The Hong Kong Building and Loan Agency Limited

香港建屋貸款有限公司

(Stock Code: 145)

Annual Report 2010

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Au Tin Fung
Mr. So Yuen Chun
Mr. Soong Kok Meng

Independent Non-Executive Directors
Mr. Ng Cheuk Fan, Keith
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter

AUDIT COMMITTEE

Mr. Ng Cheuk Fan, Keith
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter

NOMINATION COMMITTEE

Mr. Ng Cheuk Fan, Keith
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter

REMUNERATION COMMITTEE

Mr. Ng Cheuk Fan, Keith
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

SOLICITOR

Angela Wang & Co

SHARE REGISTRAR

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

REGISTERED OFFICE

Room 3501, 35/F, China Online Centre,
No. 333 Lockhart Road, Wanchai, Hong Kong

STOCK CODE

145

WEBSITE

http://www.hkbla.com.hk

COMPANY SECRETARY

Ms. Li Oi Lai

CONTENT

CHAIRMAN'S STATEMENT

It is my pleasure to present to our shareholders the annual report of the Company for the year ended 31 December 2010.

BUSINESS REVIEW

The Group's loan financing recorded an increase in profit while treasury investments recorded a loss for the year ended 31 December 2010. Loss for the year attributable to the owners of our Company for the year ended 31 December 2010 was approximately HK$33.7 million. The Group remained debt-free and maintained a liquid position throughout the year. The management of the Group has been cautious in its treasury investment activities and has continued to review its existing businesses from time to time and strived to improve the business operation and financial position of the Group.

DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2010 (2009: Nil).

The Annual General Meeting of the Company will be held on 17 May 2011.

PROSPECTS

It has been the business strategy of the Group to proactively seek potential investment opportunities that could enhance the value to the Shareholders.

On 23 February 2011, Wise Planner Limited ("Wise Planner"), a wholly owned subsidiary of the Company, entered into the sale and purchase agreement (the "Sale and Purchase Agreement") with the vendors (the "Vendors"), the guarantors (the "Guarantors") and the Company. Pursuant to the Sale and Purchase Agreement, Wise Planner has conditionally agreed to acquire and the Vendors have conditionally agreed to dispose of the entire issued share capital of Weldtech Technology Co. Limited ("Weldtech") at a total consideration of HK$2,800,000,000. Weldtech is an investment holding company holding the entire equity interest in 日滔貿易(上海)有限公司, a wholly foreign-owned enterprise ("WFOE") established in the PRC (collectively referred to as "Weldtech Group"). The WFOE is currently actively developing new technology based on ultra performance plant control ("UPPC") so as to broaden the scope of building energy solution saving, such as the "heating ventilation and air-conditioning" ("HVAC") airside control optimisation, building energy monitoring system, real-time system fault detection and more advanced optimisation algorithm. The Company has identified the Weldtech Group as an appropriate acquisition target to the Group and is of the view that the acquisition would allow the Group to diversify into a new line of business with significant growth potential.

Hong Kong's real property market has enjoyed a boom over the year under review which in turn has brought a remarkable increase in the prospect of the Group's mortgage finance businesses. The management of the Group is optimistic about the Hong Kong real property market in the long run. The Group will continue developing this business while also striving towards strengthening its overall financial position and focusing on the treasury investments. The Directors has continued to review its existing businesses from time to time and seek potential investment opportunities that could enhance the value to the shareholders.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the board of directors, I would like to express my sincere appreciation to our management team and staff members for their invaluable service during the year.

Au Tin Fung
Director

Hong Kong, 23 March 2011

DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

For the year ended 31 December 2010, the Group recorded a loss attributable to the owners of the Company of approximately HK$33.7 million (2009: profit of approximately HK$3.4 million) with revenue of approximately HK$18.9 million (2009: approximately HK$3.8 million).

RESULTS FOR THE YEAR

The Group is principally engaged in treasury investments and the provision of loan finance.

The revenue contributed by loan financing record a sharp increase to approximately HK$18.8 million (2009: approximately HK$1.7 million) and the profit contributed by loan financing sharply increased to approximately HK$18.6 million (2009: approximately HK$1.7 million).

The revenue contributed by the treasury investments decreased to approximately HK$0.098 million (2009: approximately HK$2.2 million) as a result of decrease in interest on available-for-sale investments and bank deposits. The loss contributed by treasury investments sharply increased to approximately HK$45.2 million (2009: profit of approximately HK$13.3 million).

TOTAL ASSETS

At 31 December 2010, the total assets increased to approximately HK$397.1 million (2009: approximately HK$232.4 million). All assets were denominated in Hong Kong dollars except for some bank balances which were denominated in United States dollars; as such, the Group's exposure to foreign exchange currency rate risk was insignificant.

