising. A resolution to re-appoint Messrs. Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting. Save as disclosed above, there was no change in auditors during the past three years.

On behalf of the board

Cheng Chun Tak and Wan Zihong
Co-Chairmen

Hong Kong, 28 March 2013

安 永

TO THE SHAREHOLDERS OF CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED
(Formerly known as "China Public Healthcare (Holding) Limited")
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Fortune Investments (Holding) Limited (formerly known as "China Public Healthcare (Holding) Limited") (the "Company") and its subsidiaries (together, the "Group") set out on pages 27 to 116, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and 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.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

28 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000 (Re-presented)
CONTINUING OPERATIONS			
REVENUE	5	**235,729**	–
Cost of sales		**(154,138)**	–
Gross profit		**81,591**	–
Other income and gains, net	5	**3,889**	454
Selling and distribution expenses		**(37,393)**	–
Administrative expenses		**(73,111)**	(10,207)
Other expenses		**(1,666)**	–
Finance costs	6	**(13,964)**	(6,716)
Impairment loss on available-for-sale investments		**–**	(9,468)
Realised fair value loss on disposal of financial assets at fair value through profit or loss		**(926)**	(2,131)
Unrealised fair value loss on financial assets at fair value through profit or loss		**–**	(5,194)
Fair value gain on derivative financial instrument transaction not qualifying as hedges	27	**65,136**	–
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	7	**23,556**	(33,262)
Income tax expense	10	**(8,338)**	–
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**15,218**	(33,262)
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	12	**(790,458)**	(227,914)
LOSS FOR THE YEAR		**(775,240)**	(261,176)
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Available-for-sale investments:			
Changes in fair value	19	**71**	94
Reclassification adjustment for gains included in profit or loss	7,19	**(165)**	–
Exchange differences on translation of foreign operations		**3,888**	18,248
Realisation of foreign currency translation reserves upon disposal of subsidiaries	37	**(2,547)**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**1,247**	18,342
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**(773,993)**	(242,834)
Loss for the year attributable to:			
Ordinary equity holders of the Company	11	**(748,372)**	(256,611)
Non-controlling interests		**(26,868)**	(4,565)
		(775,240)	(261,176)
Total comprehensive expense for the year attributable to:			
Ordinary equity holders of the Company		**(747,468)**	(238,579)
Non-controlling interests		**(26,525)**	(4,255)
		(773,993)	(242,834)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		(Restated)
Basic and diluted			
– For loss for the year		**HK(55.40) cents**	HK(22.76) cents
– For profit/(loss) from continuing operations		**HK1.13 cents**	HK(2.95) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**26,042**	18,685
Deposits and prepayments	22	**8,966**	–
Goodwill	15	**569,706**	393,079
Mining rights	16	**–**	10,000
Other intangible assets	17	**–**	192,726
Available-for-sale investments	19	**–**	16,860
Deferred tax assets	32	**674**	–
Total non-current assets		**605,388**	631,350
CURRENT ASSETS			
Inventories	20	**120,655**	17,251
Trade receivables	21	**1,144**	175,124
Other receivables, deposits and prepayments	22	**67,329**	107,026
Financial assets at fair value through profit or loss	23	**300**	5,801
Due from a related company	30	**861**	–
Tax recoverable		**–**	3
Cash and cash equivalents	24	**16,596**	80,146
		206,885	385,351
Assets of a disposal group classified as held for sale	12	**155,148**	–
Total current assets		**362,033**	385,351
CURRENT LIABILITIES			
Trade payables	25	**15,446**	65,310
Accruals, other payables and deposits received	26	**114,545**	37,110
Contingent consideration payable	27	**229,072**	–
Interest-bearing bank borrowings	28	**23,472**	–
Advances from a former shareholder of a subsidiary	30	**37,097**	–
Due to directors	30	**12,222**	–
Due to a related company	30	**–**	15,321
Tax payable		**10,000**	143
		441,854	117,884
Liabilities directly associated with the assets classified as held for sale	12	**57,097**	–
Total current liabilities		**498,951**	117,884
NET CURRENT ASSETS/(LIABILITIES)		**(136,918)**	267,467
TOTAL ASSETS LESS CURRENT LIABILITIES		**468,470**	898,817

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
NON-CURRENT LIABILITIES			
Convertible bonds	31	**308,755**	198,382
Interest-bearing bank borrowings	28	**1,653**	–
Total non-current liabilities		**310,408**	198,382
Net assets		**158,062**	700,435
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	33	**154,646**	112,725
Reserves	35(a)	**5,060**	562,829
		159,706	675,554
Non-controlling interests		**(1,644)**	24,881
Total equity		**158,062**	700,435

Mr. Cheng Chun Tak
DIRECTOR

Mr. Wan Zihong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		Attributable to ordinary equity holders of the Company											
	Notes	Issued capital HK$'000	Share premium account HK$'000	Merger reserve HK$'000 (Note 35(a)(i))	Statutory surplus reserve HK$'000 (Note 35(a)(ii))	Share-based compensation reserve HK$'000	Convertible bonds equity reserve HK$'000	Investments revaluation reserve HK$'000	Foreign currency translation reserves HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012		112,725	983,095	(46,815)	24,338	57,173	22,999	94	24,574	(502,629)	675,554	24,881	700,435
Loss for the year		–	–	–	–	–	–	–	–	(748,372)	(748,372)	(26,868)	(775,240)
Other comprehensive income/(expense) for the year:													
Changes in fair value of available-for-sale investments, net of tax	19	–	–	–	–	–	–	71	–	–	71	–	71
Reclassification adjustment for gain included in profit or loss		–	–	–	–	–	–	(165)	–	–	(165)	–	(165)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	3,545	–	3,545	343	3,888
Realisation of foreign currency translation reserves upon disposal of subsidiaries	37	–	–	–	–	–	–	–	(2,547)	–	(2,547)	–	(2,547)
Total comprehensive income/(expense) for the year		–	–	–	–	–	–	(94)	998	(748,372)	(747,468)	(26,525)	(773,993)
Disposal of subsidiaries	37	–	–	–	(3,861)	–	–	–	–	3,861	–	–	–
Issue of shares	33	41,921	136,775	–	–	–	(21,679)	–	–	–	157,017	–	157,017
Issue of convertible bonds	31	–	–	–	–	–	53,243	–	–	–	53,243	–	53,243
Equity-settled share option arrangements	34	–	–	–	–	21,360	–	–	–	–	21,360	–	21,360
Share options lapsed		–	–	–	–	(31,318)	–	–	–	31,318	–	–	–
Transfer to statutory surplus reserve		–	–	–	108	–	–	–	–	(108)	–	–	–
At 31 December 2012		**154,646**	**1,119,870***	**(46,815)***	**20,585***	**47,215***	**54,563***	**–***	**25,572***	**(1,215,930)***	**159,706**	**(1,644)**	**(158,062)**
At 1 January 2011		112,725	983,095	(46,815)	11,512	57,173	22,999	–	6,636	(233,192)	914,133	1,233	915,366
Loss for the year		–	–	–	–	–	–	–	–	(256,611)	(256,611)	(4,565)	(261,176)
Other comprehensive income for the year:													
Changes in fair value of available-for-sale investments, net of tax	19	–	–	–	–	–	–	94	–	–	94	–	94
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	17,938	–	17,938	310	18,248
Total comprehensive income/(expense) for the year		–	–	–	–	–	–	94	17,938	(256,611)	(238,579)	(4,255)	(242,834)
Capital contribution from non-controlling interests		–	–	–	–	–	–	–	–	–	–	27,903	27,903
Transfer to statutory surplus reserve		–	–	–	12,826	–	–	–	–	(12,826)	–	–	–
At 31 December 2011		112,725	983,095*	(46,815)*	24,338*	57,173*	22,999*	94*	24,574*	(502,629)*	675,554	24,881	700,435

* *These reserve accounts comprise the consolidated reserves of HK$5,060,000 (2011: HK$562,829,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		**23,556**	(33,262)
From discontinued operations	12	**(785,925)**	(227,914)
Adjustments for:			
Impairment loss on available-for-sale investments		**–**	9,468
Realised fair value loss on disposal of financial assets at fair value through profit or loss		**926**	2,131
Unrealised fair value loss on financial assets at fair value through profit or loss		**–**	5,194
Interest income		**(116)**	(537)
Dividend income		**(239)**	(267)
Finance costs	6	**13,964**	6,716
Fair value gains, net:			
Available-for-sale investments (transfer from equity)	7	**(165)**	–
Derivative financial instrument – transaction not qualifying as hedges	7	**(65,136)**	–
Impairment loss on items of property, plant and equipment	14	**9,137**	–
Depreciation of items of property, plant and equipment	14	**13,749**	10,274
Loss/(gain) on disposal of items of property, plant and equipment		**(3,347)**	59
Impairment loss on goodwill	15	**393,079**	94,616
Impairment loss on mining rights	16	**–**	190,000
Provision for inventories		**13,626**	5,000
Amortisation of other intangible assets	17	**18,320**	6,176
Impairment loss on other intangible assets	17	**182,649**	–
Impairment loss on trade receivables	21	**75,372**	–
Impairment loss on other receivables, deposits and prepayments	22	**85,501**	–
Equity-settled share option expense	34	**21,360**	–
Net gain on disposal of subsidiaries	37	**(4,946)**	–
		(8,635)	67,654
Decrease/(increase) in inventories		**(60,242)**	12,171
Decrease in trade receivables		**46,238**	14,823
Increase in other receivables, deposits and prepayments	38(c)	**(120,554)**	(12,159)
Increase in an amount due from a related company		**(861)**	–
Decrease in trade payables		**(28,526)**	(11,536)
Increase/(decrease) in accruals, other payables and deposits received		**90,938**	(31,463)
Increase in an amount due to a related company		**–**	1,311
Effect of foreign exchange rate changes, net		**904**	–
Cash generated from/(used in) operations		**(80,738)**	40,801
Interest paid		**(1,219)**	(101)
Interest element of finance lease rental payments		**(112)**	–
Overseas taxes paid		**(2,405)**	–
Net cash flows from/(used in) operating activities		**(84,474)**	40,700