As at 31 December 2010, the Group held available-for-sale investments and financial assets at fair value through profit or loss amounting to approximately HK$16.7 million (2009: Nil) and HK$28.2 million (2009: approximately HK$109.9 million), respectively. The available-for-sale investments represent the fair value of an equity investment of a listed entity in Hong Kong at as 31 December 2010. The financial assets at fair value through profit or loss represent held-for-trading investments in two equity securities listed in Hong Kong. As at 31 December 2010, the Group held mortgage loan and loan receivables amounting to approximately HK$129.5 million (2009: approximately HK$69.8 million) and approximately HK$124 million (2009: approximately HK$10 million), respectively.

The Group maintained a liquid position throughout the year. As at 31 December 2010, the Group held bank balances amounting to approximately HK$77.1 million (2009: approximately HK$23 million). Gearing ratio of the Group as at 31 December 2010, which is calculated as net debts (as calculated by total borrowings less cash and cash equivalents) divided by total equity, was zero (2009: 0).

DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

CAPITAL STRUCTURE

As at 31 December 2010, the Company's issued ordinary share capital was HK$399,470,036 divided into 3,994,700,358 shares of HK$0.1 each (31 December 2009: HK$225,000,000 divided into 225,000,000 shares of HK$1 each).

Pursuant to the special resolutions passed at the extraordinary general meeting of the Company held on 10 February 2010 (the "EGM"), each of the issued and unissued shares of HK$1.00 each in the share capital of the Company was subdivided into 10 shares of HK$0.10 each (the "Subdivided Shares") (collectively, referred to as the "Share Subdivision"), and the authorised share capital of the Company was increased from HK$300,000,000 to HK$500,000,000 by the creation of an additional 2,000,000,000 Subdivided Shares after the completion of the Share Subdivision.

On 5 May 2010, the Company allotted and issued 562,500,000 ordinary shares of HK$0.1 each to the qualifying shareholders pursuant to an open offer on the basis of one offer share (with a further option to subscribe for convertible bonds ("Option")) for every four existing shares at a subscription price of HK$0.1 per offer share (collectively, the "Open Offer").

Pursuant to the Open Offer, the Company has issued a total of 449,999,997 Options to the subscribers of the offer shares. Option holders are entitled to subscribe in cash for the zero-coupon convertible bonds of the Company during the period from 5 May 2010 to 4 May 2011 (the "Convertible Bonds"). The Convertible Bonds, if fully subscribed, may be converted into a maximum of 449,999,997 new shares of the Company of HK$0.1 each ("Share") at the initial conversion price of HK$0.1 per Share. These Convertible Bonds will mature on 31 December 2012. The Company has sole and absolute discretion to redeem any outstanding Convertible Bonds on the maturity date at 100% of their principal amount or by issuing new Shares to the respective Convertible Bond holders at the conversion price.

During the year under review, 47,793,618 Options were exercised by the Option holders, and the Convertible Bonds in a principal amount of HK$4,779,362 were issued accordingly.

During the current year, Convertible Bonds in the principal amount of approximately HK$4,720,036 were converted into 47,200,358 Shares and as at 31 December 2010, the Company had Convertible Bonds in the principal amount of approximately HK$59,326 outstanding and 402,206,379 Options outstanding. The exercise in full of these outstanding options would result in further issuance of Convertible Bonds in the principal amount of approximately HK$40,220,638, which is convertible into a maximum of 402,206,379 new Shares.

DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

CAPITAL STRUCTURE *(continued)*

On 10 May 2010, the Company and Fortune (HK) Securities Limited (as the placing agent) entered into a placing agreement in respect of the placement of 562,000,000 warrants of the Company to independent investors at a price of HK$0.01 per warrant. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.10 each at an exercise price of HK$0.18 (the "Warrant Placing Agreement"). In view of the change in market conditions, the placing agent and the Company agreed to vary the Warrant Placing Agreement by terminating the Warrant Placing Agreement and entering into the Supplemental Warrant Placing Agreement on 7 June 2010, pursuant to which the initial exercise price was amended from HK$0.18 to HK$0.147 per warrant. The placement was completed on 22 June 2010 and the warrants issued shall expire on 21 June 2012. No warrant had been exercised during the year ended 31 December 2010.

On 12 August 2010, the Company and Kingston Securities Limited (as the placing agent) entered into a placing agreement pursuant to which the Company has conditionally agreed to place, through the placing agent on a best effort basis, up to 1,135,000,000 placing shares ("Placing Share(s)") at a price of HK$0.11 per Placing Share. On 28 December 2010, the Company completed the placing of 1,135,000,000 shares of the Company at a price of HK$0.11 per Placing Share. The net proceeds from the placing amounted to approximately HK$121.73 million.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

The Group did not have any charges on its assets and there were no contingent liabilities as at 31 December 2010.

CAPITAL COMMITMENT

The Group did not have any capital commitment as at 31 December 2010.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group disposed its 100% equity interest in Tack On Limited to a third party for a consideration of HK$9,700,000 during the year ended 31 December 2010.

DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

SIGNIFICANT INVESTMENTS HELD

As at 31 December 2010, the Group held available-for-sale financial assets amounted to approximately HK$16.7 million (2009: Nil) and financial asset at fair value through profit or loss amounted to approximately HK$28.2 million (2009: approximately HK$109.9 million).

FUND RAISING ACTIVITIES

As disclosed under the section headed "Capital Structure" above, during the year under review, the Company had conducted an open offer of shares entitling the subscribers thereof a further Option to subscribe for Convertible Bonds. The aggregate gross proceeds from the open offer were HK$56.25 million. Assuming full exercise of the Option, an additional maximum amount of HK$45 million (before expenses) will be raised. As at 31 December 2010, the net proceeds from the open offer (approximately HK$54 million) and from the exercise of the Option (approximately HK$4.8 million) had been applied as general working capital of the Group as originally intended.

In addition, the Company entered into the supplemental warrant placing agreement with Fortune (HK) Securities Limited on 7 June 2010 in relation to the placing of 562,000,000 Warrants, at the warrant issue price of HK$0.01 per Warrant. The warrant placement was completed on 22 June 2010, generating net proceeds of approximately HK$5.3 million which were applied as general working capital of the Group as originally intended. The warrant exercise price is HK$0.147 per Share (subject to adjustment) and the Warrants may be exercised at any time during a period of 24 months commencing from the date of issue of the Warrants. No Warrant had been exercised during the period ended 31 December 2010. On such basis, further net proceeds of up to a maximum of approximately HK$82.6 million from the issue of the new shares upon the exercise of the subscription rights attached to the Warrants may be raised in future.

On 12 August 2010, the Company and Kingston Securities Limited (the "Placing Agent") entered into a placing agreement pursuant to which the Company has conditionally agreed to place, through the Placing Agent on a best effort basis, up to 1,135,000,000 placing shares ("Placing Share(s)") at a price of HK$0.11 per Placing Share. On 28 December 2010, the Company completed the placing of 1,135,000,000 shares of the Company at a price of HK$0.11 per Placing Share. The net proceeds from the placing amounted to approximately HK$121.73 million.

STAFF AND REMUNERATION

The Group had 11 (2009: 12) employees at 31 December 2010 and total staff costs incurred during the year amounted to approximately HK$3.8 million (2009: approximately HK$4.6 million). The Group offers competitive remuneration packages to its employees. Currently, there is no share option granted or exercised during the year under review.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Company and to the enhancement of shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2010, the Company applied the principles of and complied with most of the code provisions of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except for the insufficient number of independent non-executive Directors and the separation of the roles of Chairman and Chief Executive Officer ("CEO"), details of which are set out in the sections headed "Board of Directors" and "Chairman and Chief Executive", respectively, below. The Board will review the current practices at least annually and make appropriate changes if considered necessary.

BOARD OF DIRECTORS

The Board currently comprises six Directors, with three executive Directors and three independent non-executive Directors ("INEDs"). The composition of the Board is as follows:

Executive Directors:	Mr. Au Tin Fung Mr. So Yuen Chun Mr. Soong Kok Meng
INEDs:	Mr. Ng Cheuk Fan, Keith Mr. Lam Kwok Hing, Wilfred Mr. Yeung Wai Hung, Peter

The brief biographical details of the Directors are set out in the "Brief Biographical details of Directors" section on pages 26 and 27.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

Pursuant to Rule 3.10(1) of the Listing Rules, every board of directors of a listed issuer must include at least three INEDs. Pursuant to Rule 3.21 of the Listing Rules, the audit committee of the Company shall comprise a minimum of three members. The Company was not in full compliance with Rule 3.10 of the Listing Rules since the resignation of Messrs. Alan Howard Smith, *J.P.*, Stephen King Chang-Min and Patrick Smulders and the re-designation of Mr. Au Tin Fung from an INED to an executive Director, both took place on 23 October 2009, which the number of INEDs dropped to two thereafter. Later, subsequent to the resignation of Mr. Yu Kam Kee, Lawrence as INED and all his offices in the Company on 2 December 2009, the Company had only one INED and one Audit Committee member. In this regard, the Company immediately informed the Stock Exchange and made proper disclosure in its announcements containing details and reasons for the Company's failure to meet the requirements. On 15 January 2010, the Company appointed Messrs. So Yuen Chun and Ng Cheuk Fan, Keith as INEDs and Audit Committee members. The requirements under Rule 3.10(1) and Rule 3.21 were fulfilled since then.

Save as disclosed above, throughout the year ended 31 December 2010, the Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of sufficient number of INEDs and the requirement for at least one INED to have appropriate professional qualifications or accounting or related financial management expertise.

The INEDs, with sound professional expertise and experience, have actively participated in the Board and committee meetings and bring independent judgment on issues relating to the Group's strategy, performance and management process. They will take various roles in the Board committees.