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**116**	537
Dividend received		**239**	267
Purchases of items of property, plant and equipment	14, 38(a)	**(6,829)**	(591)
Proceeds from disposal of items of property, plant and equipment		**3,495**	39,233
Additions to other intangible assets	17	**(5,962)**	(147,442)
Acquisition of subsidiaries	36	**(77,763)**	–
Proceeds from disposal of subsidiaries	37	**1,694**	–
Purchases of financial assets at fair value through profit or loss		**–**	(16,629)
Proceeds from disposal of financial assets at fair value through profit or loss		**4,575**	13,265
Purchases of available-for-sale investments		**–**	(44,037)
Proceeds from disposal of available-for-sale investments		**15,399**	28,914
Net cash flows used in investing activities		**(65,036)**	(126,483)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of convertible bonds	31	**100,000**	–
Capital element of finance lease rental payments		**(605)**	–
Drawdown of bank loans		**34,500**	–
Repayment of bank loans		**(18,977)**	–
Repayment of advances from a former shareholder of a subsidiary		**(27,264)**	–
Net cash flows from financing activities		**87,654**	–
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(61,856)**	(85,783)
Cash and cash equivalents at beginning of year		**80,146**	152,027
Effect of foreign exchange rate changes, net		**572**	13,902
CASH AND CASH EQUIVALENTS AT END OF YEAR		**18,862**	80,146
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	24	**16,596**	80,146
Cash and short term deposits attributable to discontinued operations	12	**2,266**	–
Cash and cash equivalents as stated in the consolidation statement of cash flows		**18,862**	80,146

STATEMENT OF FINANCIAL POSITION

31 December 2012

	NOTES	**2012** **HK$'000**	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**88**	60
Investments in subsidiaries	18	**579,735**	782,861
Total non-current assets		**579,823**	782,921
CURRENT ASSETS			
Other receivables, deposits and prepayments	22	**7,815**	723
Cash and cash equivalents	24	**1,060**	2,017
		8,875	2,740
Assets held for sale	18	**99,695**	–
Total current assets		**108,570**	2,740
CURRENT LIABILITIES			
Accruals and other payables	26	**10,092**	650
Contingent consideration payable	27	**229,072**	–
Interest-bearing bank borrowings	28	**542**	–
Total current liabilities		**239,706**	650
NET CURRENT ASSETS/(LIABILITIES)		**(131,136)**	2,090
TOTAL ASSETS LESS CURRENT LIABILITIES		**448,687**	785,011
NON-CURRENT LIABILITIES			
Convertible bonds	31	**308,755**	198,382
Interest-bearing bank borrowings	28	**1,653**	–
Total non-current liabilities		**310,408**	198,382
Net assets		**138,279**	586,629
EQUITY			
Issued capital	33	**154,646**	112,725
Reserves	35(b)	**(16,367)**	473,904
Total equity		**138,279**	586,629

Mr. Cheng Chun Tak
DIRECTOR

Mr. Wan Zihong
DIRECTOR

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 13 October 1999 under the Companies Law of the Cayman Islands.

The registered office address of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, George Town, Grand Cayman, British West Indies. The principal place of business of the Company is located at Room 2204, 22/F., MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong.

Pursuant to a special resolution passed at the annual general meeting of the Company held on 31 May 2012 and approved by the Registrars of Companies of Hong Kong on 29 June 2012, the name of the Company was changed from China Public Healthcare (Holding) Limited to China Fortune Investments (Holding) Limited.

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain available-for-sale investments, financial assets at fair value through profit or loss and contingent consideration payable, which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to the consolidated statement of comprehensive income or accumulated losses, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS *1 First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11, HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12, HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have any significant impact on its results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* ("HKFRS 5") are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39 *Financial Instruments: Recognition and Measurements* ("HKAS 39"), if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquire over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill, non-current assets/a disposal group classified as held for sale and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises.

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

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

  (ii) has significant influence over the Group; or

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

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Leasehold buildings	5%
Leasehold improvements	33% to 50%
Plant and machinery	3% to 20%
Furniture, fixtures and office equipment	20%
Computer equipment	33%
Motor vehicles	10% to 33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are classified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets under development are not amortised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Mining rights

Mining rights acquired separately are initially measured at cost. Mining rights are reclassified from exploration and evaluation assets at their carrying amounts when the technical feasibility and commercial viability of extracting mineral resources are demonstrable. Mining rights with finite useful lives are carried at costs less accumulated amortisation and any identified impairment loss. Amortisation for mining rights with finite useful lives is provided using the unit of production method based on the actual production volume over the estimated total proved and probable reserves of the ores mines.

Leases

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

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

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payment are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised in profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investments revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investments revaluation reserve to profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the assets using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments *(continued)*

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, accruals and other payables, interest-bearing bank borrowings, advances from former shareholders of a subsidiary, contingent consideration payable, amounts due to directors and a related company and liability component of convertible bonds.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement *(continued)*

Loans and borrowings

After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction cost. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of the proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The fair value of the contingent consideration to be transferred by the acquirer that meets the definition of a derivative as defined by HKAS 39 is recognised at the acquisition date. Such derivative financial instruments are subsequently remeasured at fair value.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the specific identification basis for loose diamonds and germ-set jewellery; and weighted average for other inventories. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

Revenue recognition

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

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

(ii) from the rendering of services relating to Healthcare Information Technology ("HIT"), on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services relating to Healthcare Information Technology";

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

(iv) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services relating to Healthcare Information Technology

Contract revenue on the rendering of services relating to HIT comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel and materials directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professionally qualified valuer using the Black-Scholes Option Pricing model, further details of which are given in note 34 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes and other retirement benefits

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, associates and a jointly-controlled entity are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by the management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend. The Group considered that if the profits will not be distributed in the foreseeable future, then no withholding taxes should be provided.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, which may cause an adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determined whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2012 was HK$569,706,000 (2011: HK$393,079,000). Further details are given in note 15.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment allowance for trade and other receivables and deposits

The Group makes impairment allowance for trade and other receivables and deposits based on an assessment of the recoverability of trade and other receivables and deposits. Allowances are applied to trade and other receivables and deposits where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying values of trade and other receivables and deposits and impairment allowance for trade and other receivables and deposits in the year in which such estimate has been changed.

Contracts for services relating to Healthcare Information Technology

Revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the contract for services relating to HIT, as well as the work done to-date. Based on the Group's recent experience and the nature of the service rendered by the Group, the Group makes estimates at the point in which it considers that the costs to completion and the revenue can be reliably estimated. As a result, until this point is reached, the amounts due from customers for contracts for services relating to HIT will not include profit which the Group may eventually realise from the work done to-date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to-date.

Net realisation value of inventories

Net realisation value of inventories is based on estimated selling prices less any estimation costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. The Group will reassess the estimation at the end of each reporting period.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Impairment of goodwill (continued)

Valuation of share options

The fair value of options granted under a share option scheme is determined using the Black-Scholes Option Pricing model. The significant inputs into the model were the risk-free interest rate, expected life, expected volatility and expected dividend. When the actual results of the inputs differ from management's estimate, it will have an impact on the share option expenses and the related share-based compensation reserve of the Company. Further details are given in note 34.

Contingent consideration payable

The Group has accounted for the contingent consideration payable in the acquisition of subsidiaries under HKFRS 3 (Revised) *Business Combinations*. The contingent consideration will be settled by convertible bonds. The principal amount of the convertible bonds would be issued by the Company as the contingent consideration of the acquisition is subject to the results of the acquired subsidiaries. The Group determine, with reference to a valuation of the convertible bond performed by an independent valuation firm, the amount of derivative financial liabilities to be recognised in respect of such contingent consideration payable. As the process requires input of subjective assumptions, any changes to the assumptions can materially affect the amount of derivative financial liabilities. Subsequent change in fair value of the derivative financial liabilities is recognised in profit or loss. As at 31 December 2012, the carrying amount of contingent consideration payable amounted to HK$229,072,000 (2011: Nil). Further details are given in note 27.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's continuing operations is organised into business units based on their products and services and has only one reportable segment, which is the diamond and jewellery business. The corporate office in Hong Kong does not earn revenue and is not classified as an operating segment.

Management monitors the results of the Group's operating segments separately for the purposes of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax from continuing operations except that investment and other income, fair value gain/(loss) on financial assets at fair value through profit or loss and derivative financial instrument, impairment loss on available-for-sale investments, equity-settled share option expense, head office and corporate expenses, finance costs as well as provision for inventories are excluded from such measurement.

Sales of products/services relating to HIT, mining of mineral resources and sales of radio trunking systems integration business operations discontinued in current year. The segment information reported below does not include any amounts for these discontinued operations, which are described in more detail in note 12 to the financial statements.

Segment assets exclude tax recoverable, available-for-sale investments, financial assets at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude contingent consideration payable, an amount due to a related company, convertible bonds and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (continued)

	2012	2011
	HK$'000	*HK$'000*
Segment revenue		
Sales to external customers	**235,729**	–
Segment results	**34,274**	–
Reconciliation:		
Investment and other income	**3,889**	454
Impairment loss on available-for-sale investments	**–**	(9,468)
Realised fair value loss on disposal of financial assets at fair value through profit or loss	**(926)**	(2,131)
Unrealised fair value loss on financial assets at fair value through profit or loss	**–**	(5,194)
Fair value gain on derivative financial instrument – transaction not qualifying as hedges	**65,136**	–
Equity-settled share option expense	**(21,360)**	–
Corporate and other unallocated expenses (including acquisition-related costs of approximately HK$20 million (2011: Nil))	**(43,493)**	(5,207)
Provision for inventories	**–**	(5,000)
Finance costs	**(13,964)**	(6,716)
Profit/(loss) before tax from continuing operations	**23,556**	(33,262)

4. OPERATING SEGMENT INFORMATION (continued)

Segment assets and liabilities

	2012 HK$'000	2011 HK$'000
Segment assets	**800,374**	–
Reconciliation:		
Corporate and other unallocated assets	**11,899**	30,542
Assets related to discontinued operations	**155,148**	986,159
Total assets	**967,421**	1,016,701
Segment liabilities	**192,596**	–
Reconciliation:		
Corporate and other unallocated liabilities	**559,666**	225,383
Liabilities related to discontinued operations	**57,097**	90,883
Total liabilities	**809,359**	316,266
Other segment information		
Depreciation and amortisation (for continuing operations)	**4,394**	31
Capital expenditure (for continuing operations)*	**26,372**	23

* *Capital expenditure consists of additions of property, plant and equipment including assets from the acquisition of subsidiaries (note 36).*

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2012	2011
	HK$'000	*HK$'000*
Mainland China	**208,300**	–
Hong Kong	**27,429**	–
	235,729	–

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets

	2012	2011
	HK$'000	*HK$'000*
Mainland China	**593,037**	439
Hong Kong	**2,711**	60
	595,748	499

The non-current assets information of continuing operations above is based on the locations of the assets and excludes deposits and deferred tax assets.

Information about major customers

Revenues from continuing operations of approximately HK$27,428,000 (2011: Nil) and HK$24,757,000 (2011: Nil) were derived from sales by the diamond and jewellery business segment to two major customers for the year ended 31 December 2012.