As at the date of this report, the Company had three INEDs representing more than one-third of the Board. All INEDs have the appropriate professional qualifications or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The INEDs have been expressly identified as such in all corporate communications and the website of the Company that disclose the names of Directors. The INEDs were appointed for a fixed term of three years.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group in addition to the meetings for reviewing and approving the Group's annual and interim results. The attendance of Directors, either in person or through other electronic means of communication, to the number of Board meetings held during the period under review or during their tenure of services, are as follows:–

	Number of Board meetings attended/ eligible to attend
Executive Directors:	
Mr. Au Tin Fung	8/8
Mr. So Yuen Chun *(appointed on 15 January 2010 as INED and re-designated as executive Director on 1 December 2010)*	8/8
Mr. Soong Kok Meng *(appointed on 1 December 2010)*	1/2
Mr. Lau Yu Fung, Wilson *(resigned on 1 December 2010)*	3/6
Mr. Chan Chun Wai *(resigned on 1 February 2011)*	8/8
Non-executive Director:	
Mr. Tang Yu Ming, Nelson *(resigned on 14 May 2010)*	2/3
INEDs:	
Mr. Ng Cheuk Fan, Keith *(appointed on 15 January 2010)*	8/8
Mr. Lam Kwok Hing, Wilfred *(appointed on 1 December 2010)*	1/2
Mr. Yeung Wai Hung, Peter *(appointed on 1 February 2011)*	N/A
Mr. Chan Chi Yuen *(resigned on 1 February 2011)*	6/8

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, financial performance, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. Currently, the Board has delegated the daily operations and administration to the Lending Committee and/or Investment Committee.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

Each year, Board meetings, which are scheduled in advance to facilitate maximum attendance of Directors, are held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a Board meeting is given to all Directors for the regular meetings who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Directors in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. Reasonable notices have been given to all Directors generally prior to meetings, except in cases of emergency. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting. Draft minutes of each Board meeting are circulated to all Directors for their comment before being approved by the Board. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

According to the current Board practice, any transaction which involves a conflict of interests for a substantial shareholder or a Director and which is considered by the Board to be material will be dealt with by the Board at a duly convened Board meeting. The articles of association of the Company (the "Articles of Association") also stipulate that a Director should abstain from voting and not be counted in the quorum at meetings for approving transactions in which such Director or any of his associates have a material interest therein. In addition, he has to declare his interests therein in accordance with the Articles of Association of the Company.

Every Director is entitled to have access to board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. Directors will be updated continuously on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, a written procedure was established in October 2005 to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE

Under the Code Provision A.2.1 of the Code on Corporate Governance Practices, the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing. Mr. Tang Yu Ming, Nelson resigned as Chairman and non-executive Director of the Company with effect from 14 May 2010 and no replacement for the post of Chairman has been appointed as at 31 December 2010. The functions of the CEO are performed by the executive Directors jointly. They are responsible for the executive management of the Company's operations.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Nomination Committee

The Nomination Committee of the Company has been established in June 2005. Currently all three members are INEDs, including Messrs. Ng Cheuk Fan, Keith, Lam Kwok Hing, Wilfred and Yeung Wai Hung, Peter.

The major roles and functions of the Nomination Committee are:

(i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(ii) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

(iii) to assess the independence of INEDs;

(iv) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and the Chief Executive;

(v) to do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board; and

(vi) to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

CORPORATE GOVERNANCE REPORT

APPOINTMENT AND RE-ELECTION OF DIRECTORS *(continued)*

The terms of reference of the Nomination Committee have been posted on the Company's website.

During the year, one Nomination Committee meeting was held and the attendance of each member is set out as follows:

Committee member	Number of Committee meetings attended/ eligible to attend
Mr. Ng Cheuk Fan, Keith[1]	1/1
Mr. Lam Kwok Hing, Wilfred[2]	1/1
Mr. Yeung Wai Hung, Peter[3]	N/A
Mr. So Yuen Chun[4]	N/A
Mr. Tang Yu Ming, Nelson[5]	N/A
Mr. Chan Chi Yuen[6]	1/1

Notes: 1 *Mr. Ng Cheuk Fan, Keith was appointed as member of Nomination Committee of the Company on 15 January 2010.*

2 *Mr. Lam Kwok Hing, Wilfred was appointed as member of Nomination Committee of the Company on 1 December 2010.*

3 *Mr. Yeung Wai Hung, Peter was appointed as member of Nomination Committee of the Company on 1 February 2011.*

4 *Mr. So Yuen Chun was appointed as INED and member of Nomination Committee of the Company on 15 January 2010. He was re-designated from an INED to an executive Director and resigned as member of Nomination Committee of the Company, both with effect on 1 December 2010. No Nomination Committee meeting was held since his appointment.*

5 *Mr. Tang Yu Ming, Nelson resigned all his offices in the Company on 14 May 2010. No Nomination Committee meeting was held during his tenure this year.*

6 *Mr. Chan Chi Yuen resigned all his offices in the Company on 1 February 2011.*

During the year under review, the names of Directors submitted for appointment, re-designation, election or re-election, have been accompanied by the same biographical details as required under Rule 13.51(2). For those resigned Directors, the Company has also complied with Rule 13.51(2) and included in its announcements the reasons given by the Directors for their resignation and a statement confirming whether there are any matters that need to be brought to the attention of shareholders.

CORPORATE GOVERNANCE REPORT

APPOINTMENT AND RE-ELECTION OF DIRECTORS *(continued)*

Every newly appointed Director of the Company will receive an information package from the Company Secretary on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a director pursuant to the Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "SFO"). In addition, this information package includes material to briefly describe the operations and business of the Company. Directors will be continuously updated on major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

INED/NON-EXECUTIVE DIRECTOR

On 15 January 2010, the former Chairman and non-executive Director, Mr. Tang Yu Ming, Nelson entered into a service agreement with the Company for a fixed term of one year commencing retrospectively from his appointment date (i.e. 2 October 2009). He resigned from all his offices in the Company on 14 May 2010. All INEDs of the Company were appointed for a specific term of three years with effect from their respective appointment dates. All of them are subject to the relevant provisions in the Articles of Association or any other applicable laws whereby the Directors shall vacate or retire from their office.

According to the Articles of Association, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) should retire from office by rotation. Further, any Director appointed to fill a casual vacancy should hold office only until the next following general meeting of the Company whilst for those appointed as an addition to the Board should hold office until the next following annual general meeting and, in both cases, those Directors would then be eligible for re-election at the relevant meeting. Every Director shall be subject to retirement by rotation at least once every three years.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

In addition to the Nomination Committee, the Board established other Board committees, including but not limited to, the Remuneration Committee and the Audit Committee. Each of them has its specific written terms of reference or guidelines. Copies of minutes of all meetings and resolutions of the committees, which are duly kept by the Company Secretary, are circulated to all Board members. The committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 12 in the section "Board of Directors" above, have been adopted for the committee meetings as far as practicable.

Remuneration Committee

The Remuneration Committee has been established since June 2005 and currently consists of three members, including Messrs. Ng Cheuk Fan, Keith, Lam Kwok Hing, Wilfred and Yeung Wai Hung, Peter. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and functions of the Remuneration Committee are:

(i) to consult the Chairman and/or the chief executive(s) of the Company about their proposals relating to the remuneration of executive Directors and the senior management of the Company;

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

(iii) have the delegated responsibility to determine the specific remuneration packages of all executive Directors and the senior management, including (but not limited to) benefits in kind, pension rights and compensation payments (such as compensation payable for loss or termination of their office or appointment), and make recommendations to the Board of the remuneration of non-executive Directors. The Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remunerations;

(iv) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Remuneration Committee *(continued)*

(v) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

(vi) to ensure that no Director or any of his associates is involved in deciding his own remuneration. For this purpose, the remuneration of any member of the Committee shall be determined by the Board;

(vii) to advise shareholders of the Company on how to vote with respect to any service contracts of Directors that require shareholders' approval under Rule 13.68 or other rule(s) from time to time as set out in the Listing Rules; and

(viii) to review and approve performance-based remuneration by reference to the goals and objectives resolved by the Board from time to time.

The terms of reference of the Remuneration Committee were adopted in June 2005 and revised in July 2007 and have been posted on the Company's website.

The Remuneration Committee shall meet at least once a year. One Remuneration Committee meeting was held in 2010 to review (i) the existing policy and structure for the remuneration of Directors and senior management; (ii) the remuneration packages of all the executive Directors and senior management; and (iii) the remuneration of the INEDs. The attendance of each member is set out as follows:

Committee member	Number of Committee meetings attended/ eligible to attend
Mr. Ng Cheuk Fan, Keith[1]	1/1
Mr. Lam Kwok Hing, Wilfred[2]	1/1
Mr. Yeung Wai Hung, Peter[3]	N/A
Mr. So Yuen Chun[4]	N/A
Mr. Tang Yu Ming, Nelson[5]	N/A
Mr. Chan Chi Yuen[6]	1/1

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Remuneration Committee *(continued)*

Notes:

1. *Mr. Ng Cheuk Fan, Keith was appointed as member of Remuneration Committee of the Company on 15 January 2010.*

2. *Mr. Lam Kwok Hing, Wilfred was appointed as member of Remuneration Committee of the Company on 1 December 2010.*

3. *Mr. Yeung Wai Hung, Peter was appointed as member of Remuneration Committee of the Company on 1 February 2011.*

4. *Mr. So Yuen Chun was appointed as INED and member of Remuneration Committee of the Company on 15 January 2010. He was re-designated from an INED to an executive Director and resigned as member of Remuneration Committee of the Company, both with effect on 1 December 2010. No Remuneration Committee meeting was held during his tenure this year.*

5. *Mr. Tang Yu Ming, Nelson resigned from all his offices in the Company on 14 May 2010. No Remuneration Committee meeting was held during his tenure this year.*

6. *Mr. Chan Chi Yuen resigned from all his offices in the Company on 1 February 2011.*

The remuneration payable to Directors will depend on their respective contractual terms under their service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 9 to the consolidated financial statements.