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns, trade discounts, value-added tax and consumption tax.

An analysis of the revenue, other income and gains, net, from continuing operations is as follows:

	2012	2011
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**235,729**	–
Other income and gains, net		
Interest income	**79**	9
Dividend income from financial assets at fair value through profit or loss	**239**	267
Net gain on disposal of items of property, plant and equipment	**3,354**	–
Net fair value gain on availale-for-sale investments (transfer from equity on disposal)	**165**	–
Others	**52**	178
	3,889	454

6. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**1,219**	101
Interest on finance leases	**112**	–
Interest on convertible bonds	**12,633**	6,615
	13,964	6,716

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax from continuing operations is arrived at after charging/(crediting):

		2012	2011
	NOTES	***HK$'000***	*HK$'000*
Cost of inventories sold		**154,138**	–
Auditors' remuneration		**2,500**	650
Depreciation of items of property, plant and equipment		**4,394**	31
Employee benefit expense (excluding directors' and chief executive's remuneration – note 8):			
Wages and salaries		**10,151**	9,130
Equity-settled share option expense		**21,360**	–
Pension scheme contributions		**2,551**	35
		34,062	9,165
Minimum lease payments under operating leases in respect of land and buildings		**13,322**	1,037
Loss/(gain) on disposal of items of property, plant and equipment		**(3,354)**	59
Fair value gains net:			
Available-for-sale investments (transfer from equity on disposal)	19	**(165)**	–
Derivative financial instrument – transaction not qualifying as hedges	27	**(65,136)**	–
Net loss on disposal of subsidiaries	37	**1,666**	–
Provision for inventories		**–**	5,000

At 31 December 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2011: Nil).

8. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

Directors

	Group 2012 HK$'000	Group 2011 HK$'000
Fees	**4,614**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	490
Pension scheme contributions	**–**	–
	–	490
	4,614	490

Directors and senior management

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expense HK$'000	Total HK$'000
2012					
Executive directors:					
Cheng Chun Tak	**1,900**	**–**	**–**	**–**	**1,900**
Wan Zihong^	**772**	**–**	**–**	**–**	**772**
Chang Chun	**772**	**–**	**–**	**–**	**772**
Zhang Jie	**300**	**–**	**–**	**–**	**300**
He Ling	**300**	**–**	**–**	**–**	**300**
Stephen William Frostick	**120**	**–**	**–**	**–**	**120**
Lu Chunming	**70**	**–**	**–**	**–**	**70**
Non-executive director:					
Huang Shenglan	**200**	**–**	**–**	**–**	**200**
Independent non-executive directors:					
Chang Jun	**60**	**–**	**–**	**–**	**60**
Tso Hon Sai Bosco	**60**	**–**	**–**	**–**	**60**
Lee Chi Hwa Joshua	**60**	**–**	**–**	**–**	**60**
Ching Wai Han	**–**	**–**	**–**	**–**	**–**
	4,614	**–**	**–**	**–**	**4,614**
Senior management:					
Ang Wing Fung	**–**	**975**	**14**	**–**	**989**
	4,614	**975**	**14**	**–**	**5,603**

8. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expense HK$'000	Total HK$'000
2011					
Executive directors:					
Stephen William Frostick	–	130	–	–	130
Lu Chunming^	–	60	–	–	60
Shao Heng	–	120	–	–	120
Independent non-executive directors:					
Chang Jun	–	60	–	–	60
Tso Hon Sai Bosco	–	60	–	–	60
Lee Chi Hwa Joshua	–	60	–	–	60
	–	490	–	–	490
Senior management:					
Ang Wing Fung	–	975	12	–	987
	–	1,465	12	–	1,477

^ *Mr. Wan Zihong (2011: Mr. Lu Chunming) is also the chief executive officer of the Group.*

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration for the year of the five (2011: four) highest paid employees who are neither a director nor senior management of the Company are as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**827**	2,266
Equity-settled share option expense	**13,350**	–
Pension scheme contributions	**86**	49
	14,263	2,315

The number of the highest paid employees, who are neither a director nor senior management of the Company, whose remuneration fell within the following bands is as follows:

	Number of employees	
	2012	2011
Nil to HK$1,000,000	**–**	4
HK$2,500,001 – HK$3,000,000	**4**	–
HK$3,000,001 – HK$3,500,000	**1**	–
	5	4

During the year, share options were granted to the five highest paid employees who are neither a director nor senior management in respect of their services to the Group, further details of which are included in the disclosures in note 34 to the financial statements. The fair value of such options, which has been recognised in profit or loss during the year, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above highest paid employees' remuneration disclosures.

During the year, no emoluments were paid by the Group to any of the highest paid employees who are neither a director nor senior management of the Company as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax had been made for the prior year as the Group did not generate any assessable profits arising in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2012	2011
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Charge for the year	**1,124**	–
Current tax – Mainland China		
Charge for the year	**7,879**	–
Deferred tax credit *(note 32)*	**(665)**	–
Total tax charge for the year	**8,338**	–

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the corporate income tax rate is unified to 25% for all enterprises in Mainland China.

A reconciliation of the tax charge/(credit) applicable to profit/(loss) before tax from continuing operations at the applicable statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Profit/(loss) before tax from continuing operations	**23,556**	(33,262)
Tax at the applicable statutory tax rates	**6,168**	(5,585)
Income not subject to tax	**(11,351)**	(92)
Expenses not deductible for tax	**13,145**	3,786
Others	**376**	1,891
Tax charge at the effective rate	**8,338**	–

The Group has estimated tax losses arising in Hong Kong of HK$45,680,000 (2011: HK$60,988,000) that are available indefinitely for offsetting against future taxable profits of the Company and the respective subsidiaries in which the losses arose. No deferred tax assets have been recognised in respect of these losses as the directors consider it is not probable that future taxable profit will be available against which these tax losses can be utilised.

11. LOSS ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to ordinary equity holders of the Company for the year ended 31 December 2012 includes a loss of HK$679,970,000 (2011: HK$197,211,000) which has been dealt with in the financial statements of the Company (note 35(b)).

12. DISCONTINUED OPERATIONS

On 23 November 2012, the Group entered into a sales and purchase agreement with an independent third party for the disposal of the Group's entire equity interest in Endless Profit International Limited ("Endless Profit") and its subsidiaries (collectively, the "Mining Group"), which were engaging in the mining of mineral resources. The disposal of the Mining Group was completed on 23 November 2012. Details of the net assets of the Mining Group disposed of are disclosed in note 37 to the financial statements.

On 30 November 2012, the Group entered into a sales and purchase agreement with an independent third party for the disposal of the Group's entire equity interest in Probest Technology Limited ("Probest Technology") and its subsidiaries (collectively, the "Radio Trunking Group"), which were engaging in the sale of radio trunking systems integration. The disposal of the Radio Trunking Group was completed on 30 November 2012. Details of the net assets of the Radio Trunking Group disposed of are disclosed in note 37 to the financial statements.

On 31 December 2012, the Company entered into a memorandum of understanding (the "MOU") with an independent third party (the "HIT Purchaser") for the proposed disposal of the Group's interests in Wealthy China Group Limited ("Wealthy China"), Champion Skill Holdings Limited ("Champion Skill") and their subsidiaries (collectively, the "HIT Group"), which are engaging in the HIT business. Pursuant to the MOU, the Company and the HIT Purchaser shall negotiate for a formal sale and purchase agreement for the proposed disposal of the HIT Group. As at 31 December 2012, final negotiations for the sale were in progress and the HIT Group was classified as a disposal group held for sale.

Subsequent to the end of the reporting period, on 28 March 2013, the Company and the HIT Purchaser entered into a sale and purchase agreement to dispose of the Group's entire equity interests in Wealthy China and Champion Skill and the loan due from the HIT Group to the Group of HK$147,000,000 for a total consideration of HK$100,000,000. The disposal of the HIT Group is expected to be completed in 2013.

12. DISCONTINUED OPERATIONS (continued)

The results of the Mining Group, the Radio Trunking Group and the HIT Group for the year are presented below:

	2012	2011
	HK$'000	*HK$'000*
Revenue	**49,815**	242,448
Interest income	**37**	528
Other income	**905**	642
Impairment loss on goodwill	**(393,079)**	(94,616)
Impairment loss on mining rights	**–**	(190,000)
Impairment loss on other intangible assets	**(182,649)**	–
Impairment loss on items of property, plant and equipment	**(9,137)**	–
Impairment loss on trade receivables	**(75,372)**	–
Impairment loss on other receivables, deposits and prepayments	**(85,501)**	–
Provision for inventories	**(13,626)**	–
Loss on disposal of items of property, plant and equipment	**(7)**	–
Expenses	**(83,923)**	(186,916)
Gain on disposal of subsidiaries *(note 37)*	**6,612**	–
Loss before tax from discontinued operations	**(785,925)**	(227,914)
Income tax expense	**(4,533)**	–
Loss for the year from discontinued operations	**(790,458)**	(227,914)
Attributable to non-controlling interests	**26,868**	4,565
Loss for the year from discontinued operations attributable to ordinary equity holders of the Company	**(763,590)**	(223,349)

Taking into account the adverse operating results of the HIT Group, as well as the consideration of HK$100,000,000 for the disposal of the HIT Group as further detailed in note 45(b) to the financial statements, impairment on the assets of the HIT Group classified as held for sale has been recognised in current year.

12. DISCONTINUED OPERATIONS (continued)

The major classes of assets and liabilities of the HIT Group classified as held for sale as at 31 December 2012 are as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Assets		
Trade receivables	**50,773**	–
Other receivables, deposits and prepayments	**102,109**	–
Cash and cash equivalents	**2,266**	–
Assets classified as held for sale	**155,148**	–
Liabilities		
Trade payables	**28,869**	–
Accruals, other payables and deposits received	**23,866**	–
Tax payables	**4,362**	–
Liabilities directly associated with the assets classified as held for sale	**57,097**	–
Net assets directly associated with the disposal group	**98,051**	–
Non-controlling interests associated with the disposal group	**1,644**	–
	99,695	–

12. DISCONTINUED OPERATIONS (continued)

The net cash flows incurred by the Mining Group, the Radio Trunking Group and the HIT Group are as follows:

	2012	2011
	HK$'000	*HK$'000*
Operating activities	**(71,815)**	24,604
Investing activities	**(3,711)**	(108,251)
Net cash outflow	**(75,526)**	(83,647)
Loss per share:		
Basic and diluted, from the discontinued operations	**HK(56.53) cents**	HK(19.81) cents

The calculation of basic loss per share amount from discontinued operations is based on the loss for the year attributable to ordinary equity holders of the Company from discontinued operations of HK$763,590,000 (2011: HK$223,349,000), and the weighted average number of ordinary shares of 1,350,927,327 (2011 restated: number of 1,127,249,888) for the purpose of calculating the basic loss per share from discontinued operations.

The weighted average number (2011: number) of ordinary shares for the years ended 31 December 2012 and 2011 for the purpose of calculating basic loss per share amount from discontinued operations has been retrospectively adjusted for the consolidation of shares on the basis that every 10 issued and unissued shares being converted into one consolidation share which took place on 26 March 2013. Details of the share consolidation are set out in note 45(a).

No adjustment has been made to the basic loss per share amount from discontinued operations presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the impact of the convertible bonds and share options outstanding had an anti-dilutive effect on the basic loss per share amount from discontinued operations presented.

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amount is based on the loss for the year attributable to ordinary equity holders of the Company of HK$748,372,000 (2011: HK$256,611,000), and the weighted average number of 1,350,927,327 (2011 restated: number of 1,127,249,888) ordinary shares for the purpose of calculating the basis loss per share.

The weighted average number (2011: number) of ordinary shares for the years ended 31 December 2012 and 2011 for the purpose of calculating basic earnings/(loss) per share amount has been retrospectively adjusted for the consolidation of shares on the basis that every 10 issued and unissued shares being converted into one consolidation share which took place on 26 March 2013. Details of the share consolidation are set out in note 45.

No adjustment has been made to the basic loss per share amount presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the impact of the convertible bonds and share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

No adjustment has been made to the basic earnings per share amount from continuing operations presented for the year ended 31 December 2012 in respect of a dilution as the impact of the convertible bonds and share options outstanding had no dilutive effect on the basic earnings per share amount presented.

No adjustment has been made to the basic loss per share amount from continuing operations presented for the year ended 31 December 2011 in respect of a dilution as the impact of the convertible bonds and share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

The calculations of basic and diluted loss per share are based on:

	2012	2011
	HK$'000	*HK$'000*
Earnings/(loss)		
Earnings/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation:		
From continuing operations	**15,218**	(33,262)
From discontinued operations	**(763,590)**	(223,349)
	(748,372)	(256,611)

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixture and equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2012								
Cost:								
At 1 January 2012	**198**	**–**	**5,945**	**1,017**	**2,328**	**24,237**	**9,921**	**43,646**
Additions	**–**	**–**	**4,272**	**–**	**190**	**1,487**	**3,680**	**9,629**
Acquisition of subsidiaries *(note 36)*	**–**	**–**	**12,816**	**–**	**4,888**	**2,843**	**117**	**20,664**
Disposals	**–**	**–**	**–**	**–**	**(14)**	**(207)**	**(5,521)**	**(5,742)**
Disposal of subsidiaries *(note 37)*	**(201)**	**–**	**(1,671)**	**(1,030)**	**(401)**	**(708)**	**(831)**	**(4,842)**
Assets included in discontinued operations *(note 12)*	**–**	**–**	**(4,418)**	**–**	**(1,702)**	**(23,105)**	**(3,735)**	**(32,960)**
Exchange realignment	**3**	**–**	**309**	**13**	**95**	**353**	**51**	**824**
At 31 December 2012	**–**	**–**	**17,253**	**–**	**5,384**	**4,900**	**3,682**	**31,219**
Accumulated depreciation and impairment:								
At 1 January 2012	**101**	**–**	**4,574**	**969**	**1,354**	**10,489**	**7,474**	**24,961**
Charge for the year	**30**	**–**	**3,142**	**48**	**974**	**7,757**	**1,798**	**13,749**
Disposals	**–**	**–**	**–**	**–**	**(3)**	**(153)**	**(5,438)**	**(5,594)**
Disposal of subsidiaries *(note 37)*	**(133)**	**–**	**(1,536)**	**(1,030)**	**(362)**	**(708)**	**(771)**	**(4,540)**
Impairment *(note 12)*	**–**	**–**	**385**	**–**	**641**	**6,614**	**1,497**	**9,137**
Assets included in discontinued operations *(note 12)*	**–**	**–**	**(4,418)**	**–**	**(1,702)**	**(23,105)**	**(3,735)**	**(32,960)**
Exchange realignment	**2**	**–**	**120**	**13**	**(6)**	**264**	**31**	**424**
At 31 December 2012	**–**	**–**	**2,267**	**–**	**896**	**1,158**	**856**	**5,177**
Net book value:								
At 31 December 2012	**–**	**–**	**14,986**	**–**	**4,488**	**3,742**	**2,826**	**26,042**
31 December 2011								
Cost:								
At 1 January 2011	189	37,385	5,386	969	2,203	23,069	9,741	78,942
Additions	–	–	313	–	140	138	–	591
Disposals	–	(39,231)	–	–	(100)	(83)	–	(39,414)
Exchange realignment	9	1,846	246	48	85	1,113	180	3,527
At 31 December 2011	198	–	5,945	1,017	2,328	24,237	9,921	43,646
Accumulated depreciation:								
At 1 January 2011	77	–	2,542	748	1,020	3,511	6,517	14,415
Charge for the year	20	–	1,910	184	360	6,893	907	10,274
Disposals	–	–	–	–	(59)	(63)	–	(122)
Exchange realignment	4	–	122	37	33	148	50	394
At 31 December 2011	101	–	4,574	969	1,354	10,489	7,474	24,961
Net book value:								
At 31 December 2011	97	–	1,371	48	974	13,748	2,447	18,685

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Furniture, fixtures and equipment HK$'000	Computer equipment HK$'000	Total HK$'000
31 December 2012			
Cost:			
At 1 January 2012	**243**	**550**	**793**
Additions	**4**	**58**	**62**
At 31 December 2012	**247**	**608**	**855**
Accumulated depreciation:			
At 1 January 2012	**209**	**524**	**733**
Charge for the year	**6**	**28**	**34**
At 31 December 2012	**215**	**552**	**767**
Net book value:			
At 31 December 2012	**32**	**56**	**88**
31 December 2011			
Cost:			
At 1 January 2011	220	550	770
Additions	23	–	23
At 31 December 2011	243	550	793
Accumulated depreciation:			
At 1 January 2011	205	497	702
Charge for the year	4	27	31
At 31 December 2011	209	524	733
Net book value:			
At 31 December 2011	34	26	60

14. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2011, the Group's land and buildings included in property, plant and equipment with a net carrying amount of HK$97,000 were held under medium-term leases outside Hong Kong.

The net carrying amounts of the Group's items of property, plant and equipment held under finance leases included in the total amounts of motor vehicles at 31 December 2012 amounted to HK$2,610,000 (2011: Nil).

15. GOODWILL

Group

	HK$'000
Cost:	
At 1 January 2011, 31 December 2011, 1 January 2012	487,695
Acquisition of subsidiaries *(note 36)*	569,706
Attributable to discontinued operations *(note 12)*	(487,695)
At 31 December 2012	**569,706**
Impairment:	
At 1 January 2011	–
Impairment during the year	94,616
At 31 December 2011 and 1 January 2012	94,616
Impairment during the year *(note 12)*	393,079
Attributable to discontinued operations *(note 12)*	(487,695)
At 31 December 2012	**–**
Net carrying amount:	
At 31 December 2012	**569,706**
At 31 December 2011	393,079

15. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- HIT cash-generating unit; and
- Diamond and jewellery cash-generating unit

HIT cash-generating unit

As at 31 December 2011, the recoverable amount of the HIT cash-generating unit was assessed with reference to a valuation report by using value-in-use calculations from Renaissance Appraisals Limited ("Renaissance"), an independent valuation firm. These calculations used cash flow projections based on financial budgets approved by management covering a ten-year period. Cash flows beyond the ten-year period are using estimated growth rate of 10%. The cash flows are discounted using a discount rate of 14.5%. The discount rate used was pre-tax and reflected specific risks relating to the relevant segment.

As at 31 December 2012, full impairment of the goodwill on the HIT cash-generating unit is recognised. Details of which are set out in note 12 to the financial statements.

Diamond and jewellery cash-generating unit

As at 31 December 2012, the recoverable amount of the diamond and jewellery cash-generating unit was assessed with reference to a valuation report by using value-in-use calculation from VAL Consulting Limited, an independent valuation firm. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are using estimated growth rate of 3%. The cash flows are discounted using a discount rate of 13%. The discount rate were pre-tax and reflected specific risks relating to the relevant segment.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2012	2011
	HK$'000	*HK$'000*
Sales of products/services relating to HIT	**–**	393,079
Diamond and jewellery business	**569,706**	–
Carrying amount of goodwill	**569,706**	393,079

16. MINING RIGHTS

Group

	HK$'000
Cost:	
At 1 January 2011, 31 December 2011, 1 January 2012	550,875
Disposal of subsidiaries *(note 37)*	(550,875)
At 31 December 2012	**–**
Accumulated amortisation and impairment:	
At 1 January 2011	350,875
Impairment during the year	190,000
At 31 December 2011 and 1 January 2012	540,875
Disposal of subsidiaries *(note 37)*	(540,875)
At 31 December 2012	**–**
Net carrying amount:	
At 31 December 2012	**–**
At 31 December 2011	10,000

17. OTHER INTANGIBLE ASSETS

Group	Computer software HK$'000	Technical know-how HK$'000	Other intangible assets under development HK$'000	Total HK$'000
31 December 2012				
Cost:				
At 1 January 2012	17,808	35,385	146,877	200,070
Additions	–	3,185	2,777	5,962
Transfers	–	149,654	(149,654)	–
Attributable to discontinued operations *(note 12)*	(18,301)	(190,604)	–	(208,635)
Exchange realignment	223	2,380	–	2,603
At 31 December 2012	–	–	–	–
Accumulated amortisation and impairment:				
At 1 January 2012	4,620	2,724	–	7,344
Amortisation provided during the year	3,562	14,758	–	18,320
Impairment during the year *(note 12)*	9,746	172,903	–	182,649
Attributable to discontinued operations *(note 12)*	(18,031)	(190,604)	–	(208,635)
Exchange realignment	103	219	–	322
At 31 December 2012	–	–	–	–
Net book value:				
At 31 December 2012	–	–	–	–

17. OTHER INTANGIBLE ASSETS (continued)

Group	Computer software *HK$'000*	Technical know-how *HK$'000*	Other intangible assets under development *HK$'000*	Total *HK$'000*
31 December 2011				
Cost:				
At 1 January 2011	16,432	7,021	–	23,453
Additions	565	27,909	146,877	175,351
Exchange realignment	811	455	–	1,266
At 31 December 2011	17,808	35,385	146,877	200,070
Accumulated amortisation:				
At 1 January 2011	991	118	–	1,109
Amortisation provided during the year	3,580	2,596	–	6,176
Exchange realignment	49	10	–	59
At 31 December 2011	4,620	2,724	–	7,344
Net book value:				
At 31 December 2011	13,188	32,661	146,877	192,726

The directors of the Company considered the useful lives of computer software and technical know-how are five years and ten years, respectively, that are normally used in similar size companies in the industry.