During the year, the Remuneration Committee recommended to the Board on the following:

(i) the payment of a director's fee to each of the executive Directors; and

(ii) the remuneration of the INEDs remained appropriate in the current market conditions in Hong Kong.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee

The Audit Committee currently consists of all three INEDs. Currently, it consists of three members, namely, Messrs. Ng Cheuk Fan, Keith, Lam Kwok Hing, Wilfred and Yeung Wai Hung, Peter. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The major roles and functions of the Audit Committee are:

(i) to be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and any questions on resignation or dismissal of that auditor;

(ii) to consider and discuss with the external auditor the nature and scope of each year's audit;

(iii) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(iv) to develop and implement policy on the engagement of an external auditor to supply non-audit services;

(v) to review the interim and annual financial statements before submission to the Board;

(vi) to consider any significant or unusual items that are, or may need to be, reflected in the interim and annual financial statements, and any matters the external auditor, the Company's senior management may wish to discuss;

(vii) to review the Group's financial controls, internal control and risk management systems; and

(viii) to consider any findings of major investigations of internal control matters as delegated by the Board and management's response.

The terms of reference of Audit Committee of the Company were revised and adopted by the Board in January 2009, and is posted on the Company's website.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

The Audit Committee shall meet at least twice a year. The attendance of each Audit Committee member, either present in person or through other electronic means of communication, to the number of Audit Committee meetings held during the period under review or during their tenure of services, is as follows:–

Committee member	Number of Committee meetings attended/ eligible to attend
Mr. Ng Cheuk Fan, Keith *(Chairman)*[1]	2/2
Mr. Lam Kwok Hing, Wilfred[2]	N/A
Mr. Yeung Wai Hung, Peter[3]	N/A
Mr. So Yuen Chun[4]	2/2
Mr. Chan Chi Yuen[5]	2/2

Notes: 1 *Mr. Ng Cheuk Fan, Keith was appointed as member of Audit Committee of the Company on 15 January 2010.*

2 *Mr. Lam Kwok Hing, Wilfred was appointed as member of Audit Committee of the Company on 1 December 2010. No Audit Committee meeting was held during his tenure this year.*

3 *Mr. Yeung Wai Hung, Peter was appointed as member of Audit Committee of the Company on 1 February 2011. No Audit Committee meeting was held during his tenure this year.*

4 *Mr. So Yuen Chun was appointed as INED and member of Audit Committee of the Company on 15 January 2010. He was re-designated from an INED to an executive Director and resigned as member of Audit Committee of the Company, both with effect on 1 December 2010.*

5 *Mr. Chan Chi Yuen resigned from all his offices in the Company on 1 February 2011.*

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

During the meetings held in 2010, the Audit Committee had performed the work as summarised below:

(i) recommended to the Board for the re-appointment of Messrs. Deloitte Touche Tohmatsu ("DTT") as auditors of the Group;

(ii) reviewed and recommended to the Board for approval the engagement letters issued by DTT for the confirmation of various matters relating to DTT's engagement as auditors of the Group for the year ended 31 December 2009 and for the six months ended 30 June 2010;

(iii) reviewed the letter of representation and the financial statements for the year ended 31 December 2009 and recommended the same to the Board for approval;

(iv) reviewed the letter of representation and unaudited interim financial information for the six months ended 30 June 2010 and recommended the same to the Board for approval; and

(v) reviewed the auditor's independent review report for the six months ended 30 June 2010.

Full minutes of Audit Committee meetings were kept by the Company Secretary. Draft and final versions of minutes were sent to all members of Audit Committee within reasonable time after the meeting for their comments and records, respectively.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors, following a specific enquiry by the Company, have confirmed that they have complied with the required standard as set out in the Model Code.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing, with support from the accounting department, the consolidated financial statements of the Group. In preparing the consolidated financial statements for the year ended 31 December 2010, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules and the Companies Ordinance were complied with.

The reporting responsibilities of the Company's external auditor, Messrs. Deloitte Touche Tohmatsu, are set out in the Independent Auditor's Report on pages 33 and 34.

Internal Controls

The Group's internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and manage rather than eliminate risks of failure in operational systems. In 2010, the Board, through the Audit Committee, has reviewed the effectiveness of the internal control systems of the Group.

The Board will review the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget annually.

External Auditor's Remuneration

During the year, the remuneration paid/payable to the Company's external auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered for the Group

	Fee paid/payable *HK$'000*
Audit services	430
Non-audit services (including taxation advisory service fees, interim review and right issue)	394
Total	824

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information as well as the recent development of the Group are also made available on the Company's website.