As at 31 December 2011, other intangible assets under development were development projects of Medical Imaging Database System that were not amortised during the year ended 31 December 2011.

18. INVESTMENTS IN SUBSIDIARIES

	Company 2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**582,208**	508,349
Amounts due from subsidiaries	**1,585**	792,861
Amounts due to subsidiaries	**(3,168)**	(3,523)
	580,625	1,297,687
Impairment#	**(890)**	(514,826)
	579,735	782,861
Classified as assets held for sale		
Unlisted shares, at cost	**492,432**	–
Amounts due from subsidiaries	**148,686**	–
	641,118	–
Impairment	**(541,423)**	–
	99,695	–

Movements in the provision for impairment are as follows:

	2012 HK$'000	2011 HK$'000
At January	**514,826**	324,826
Provision for impairment recognised	**27,487**	190,000
Attributable to assets held for sale	**(541,423)**	–
At 31 December	**890**	514,826

As at 31 December 2012, an impairment in aggregate of HK$890,000 (2011: HK$514,826,000) was recognised for the Company's unlisted investments and amounts due from subsidiaries with gross carrying amount in aggregate of HK$1,200,000 (2011: HK$1,297,687,000) (before deducting the impairment loss) because these subsidiaries have been loss-making for some time.

Balances with subsidiaries are unsecured, interest-free and not expected to be settled within the next twelve months from the end of the reporting period.

The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity attributable to the Company 2012	2011	Principal activities
Directly held:					
China Gocom Information (BVI) Limited ("China Gocom")*	British Virgin Islands ("BVI")/ Hong Kong	US$50,000	– *(Note (e))*	100	Investment holding
Probest Technology*	BVI/Hong Kong	US$1	– *(Note (e))*	100	Investment holding
Endless Profit*	BVI/Hong Kong	US$1	– *(Note (e))*	100	Investment holding
Winning Reward Holdings Limited ("Winning Reward")*	BVI/Hong Kong	US$1	– *(Note (e))*	100	Investment holding
Global Resources Development (Hong Kong) Limited	Hong Kong	HK$1	**100**	100	Trading of securities
Wealthy China Group Limited*	BVI/Hong Kong	US$150	**100**	100	Investment holding
Champion Skill Holdings Limited*	BVI/Hong Kong	US$1	**100**	100	Investment holding
Ample Rich Capital Limited*	BVI/Hong Kong	US$1	**100**	–	Investment holding
Indirectly held:					
Beijing Cheong Lee Gocom Information Technology Company Limited*	PRC/Mainland China	US$500,000	– *(Note (e))*	100	Trading of products relating to telemedia system and provision of relevant and related technical services
Neolink Wireless Technology Limited*	Hong Kong	HK$8,947,193	– *(Note (e))*	100	Investment holding
Hangzhou Neolink Wireless Communication Technology Company Limited*	PRC/Mainland China	Renminbi ("RMB") 16,812,820	– *(Note (e))*	100	Development and sales of radio trunking related software
Shenzhen Zhiyingiun Network Technology Company Limited*	PRC/Mainland China	RMB2,000,000	– *(Note (e))*	100	Investment holding
Super Surplus Trading Limited ("Super Surplus")*	BVI/ Hong Kong	US$760,000	– *(Note (e))*	100	Investment holding
Jiangxi Tai Sheng Industry Company Limited*	PRC/Mainland China	RMB 10,000,000	– *(Note (e))*	100	Investment holding
Lichuan Xian Xiong Cun Materials Development Company Limited*	PRC/Mainland China	RMB500,000	– *(Note (e))*	100	Exploration and development of mineral resources

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity attributable to the Company 2012	2011	Principal activities
Indirectly held: (continued)					
Beijing Upway Science & Technology Development Co., Limited ("Beijing Upway")*	PRC/Mainland China	RMB 10,000,000 *(Note (a))*	**100**	100	Development and maintenance of healthcare system
China Chief Medical Standards Database Co., Limited ("China Chief")*	PRC/Mainland China	RMB 20,000,000 *(Note (b))*	**60**	60	Development and maintenance of healthcare system
Beijing Lian Jin Medical Technology Company Limited ("Beijing Lian Jin")*	PRC/Mainland China	HK$ 125,000,000 *(Note (a))*	**100**	100	Sale of products/services relating to HIT
Beijing Brilliance Technology Company Limited ("Beijing Brilliance")*	PRC/Mainland China	RMB 50,000,000 *(Note (c))*	**55**	55	Sale of computer software and auxiliary equipment, a class of medical devices, production, agent and advertising
Great Rise Limited ("Great Rise")	Hong Kong	HK$1	**100** *(Note (d))*	N/A	Investment holding and sale of diamond and jewellery products
Beijing City-In-Love Market Limited ("Beijing City-In-Love")*	PRC/Mainland China	RMB 20,000,000 *(Note (c))*	**100** *(Note (d))*	N/A	Sale of diamond and jewellery products

Notes:

(a) These entities are registered as a wholly-foreign-owned enterprise under the PRC law.

(b) The entity is registered as a sino-foreign equity joint venture under the PRC law.

(c) These entities are registered as a private company with limited liability under the PRC law.

(d) During the year, the Group acquired 100% equity interest in Million Zone Holdings Limited ("Million Zone") and its subsidiaries, including Great Rise and Beijing City-In-Love (the "Acquisition"). The Acquisition was completed on 11 May 2012. Further details of the Acquisition are included in note 36 to the financial statements.

(e) During the year, the Group disposed of its 100% equity interest in China Gocom, Probest Technology, Endless Profit and Winning Reward and their subsidiaries. Further details of the disposal transactions are included in note 37 to the financial statements.

* *The statutory financial statements of these subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.*

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2012	2011
	HK$'000	*HK$'000*
Unlisted investments, at fair value	**–**	15,328
Unlisted investments, at cost *(note)*	**–**	20,000
	–	35,328
Impairment loss	**–**	(18,468)
	–	16,860

Note: As at 31 December 2011, the Group held 10% registered capital of Norwell Limited, an investment holding company, and its subsidiaries mainly involved in production and sale of ferro alloys in the PRC.

The movements in impairment allowance for available-for-sale investments are as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**18,468**	9,000
Impairment losses recognised *(note 7)*	**–**	9,468
Disposal of subsidiaries	**(18,468)**	–
At 31 December	**–**	18,468

During the year, the Group disposed of its entire equity interests in certain subsidiaries, which held the available-for-sale investment with a carrying amount of HK$1,532,000 (net balance after the impairment allowance for available-for-sale investment of HK$18,468,000) *(note 37)*. Prior to the disposal of the subsidiaries, the gross gain for the year in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$71,000 (2011: HK$94,000). Upon the disposal of this available-for-sale investment, the accumulative gain of HK$165,000 (2011: Nil) was reclassified from other comprehensive income to profit or loss for the year.

20. INVENTORIES

	Group	
	2012	2011
	HK$'000	*HK$'000*
Raw materials	**–**	16
Work in progress	**–**	1,208
Finished goods	**120,655**	16,027
	120,655	17,251

21. TRADE RECEIVABLES

	Group	
	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**1,144**	175,124
Impairment	**–**	–
	1,144	175,124

The Group's sales of diamond and jewellery products are normally made on a cash basis. Credit card receivables from financial institutions in respect of such sales are aged within one month. Other than the diamond and jewellery business, the Group's trading terms with its customers are generally on credit with terms ranging from 45 days to 180 days or in accordance with the agreed terms of the sales contracts with customers. However, for certain customers with long-established relationship and good repayment history, the credit term may be extended to more than 180 days. The Group seeks to maintain strict control over its outstanding receivable to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

21. TRADE RECEIVABLES (continued)

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of impairment allowance, is as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**57**	14,938
31 to 60 days	**–**	61,871
61 to 90 days	**143**	48,236
91 to 180 days	**944**	10,267
Over 180 days	**–**	39,812
	1,144	175,124

The movements in impairment allowance for trade receivables are as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**–**	–
Impairment losses recognised	**75,372**	–
Attributable to assets held for sale	**(75,372)**	–
At 31 December	**–**	–

The provision for impairment on trade receivables is a provision for individually impaired trade receivables related to customers that were in financial difficulties or were in default in payment, and is recognised based on the Group's experience and aged analysis.

As at 31 December 2012, trade receivables amounting to HK$1,144,000 (2011: HK$39,812,000) were past due but not impaired as the balances were related to debtors with sound repayment history and no recent history of default or in accordance with the agreed terms of sales contracts with customers.

22. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other receivables	**9,532**	26,213	**–**	677
Deposits paid	**3,765**	572	**377**	36
Prepayments	**62,998**	80,241	**7,438**	10
	76,295	107,026	**7,815**	723
Protion classified as non-current deposits	**(8,966)**	–	**–**	–
	67,329	107,026	**7,815**	723

The movements in impairment allowance for other receivables, deposits and prepayments are as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**–**	–
Impairment losses recognised	**85,501**	–
Attributable to assets held for sale	**(85,501)**	–
At 31 December	**–**	–

The provision for impairment on other receivables, deposits and prepyments is a provision for individually impaired other receivables, deposits and prepayments related to customers and suppliers that were in financial difficulties or were in default in payment, and is recognised based on the Group's experience and aged analysis.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2012	2011
	HK$'000	*HK$'000*
Listed equity investments in Hong Kong, at market value	**–**	5,501
Unlisted debt investments in Hong Kong, at fair value	**300**	300
	300	5,801

The above investments were classified as held for trading at 31 December 2012 and 2011.

As at 31 December 2011, the Group's financial assets at fair value through profit or loss with a carrying value amounting to HK$3,301,000 were pledged to brokers to secure margin financing provided to the Group. During the year, the pledged financial assets were released when the Group terminated the related margin financing service.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**16,596**	80,146	**1,060**	2,017

As at 31 December 2012, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$15,528,000 (2011: HK$74,134,000). RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

25. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the end of the reporting period, based on invoice date, is as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**628**	–
31 to 60 days	**5,572**	15,303
61 to 90 days	**5,770**	–
91 to 180 days	**3,129**	42,393
Over 180 days	**347**	7,614
	15,446	65,310

The trade payables are non-interest-bearing and are normally settled on credit terms of 30 days.

26. ACCRUALS, OTHER PAYABLES AND DEPOSITS RECEIVED

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Receipt in advance *(Note)*	**61,750**	–	**–**	–
Deposits received	**22,690**	2,179	**–**	–
Other payables and accruals	**30,105**	34,931	**10,092**	650
	114,545	37,110	**10,092**	650

Note:

On 7 September 2012, the Company entered into a memorandum of understanding (the "Investment MOU") with Beijing Yong An Wealth Investment Fund Management Company Limited (the "Potential Investor"), an independent third party to the Group, in relation to the potential investment in the Group's diamond and jewellery business. Pursuant to the Investment MOU, the Potential Investor shall invest and/or procure other investors to invest a total of RMB300 million in the Group's diamond and jewellery business by setting up joint venture with the Company. Up to the date of these financial statements, no legal binding agreements have been signed in relation to the above investment. During the year ended 31 December 2012, RMB49,400,000 (equivalent to approximately HK$61,750,000) was received in advance from the Potential Investor in relation to the above investment. This balance as at 31 December 2012 is unsecured, interest-free and repayable on demand. As at 31 December 2012, a director of the Company and an independent guarantee company established in the PRC had provided guarantees in favour of the Potential Investor for this receipt in advance.

27. CONTINGENT CONSIDERATION PAYABLE

Group and Company	2012	2011
	HK$'000	HK$'000
Contingent consideration payable, at fair value	229,072	–

Pursuant to the sale and purchase agreement entered into between the Group and the Vendors (as defined in note 36 to the financial statements) on the Acquisition as detailed in note 36 to the financial statements, the Group is liable to settle the contingent consideration by the issue of the Company's convertible bonds up to HK$312 million to the Vendors.

The contingent consideration payable constitutes a derivative within the scope of HKAS 39, and is recognised at its fair value as a liability on initial recognition and is subsequently remeasured at fair value with changes in fair value recognised in profit or loss.

As at 11 May 2012, the date of the Acquisition, the Group recognised a derivative financial liability of HK$294,208,000 *(note 36)* in respect of the contingent consideration payable in the consolidated statement of financial position. As at 31 December 2012, the fair value of the contingent consideration payable amounted to HK$229,072,000 with a fair value gain of HK$65,136,000 *(note 7)* recognised in profit or loss during the year ended 31 December 2012.

The fair values of the contingent consideration payable as at 11 May 2012 and 31 December 2012 were determined with reference to the valuations as at those dates performed by Peak Vision Appraisal Limited, an independent valuation firm. The valuations were arrived at using Binomial Option Pricing Model, which have taken into account factors including the adjusted weighted average market prices of the Company's shares, volatilities, the credit spread of the Company, and prevailing market interest rates etc.

28. INTEREST-BEARING BANK BORROWINGS

Group

	2012			2011
	Effective interest rate *(%)*	Maturity	*HK$'000*	*HK$'000*
Current				
Finance lease payables *(note 29)*	4.72%	2013	542	–
Bank loan – secured	120% of PBOC	2013	6,500	
Bank loan – unsecured	137.5% of PBOC	2013	16,430	–
			23,472	–
Non-current				
Finance lease payables *(note 29)*	4.72%	2014-2016	1,653	–
			25,125	–

	Group 2012	2011
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year	22,930	–
Finance lease payables:		
Within one year	542	–
In the second year	564	–
In the third to fifth years, inclusive	1,089	–
	2,195	–
	25,125	–

28. INTEREST-BEARING BANK BORROWINGS (continued)

Company

	2012			2011
	Effective interest rate *(%)*	**Maturity**	***HK$'000***	*HK$'000*
Current				
Finance lease payables *(note 29)*	**4.72%**	**2013**	**542**	–
Non-current				
Finance lease payables *(note 29)*	**4.72%**	**2014-2016**	**1,653**	–
			2,195	–

	Company	
	2012	2011
	HK$'000	*HK$'000*
Analysed into:		
Finance lease payables:		
Within one year	**542**	–
In the second year	**564**	–
In the third to fifth years, inclusive	**1,089**	–
	2,195	–

As at 31 December 2012, the Group's bank loan of HK$6,500,000 was secured by two properties held by former shareholders of a subsidiary situated in Mainland China. In addition, certain directors of the Company, former shareholders of a subsidiary and an independent guarantee company have provided guarantees in favour of banks for the Group's bank loans of HK$22,930,000 granted to the Group.

As at 31 December 2012, the finance lease payables were secured by the Group's motor vehicle *(note 14)*.

As at 31 December 2012, except for the bank loans of HK$22,930,000 (2011: Nil), which were denominated in RMB, all borrowings were denominated in Hong Kong dollars.

29. FINANCE LEASE PAYABLES

The Group leases a motor vehicle for its business operation *(note 14)*. This lease is classified as a finance lease and has a remaining lease term of four years.

At 31 December 2012, the total future minimum lease payments under finance lease and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**615**	–	**542**	–
In the second year	**614**	–	**564**	–
In the third to fifth years, inclusive	**1,127**	–	**1,089**	–
Total minimum finance lease payments	**2,356**	–	**2,195**	–
Future finance charges	**(161)**	–		
Total net finance lease payables	**2,195**	–		
Portion classified as current liabilities *(note 28)*	**(542)**	–		
Non-current portion *(note 28)*	**1,653**	–		

At 31 December 2012, the finance lease payables were secured by the Group's motor vehicle *(note 14)*.

30. ADVANCES FROM A FORMER SHAREHOLDER OF A SUBSIDIARY AND BALANCES WITH DIRECTORS AND RELATED COMPANIES

An amount due from a related company, of which a director is also a director of the Company, is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the balance due from a related company, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Name	31 December 2012 *HK$'000*	Maximum outstanding during the year *HK$'000*	1 January 2012 *HK$'000*
Ru Yi Ji Xiang Film & Television Planning Company	861	861	–

The advances from a former shareholder of a subsidiary and amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

An amount due to a related company as at 31 December 2011 was unsecured, interest-free and was disposed of by the Group during the year *(note 37)*.

31. CONVERTIBLE BONDS

On 8 January 2009, the Group issued convertible bonds with an aggregate principal amount of HK$465,000,000 (the "CB I") due in 2014 with a conversion price of HK$0.04 per share to acquire 100% equity interests in Super Surplus. The CB I do not bear any interest. The effective interest rate of the liability component is 3.44% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB I.

As at 31 December 2012, the CB I with an aggregate principal amount of HK$83,454,000 remained outstanding (2011: HK$202,198,000).

On 19 April 2012, the Group issued convertible bonds with an aggregate principal amount of HK$100,000,000 (the "CB II") due in 2017 with a conversion price of HK$0.049 per share. Part of the proceeds raised of HK$80,000,000 are used to finance the Acquisition and the remaining proceeds raised of HK$20,000,000 are used for the Group's general working capital. The CB II do not bear any interest. The effective interest rate of the liability component is 4.91% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB II.

31. CONVERTIBLE BONDS (continued)

As at 31 December 2012, the CB II with an aggregate principal amount of HK$50,000,000 remained outstanding (2011: Nil).

On 11 May 2012, the Group issued convertible bonds with an aggregate principal amount of HK$208,000,000 (the "CB III") due in 2017 with a conversion price of HK$0.049 per share to acquire 100% equity interest in Million Zone *(note 36)*. The CB III do not bear any interest. The effective interest rate of the liability component is 4.77% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB III.

As at 31 December 2012, the CB III with an aggregate principal amount of HK$198,047,000 remained outstanding (2011: Nil).

The Group may redeem the CB I, the CB II and the CB III at 105% of the principal outstanding amount at any time from the date of issue to the maturity date. Any of the CB I, the CB II and the CB III outstanding on the maturity date shall be redeemed by the Company at 105% of the outstanding principal amount.

During the year ended 31 December 2012, the fair value of the liability component upon initial recognition of each of the CB II and the CB III at the issue date was estimated based on the valuations performed by Renaissance. The residual amount was assigned as the equity component and was included in the convertible bonds equity reserve.

No adjustment was made to the conversion price during the years ended 31 December 2012 and 31 December 2011. Subsequent to the end of the reporting period, the conversion price of the CB I is adjusted from HK$0.04 per share to HK$0.4 per share with effect from 26 March 2013, and the conversion price of the CB II and the CB III is adjusted from HK$0.049 per share to HK$0.49 per share with effect from 26 March 2013, as a result of the share consolidation as further explained in note 45(a).

The various components of the Group's and the Company's convertible bonds recognised on initial recognition are as follows:

	CB I	**CB II**	**CB III**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Proceeds of issue	465,000	100,000	208,000	773,000
Equity component	(52,898)	(18,252)	(34,991)	(106,141)
Liability component at date of issue	412,102	81,748	173,009	666,859

31. CONVERTIBLE BONDS (continued)

The movements of the liability component of the Group's and the Company's convertible bonds, included in the Group's and the Company's non-current liabilities, are as follows:

	CB I *HK$'000*	**CB II** *HK$'000*	**CB III** *HK$'000*	**Total** *HK$'000*
At 1 January 2011	191,767	–	–	191,747
Interest charged during the year	6,615	–	–	6,615
At 31 December 2011 and 1 January 2012	198,382	–	–	198,382
Issue during the year	–	81,748	173,009	254,757
Interest charged during the year	4,788	2,583	5,262	12,633
Partial conversion of convertible bonds *(note 33)*	(107,036)	(41,507)	(8,474)	(157,017)
At 31 December 2012	**96,134**	**42,824**	**169,797**	**308,755**

32. DEFERRED TAX

The movements in deferred tax assets of the Group during the year were as follows:

Deferred tax assets

	Deferred income	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**–**	–
Deferred tax credited to profit or loss during the year *(note 10)*	**665**	–
Exchange realignment	**9**	–
At 31 December	**674**	–

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

32. DEFERRED TAX (continued)

Deferred tax assets (continued)

At 31 December 2012, no deferred tax (2011: Nil) has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. SHARE CAPITAL

	2012	2011
	HK$'000	*HK$'000*
Authorised:		
50,000,000,000 (2011: 50,000,000,000) ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
15,464,621,272 (2011: 11,272,498,882) ordinary shares of HK$0.01 each	**154,646**	112,725

A summary of the movements during the year in the Company's issued share capital is as follows:

	Number of shares in issue	**Issued capital**	**Share premium account**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
At 1 January 2011, 31 December2011 and 1 January 2012	11,272,498,882	112,725	983,095	1,095,820
Conversion of convertible bonds *(Note)*	4,192,122,390	41,921	136,775	178,696
At 31 December 2012	**15,464,621,272**	**154,646**	**1,119,870**	**1,274,516**

Note: During the year, the Company issued a total of 2,968,589,190 ordinary shares of HK$0.01 each at a conversion price of HK$0.04 for partial conversion of the CB I with a principal amount of HK$118,743,000. Upon conversion, the liability component of HK$107,036,000 and equity component of HK$11,707,000 of the convertible notes were transferred to the issued share capital of HK$29,686,000 and the share premium account of HK$89,057,000.