The Company's annual general meeting (the "AGM") is a valuable forum for the Board to communicate directly with the shareholders. The Directors participated in the 2010 AGM and answered questions from the shareholders. An AGM circular was distributed to all shareholders at least 20 clear business days prior to the 2010 AGM, setting out the details of each proposed resolution and other relevant information.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders to promote and improve our transparency are also welcome.

On behalf of the Board

Au Tin Fung
Director

Hong Kong, 23 March 2011

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group and the Company for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in investment holding, treasury investments and the provision of loan financing and other related services. The principal activities and other particulars of the Company's subsidiaries are set out in note 26 to the consolidated financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's revenue and results by principal activity for the year ended 31 December 2010 is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the Consolidated Statement of Comprehensive Income on page 35.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil). No interim dividend was declared for the year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years ended 31 December 2010, as extracted from the audited consolidated financial statements, is set out on page 86.

EQUIPMENT

Details of movements in equipment of the Group and the Company during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 20 to the consolidated financial statements.

DIRECTORS' REPORT

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 38 and note 23 to the consolidated financial statements respectively.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 26 to the consolidated financial statements.

DIRECTORS

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

Executive Directors:
Mr. Au Tin Fung
Mr. So Yuen Chun *(appointed on 15 January 2010 as an INED and re-designated as an executive Director on 1 December 2010)*
Mr. Soong Kok Meng *(appointed on 1 December 2010)*
Mr. Lau Yu Fung, Wilson *(resigned on 1 December 2010)*
Mr. Chan Chun Wai *(resigned on 1 February 2011)*

Non-Executive Director:
Mr. Tang Yu Ming, Nelson *(resigned on 14 May 2010)*

Independent Non-Executive Directors:
Mr. Ng Cheuk Fan, Keith *(appointed on 15 January 2010)*
Mr. Lam Kwok Hing, Wilfred *(appointed on 1 December 2010)*
Mr. Yeung Wai Hung, Peter *(appointed on 1 February 2011)*
Mr. Chan Chi Yuen *(resigned on 1 February 2011)*

In accordance with Article 110 of the Company's Articles of Association, Messrs. Soong Kok Meng, Lam Kwok Hing, Wilfred and Yeung Wai Hung, Peter, who were appointed by the Board after the last annual general meeting of the Company held on 28 May 2010, shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Articles 120 and 121 of the Company's Articles of Association, Mr. Au Tin Fung will retire by rotation and being eligible offer himself for re-election.

DIRECTORS' REPORT

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Au Tin Fung, aged 52, was appointed as an independent non-executive Director of the Company on 2 October 2009 and re-designated as an executive Director of the Company on 23 October 2009. Mr. Au graduated from the business management department of the Hong Kong Baptist University and holds a Master Degree in Business Administration from the Upper Iowa University, the United States of America. He worked for Wong's Kong King International (Holdings) Limited as the corporate assistant general manager and the director general of Shenzhen Dengcheng Realties Development Company Limited. Mr. Au was an independent non-executive director of China Public Procurement Limited during the period from August 2007 to September 2009, a company listed on the Main Board of the Stock Exchange.

Mr. So Yuen Chun, aged 39, was appointed as an independent non-executive Director of the Company on 15 January 2010 and re-designated as an executive Director of the Company on 1 December 2010. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. So possesses more than 16 years of experience in the fields of auditing, accounting and finance. He is an executive Director of Chinese Global Investors Group Limited formerly known as Auswin Holdings Limited) (stock code: 5CJ.SI), a substantial shareholder of the Company and listed on the Catalist board of the Singapore Exchange Securities Trading Limited.

Mr. Soong Kok Meng, aged 48, was appointed as an executive Director of the Company on 1 December 2010. Mr. Soong possesses over 20 years of experience in sales and marketing. He graduated from Singapore Polytechnic with an advanced diploma in plastic technology and holds a Master degree of Science from University of Manchester Institute of Science and Technology. He is an executive Director of Chinese Global Investors Group Limited (formerly known as Auswin Holdings Limited) (stock code: 5CJ.SI), a substantial shareholder of the Company and listed on the Catalist board of the Singapore Exchange Securities Trading Limited. Mr. Soong was an independent non-executive director of PME Group Limited during the period from 11 July 2007 to 14 January 2011, a company listed on the Main Board of the Stock Exchange.

Mr. Ng Cheuk Fan, Keith, aged 49, was appointed as an independent non-executive Director of the Company on 15 January 2010. He is a member of the CPA Australia and the Hong Kong Institute of Certified Public Accountants. Mr. Ng graduated from the University of Alberta, Canada, with a Bachelor's degree in Commerce, majoring in Accounting. He also obtained a Master of Commerce degree in Professional Accounting from the University of New South Wales, Australia. Mr. Ng possesses over 20 years of corporate development, corporate re-structuring, accounting and management experience. He is currently an executive director of New Environmental Energy Holdings Limited, Hao Tian Resources Group Limited, U-Right International Holdings Limited and the managing director of China Fortune Group Limited, all of which are companies listed on the Main Board of the Stock Exchange. Mr. Ng was the executive director, financial controller, qualified accountant and company secretary of LeRoi Holdings Limited during the period from May 2004 to June 2008, a company listed on the Main Board of the Stock Exchange.