33. SHARE CAPITAL (continued)

Note: (continued)

During the year, the Company issued a total of 1,020,408,200 ordinary shares of HK$0.01 each at a conversion price of HK$0.049 for partial conversion of the CB II with a principal amount of HK$50,000,000. Upon conversion, the liability component of HK$41,507,000 and equity component of HK$8,493,000 of the convertible notes were transferred to the issued share capital of HK$10,204,000 and the share premium account of HK$39,796,000.

During the year, the Company issued a total of 203,125,000 ordinary shares of HK$0.01 each at a conversion price of HK$0.049 for partial conversion of the CB III with a principal amount of HK$9,953,000. Upon conversion, the liability component of HK$8,474,000 and equity component of HK$1,479,000 of the convertible notes were transferred to the issued share capital of HK$2,031,000 and the share premium account of HK$7,922,000.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 34 to the financial statements.

34. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultant, advisor, manager or officer who provides research, development, other technological support or services to the Group, the Company's shareholders, and any non-controlling shareholder of the Company's subsidiaries. The Scheme became effective on 10 August 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

34. SHARE OPTION SCHEME (continued)

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the Company's shares; (ii) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2012		2011	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$ per share	***'000***	*HK$ per share*	*'000*
At 1 January	**0.23**	**357,660**	0.23	357,660
Granted during the year	**0.06**	**800,000**	–	–
Lapsed during the year	**0.38**	**(87,660)**	–	–
Cancelled during the year	**0.19**	**(12,000)**	–	–
At 31 December	**0.09**	**1,058,000**	0.23	357,660

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2012

Number of options	**Exercise price**	**Exercise period**
'000	***HK$ per share***	
188,000	**0.186**	**31 March 2010 – 30 March 2013**
50,000	**0.186**	**3 May 2010 – 2 May 2013**
20,000	**0.186**	**9 July 2010 – 8 July 2013**
800,000	**0.061**	**26 January 2012 – 25 January 2015**
1,058,000		

34. SHARE OPTION SCHEME (continued)

2011

Number of options *'000*	Exercise price *HK$ per share*	Exercise period
87,660	0.380	10 August 2007 – 9 August 2012
200,000	0.186	31 March 2010 – 30 March 2013
50,000	0.186	3 May 2010 – 2 May 2013
20,000	0.186	9 July 2010 – 8 July 2013
357,660		

The fair value of the share options granted during the year was HK$21,360,000 (HK$0.0267 each) (2011: Nil), of which the Group recognised a share option expense of HK$21,360,000 (2011: Nil) during the year ended 31 December 2012.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using the Black-Scholes Option Pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Expected life *(years)*	1.50
Dividend yield *(%)*	0.00
Expected volatility *(%)*	94.51
Historical volatility *(%)*	94.51
Risk-free interest rate *(%)*	0.23
Share price as at valuation date *(HK$ per share)*	0.61

The expected life of the options is based on the historical data over the past one and a half year and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

34. SHARE OPTION SCHEME (continued)

The 1,058,000,000 share options outstanding as at 31 December 2012 under the Scheme, represented approximately 6.84% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 1,058,000 additional ordinary shares of the Company and additional share capital of HK$10,580,000 and share premium of HK$86,208,000 (before related issuance expenses).

Subsequent to the end of the reporting period, the number of share options outstanding and their respectively exercise price are adjusted to 105,800,000 at HK$1.86 or HK$0.61, respectively, as a result of the share consolidation as further explained in note 45(a).

At the date of approval of these financial statements, the Company had 105,800,000 share options outstanding under the Scheme, which represented approximately 6.84% of the Company's shares in issue as at that date.

35. RESERVES

(a) Group

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

(i) The Group's merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to a reorganisation in prior years.

(ii) In accordance with the relevant PRC regulations, the subsidiaries which are established in the PRC are required to transfer 10% of their profits after tax, as determined under the PRC accounting regulations, to the statutory surplus reserve, until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus reserve may be used to offset against accumulated losses of the respective subsidiaries.

35. RESERVES (continued)

(b) Company

	Share premium account HK$'000	Share-based compensation reserve HK$'000	Convertible bonds equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	983,095	57,173	22,999	(392,152)	671,115
Loss and total comprehensive expense for the year	–	–	–	(197,211)	(197,211)
At 31 December 2011 and 1 January 2012	983,095	57,173	22,999	(589,363)	473,904
Issue of shares *(note 33)*	136,775	–	(21,679)	–	115,096
Issue of convertible bonds *(note 31)*	–	–	53,243	–	53,243
Equity-settled share option arrangements *(note 34)*	–	21,360	–	–	21,360
Share options lapsed	–	(31,318)	–	31,318	–
Loss and total comprehensive expense for the year	–	–	–	(679,970)	(679,970)
At 31 December 2012	**1,119,870**	**47,215**	**54,563**	**(1,238,015)**	**(16,367)**

36. BUSINESS COMBINATION

On 11 May 2012, the Group acquired 100% equity interest in Million Zone and its subsidiaries (collectively, "Million Zone Group") from three independent entities (the "Vendors") for a consideration of HK$600,000,000. The consideration was satisfied by the Group as follows:

- HK$80 million in cash;
- HK$208 million by the issue of convertible bonds in the equivalent principal amount;
- HK$312 million contingent consideration, subject to adjustment detailed below, by procuring the Company to issue the convertible bonds in the equivalent principal amount.

36. BUSINESS COMBINATION (continued)

The contingent consideration is subject to adjustment if the audited net profit (before tax and all extraordinary and exceptional items as defined or recognised under generally accepted accounting principles and practices in Hong Kong) of Million Zone Group for the period of one year immediately after the completion date of the Acquisition is less than HK$70 million.

The fair values of the identifiable assets and liabilities of Million Zone Group as at the date of Acquisition were as follows:

	HK$'000
Property, plant and equipment	20,664
Inventories	56,899
Trade receivables	48
Other receivables, deposits and prepayments	51,694
Cash and cash equivalents	2,237
Trade payables	(7,531)
Accruals, other payables and deposits received	(36,345)
Advances from a former shareholder of a subsidiary	(64,361)
Interest-bearing bank borrowing	(7,407)
Tax payable	(3,396)
Total identifiable net assets at fair value	12,502
Goodwill on acquisition *(note 15)*	569,706
Total consideration at fair value	582,208
Satisfied by:	
Cash	80,000
Fair value of CB III *(note 31)*	208,000
Contingent Consideration *(note 27)*	294,208
	582,208

Acquisition-related costs of approximately HK$20 million have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2012.

36. BUSINESS COMBINATION (continued)

The contingent consideration payable is dependent on the amount of adjusted net profit of Million Zone Group during the 12-month period subsequent to the Acquisition.

An analysis of the cash flows in respect of the Acquisition is as follows:

	HK$'000
Cash consideration	(80,000)
Cash and cash equivalents acquired	2,237
Net outflow of cash and cash equivalents included in cash flows from investing activities	77,763

Since the Acquisition, Million Zone Group contributed HK$235,729,000 to the Group's turnover from continuing operations and HK$25,008,000 to the Group's profit for the year ended 31 December 2012 from continuing operations.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year from continuing operations would have been HK$307,911,000 and HK$16,236,000, respectively.

37. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its 100% interest in the Mining Group, the Radio Trunking Group and certain subsidiaries to independent third parties, for a consideration in aggregate of HK$10,216,000, of which a total of HK$3,000,000 were received by the Group as at 31 December 2012.

	HK$'000
Net assets disposed of:	
Property, plant and equipment	302
Mining rights	10,000
Available-for-sale investments	1,532
Inventories	111
Trade receivables	1,645
Other receivables, deposits and prepayments	22,584
Tax recoverable	3
Cash and cash equivalents	1,306
Accruals, other payables and deposits received	(13,760)
Due to a related company	(15,599)
Tax payable	(307)
	7,817
Release of foreign currency translation reserve	(2,547)
Gain on disposal of subsidiaries – from discontinued operations *(note 12)*	6,612
Loss on disposal of subsidiaries – from continuing operations	(1,666)
	10,216
Satisfied by cash	3,000
To be satisfied by cash *(note 38(c))*	7,216
	10,216

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	HK$'000
Cash consideration received	3,000
Cash and cash equivalents disposed of	(1,306)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	1,694

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(a) During the year, the Group entered into finance lease arrangements in respect of items of property, plant and equipment with a total capital value at the inception of the leases of HK$2,800,000 (2011: Nil).

(b) As at the date of the Acquisition, Million Zone Group recorded payables to Mr. Chang Chun and Mr. He Ling of HK$12,222,000 under accruals, other payables and deposits received. After the appointment of Mr. Chang Chun and Mr. He Ling as the Company's directors during the year, such balances were reclassified to amounts due to directors, which had no cash flow impact to the Group.

(c) As further explained in note 37, the Group disposed of its equity interest in certain subsidiaries for a consideration in aggregate of HK$10,216,000. During the year, part of the consideration of HK$3,000,000 was received. The remaining HK$7,216,000 of the consideration was included in other receivables, deposits and prepayments as at 31 December 2012.

39. OPERATING LEASE ARRANGEMENTS

The Group leases certain properties under operating lease arrangements, with leases negotiated for terms ranging from one to six years.

At 31 December 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**26,757**	3,465	**421**	1,189
In the second to fifth years, inclusive	**39,708**	1,733	**–**	396
After five years	**3,681**	–	**–**	–
	70,146	5,198	**421**	1,585

40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39 above, the Group had the following capital commitments as at the end of the reporting period:

	2012	2011
	HK$'000	*HK$'000*
Contracted but not provided for:		
Acquisition of other intangible assets	**–**	8,062
Acquisition of items of property, plant and equipment	**5,000**	–
	5,000	8,062

The Company had no significant commitments at 31 December 2012 (2011: Nil).

41. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties:

As at 31 December 2012, a director of the Company has provided a guarantee to the Potential Investor in relation to the receipt in advance of HK$61,750,000 (2011: Nil) as at the end of the reporting period. Details of which are set out in note 26 to the financial statements.

As at 31 December 2012, certain directors of the Company have provided guarantees in favour of banks for certain bank loans granted to the Group of HK$22,930,000 (2011: Nil) as at the end of the reporting period. Details of which are set out in note 28 to the financial statements.

(b) Outstanding balances with related parties:

Details of the Group's balances with directors and related companies as at the end of the reporting period are disclosed in note 30 to the financial statements.

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

	2012	2011
	HK$'000	*HK$'000*
Short-term employee benefits	**5,589**	1,465
Post-employment benefits	**14**	12
	5,603	1,477

Further details of directors' and senior management's emoluments are included in note 8 to the financial statements.

42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2012

	Group		
Financial assets	**Financial assets at fair value through profit or loss – held for trading** *HK$'000*	**Loans and receivables** *HK$'000*	**Total** *HK$'000*
Trade receivables	–	1,144	1,144
Financial assets included in other receivables, deposits and prepayments	–	13,297	13,297
Financial assets at fair value through profit or loss	300	–	300
Due from a related company	–	861	861
Cash and cash equivalents	–	16,596	16,596
	300	31,898	32,198

Financial liabilities	**Financial liabilities at fair value through profit or loss – held for trading** *HK$'000*	**Financial liabilities at amortised cost** *HK$'000*	**Total** *HK$'000*
Trade payables	15,446	–	15,446
Financial liabilities included in accruals, other payables and deposits received	–	114,545	114,545
Contingent consideration payable	229,072	–	229,072
Interest-bearing bank borrowings	–	25,125	25,125
Advances from a former shareholder of a subsidiary	–	37,097	37,097
Due to directors	–	12,222	12,222
Convertible bonds	–	308,755	308,755
	244,518	497,744	742,262

42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2011

Financial assets	Group Financial assets at fair value through profit or loss – held for trading *HK$'000*	Loans and receivables *HK$'000*	Available-for-sale financial assets *HK$'000*	Total *HK$'000*
Available-for-sale investments	–	–	16,860	16,860
Trade receivables	–	175,124	–	175,124
Financial assets included in other receivables, deposits and prepayments	–	26,785	–	26,785
Financial assets at fair value through profit or loss	5,801	–	–	5,801
Cash and cash equivalents	–	80,146	–	80,146
	5,801	282,055	16,860	304,716

Financial liabilities	Financial liabilities at amortised cost *HK$'000*
Trade payables	65,310
Financial liabilities included in accruals, other payables and deposits received	37,110
Due to a related company	15,321
Convertible bonds	198,382
	316,123

42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Company	
Financial assets – loans and receivables	**2012**	2011
	HK$'000	*HK$'000*
Due from subsidiaries	**695**	278,035
Financial assets included in other receivables, deposits and prepayments	**377**	713
Cash and cash equivalents	**1,060**	2,017
	2,132	280,765

2012		**Company**	
Financial liabilities	**Financial liabilities at fair value through profit or loss – held for trading**	**Financial liabilities at amortised cost**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Due to subsidiaries	**–**	**3,168**	**3,168**
Financial liabilities included in accruals and other payables	**–**	**10,092**	**10,092**
Contingent consideration payable	**229,072**	**–**	**229,072**
Interest-bearing bank borrowing	**–**	**2,195**	**2,195**
Convertible bonds	**–**	**308,755**	**308,755**
	229,072	**324,210**	**552,282**

42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2011

Financial liabilities	Financial liabilities at amortised cost *HK$'000*
Due to subsidiaries	3,523
Financial liabilities included in accruals and other payables	650
Convertible bonds	198,382
	202,555

43. FAIR VALUE AND FAIR VALUE HIERARCHY

At the end of the reporting period, the carrying amounts of the Group's and the Company's financial assets and financial liabilities approximated their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

43. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Assets measured at fair value:

Group

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Total** *HK$'000*
As at 31 December 2012			
Financial assets at fair value through profit or loss	**–**	**300**	**300**
As at 31 December 2011			
Available-for-sale investments:			
Equity investments	–	15,328	15,328
Financial assets at fair value through profit or loss	5,501	300	5,801
	5,501	15,628	21,129

Liabilities measured at fair value:

Group

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Total** *HK$'000*
As at 31 December 2012			
Contingent consideration payable	**–**	**229,072**	**229,072**

The Group did not have any financial liabilities measured at fair value as at 31 December 2011.

As at 31 December 2012, the Group had no financial instruments measured at fair value under Level 3.

The Company did not have any financial assets and financial liabilities measured at fair value as at 31 December 2012 (2011: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2011: Nil).

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, convertible bonds and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, other receivables and deposits, trade payables, accruals and other payables, amounts due from/ to related companies and directors and advances from a former shareholder of a subsidiary, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, market risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The contractual interest rates and terms of repayment of the interest-bearing bank borrowings of the Group are set out in note 28 to the financial statements.

A reasonably possible change of 100 basis points in interest rates would have no material impact on the Group's loss before tax during the years ended 31 December 2012 and 31 December 2011 and there would be no material impact on the Group's equity (excluding accumulated losses).

Market risk

The Group trades in financial instruments, including equity securities listed in Hong Kong.

Market risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate due to changes in market variables, such as interest rates, foreign exchange rates and equity prices. The Group is exposed to market risk through its other investments.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Foreign currency risk is the risk of losses due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. The Group has transactional currency exposures. Such exposures arise from sales and purchase by operating units in currencies other than the units' functional currencies. For Hong Kong operations, all sales and purchases transactions are settled in Hong Kong dollars or United States dollars. Meanwhile, most of the sales and purchases transactions in Mainland China operations are settled in RMB. Accordingly, the transactional currency exposures of the Group are not significant. The Group has not entered into any hedging transaction to reduce the Group's exposure to foreign currency in this regard.

A reasonably possible appreciation of 5% (2011: 5%) of the exchange rate of the Hong Kong dollar against RMB would have no significant effect on the Group's loss before tax for the years ended 31 December 2012 and 31 December 2011 and there would be no material impact on the Group's equity.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

Since the Group trades only with recognised and creditworthy third parties, there is generally no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale investments, financial assets at fair value through profit or loss, an amount due from a related company and other receivables and deposits, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it has no significant concentration of credit risk by a single debtor.

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and advances from a former shareholder of a subsidiary to meet its working capital and capital expenditure requirements.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2012		
	On demand or less than 12 months	**1 to 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Trade payables	**15,446**	**–**	**15,446**
Financial liabilities included in accruals, other payables and deposits received	**114,545**	**–**	**114,545**
Contingent consideration payable	**229,072**	**–**	**229,072**
Interest-bearing bank borrowings	**23,939**	**1,741**	**25,680**
Advances from a former shareholder of a subsidiary	**37,097**	**–**	**37,097**
Due to directors	**12,222**	**–**	**12,222**
Convertible bonds	**–**	**366,397**	**366,397**
	432,321	**368,138**	**800,459**

	2011		
	On demand or less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	65,310	–	65,310
Financial liabilities included in accruals, other payables and deposits received	37,110	–	37,110
Due to a related company	15,321	–	15,321
Convertible bonds	–	198,382	198,382
	117,741	198,382	316,123

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Company	**2012**		
	On demand or less than 12 months	**1 to 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Due to subsidiaries	**3,168**	**–**	**3,168**
Financial liabilities included in accruals, other payables and deposits received	**10,092**	**–**	**10,092**
Contingent consideration payable	**229,072**	**–**	**229,072**
Interest-bearing bank borrowings	**615**	**1,741**	**2,356**
Convertible bonds	**–**	**366,397**	**366,397**
	242,947	**368,138**	**611,085**

	2011		
	On demand or less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*
Due to subsidiaries	3,523	–	3,523
Financial liabilities included in accruals, other payables and deposits received	650	–	650
Convertible bonds	–	198,382	198,382
	4,173	198,382	202,555

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt comprises all interest-bearing bank borrowings, advances from a former shareholder of a subsidiary, amounts due to directors and a related company, trade payables, and accruals, other payables and deposits received and convertible bonds less cash and cash equivalents. The total equity comprises owners' equity as stated in the consolidated statement of financial position.

The Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its business. The gearing ratios of the Group as at the end of the reporting periods were as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Interest-bearing bank borrowings	**25,125**	–
Trade payables	**15,446**	65,310
Accruals, other payables and deposits received	**114,545**	37,110
Contingent consideration payable	**229,072**	–
Advances from a former shareholder of a subsidiary	**37,097**	–
Due to directors	**12,222**	–
Due to a related company	**–**	15,321
Convertible bonds	**308,775**	198,382
Less: Cash and cash equivalents	**(16,596)**	(80,146)
Net debt	**725,666**	235,977
Equity attributable to ordinary equity holders of the Company and total capital	**159,706**	675,554
Capital and net debt	**885,372**	911,531
Gearing ratio	**82%**	25.9%

45. EVENTS AFTER THE REPORTING PERIOD

(a) With effective from 26 March 2013, the Company has its every existing 10 issued and unissued shares of HK$0.01 each to be consolidated into 1 consolidated share of HK$0.1 each; and

(b) On 28 March 2013, the Company and the HIT Purchaser entered into a sale and purchase agreement to dispose of the Group's entire interests in Wealthy China and Champion Skill and the loan due from the HIT Group to the Group of HK$147,000,000 for a total consideration of HK$100,000,000.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2013.

FINANCIAL SUMMARY

For the year ended 31 December 2012

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**235,729**	242,448	388,378	15,345	287,071
Profit/(loss) before tax	**23,556**	(261,176)	130,052	(357,653)	(61,472)
Income tax credit/(expense)	**(8,338)**	–	–	(143)	520
Profit/(loss) for the year from continuing operations	**15,218**	(261,176)	130,052	(357,796)	(60,952)
Profit/(loss) before tax from discontinued operations	**(785,925)**	–	9,241	4,602	–
Income tax expense	**(4,533)**	–	(2,563)	(1,529)	–
Profit/(loss) for the year from discontinued operations	**(790,458)**	–	6,678	3,073	–
Profit/(loss) for the year	**(775,240)**	(261,176)	136,730	(354,723)	(60,952)
Attributable to:					
Ordinary equity holders of the Company	**(748,372)**	(256,611)	140,006	(354,285)	(60,948)
Non-controlling interests	**(26,868)**	(4,565)	(3,276)	(438)	(4)
	(775,240)	(261,176)	136,730	(354,723)	(60,952)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**967,421**	1,016,701	1,266,705	1,204,681	386,276
TOTAL LIABILITIES	**(809,359)**	(316,266)	(351,339)	(477,244)	(180,113)
NON-CONTROLLING INTERESTS	**1,644**	(24,881)	(1,233)	(4,509)	–
	159,706	675,554	914,133	722,928	206,163