DIRECTORS' REPORT

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS *(continued)*

Mr. Lam Kwok Hing, Wilfred, aged 51, was appointed as an independent non-executive Director of the Company on 1 December 2010. Mr. Lam holds a bachelor degree of Law with honours from the University of Hong Kong and is a practising solicitor in Hong Kong. He also holds a professional qualification of Estate Agent's (Individual) Licence in Hong Kong. He is a senior associate of Philip KH Wong, Kennedy YH Wong & Co., Solicitors & Notaries. He is the group vice president of 3D-GOLD Jewellery and director of Business Operations (China) & Aide-de-Camp, Brand Promotion of Hong Kong Resources Holdings Company Limited, a company listed on the Main Board of the Stock Exchange; the non-executive vice-chairman and non-executive director of National Arts Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange; and an independent non-executive director of Value Convergence Holdings Limited, a company listed on the Main Board of the Stock Exchange.

Mr. Yeung Wai Hung, Peter, aged 53, was appointed as an independent non-executive Director of the Company on 1 February 2011. Mr. Yeung holds a bachelor of laws degree from the University of London and a postgraduate certificate in laws from the University of Hong Kong. He is a solicitor of High Court of Hong Kong. Mr. Yeung has been a practicing solicitor for over 20 years and a partner of Messrs. Hau, Lau, Li & Yeung, Solicitors & Notaries since 1992. He possesses extensive experience in the areas of mergers and acquisition and commercial contracts. He is currently an independent non-executive director of ROJAM Entertainment Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange.

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

None of the directors or chief executive of the Company, or their respective associates, as at 31 December 2010, had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

SHARE OPTION SCHEME

On 22 May 2008, the Company adopted a share option scheme (the "Share Option Scheme"), pursuant to which the Board may, at its discretion, grant options to the eligible participants (as defined in the Share Option Scheme) including employees, directors, shareholders and other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group. The subscription price for the shares under the Share Option Scheme will be a price determined by the Board in its absolute discretion but shall not be lower than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of a share. The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option scheme(s) of the Company must not exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any 12 month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to a director, chief executive or substantial shareholder or any of their respective associates in excess of 0.1% of the Company's share capital and with a value in excess of HK$5,000,000 must be approved by the Company's shareholders. Options granted under the Share Option Scheme will entitle the holder to subscribe for shares from the date of grant up to 21 May 2018. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

No options were granted to any directors and employees of the Group during the two years ended 31 December 2009 and 31 December 2010 pursuant to the Share Option Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies, or any of its fellow subsidiaries or subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' REPORT

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

1. Aggregate long position in the shares and underlying shares of the Company

As at 31 December 2010, so far as is known to the Directors and chief executive of the Company, the interests of the substantial shareholders, being shareholders holding 5% or more of the issued share capital of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Capacity	Number of shares and/or underlying shares held	Approximately percentage of the issued share capital of the Company *(Note 1)*
Chinese Global Investors Group Limited *(Note 2)*	Interest in controlled corporation	554,000,000	13.87%
CGI (Offshore) Limited *(Note 2)*	Interest in controlled corporation	554,000,000	13.87%
CGI (HK) Limited *(Note 2)*	Beneficial owner	554,000,000	13.87%
Mr. Ni Rong Kun	Beneficial owner	316,825,000	7.93%
Ms. Liang Gui Lian *(Note 3)*	Interest in controlled corporation	316,825,000	7.93%
Best Leader Asia Investment Limited *(Note 3)*	Interest in controlled corporation	316,825,000	7.93%
Express Advantage Limited *(Note 3)*	Beneficial owner	316,825,000	7.93%

Notes:

(1) Based on the number of 3,994,700,358 shares of the Company in issue as at 31 December 2010.

(2) CGI (HK) Limited is wholly owned by CGI (Offshore) Limited and CGI (Offshore) Limited is wholly owned by Chinese Global Investors Group Limited (formerly known as Auswin Holdings Limited). Accordingly, CGI (Offshore) Limited and Chinese Global Investors Group Limited were taken to be interested in the shares in which CGI (HK) Limited was interested

(3) These 316,825,000 shares comprise (i) 273,125,000 shares and (ii) unlisted physically settled derivatives that may be converted into a maximum of 43,700,000 shares, representing approximately 6.84% and 1.09% of the total issued share capital of the Company, respectively. Express Advantage Limited is owned 80% by Best Leader Asia Investment Limited, which is in turn wholly owned by Ms. Liang Gui Lian. Accordingly, Best Leader Asia Investment Limited and Ms. Liang Gui Lian were taken to be interested in the shares in which Express Advantage Limited was interested.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

2. Aggregate short position in the shares and underlying shares of the Company

As at 31 December 2010, the Company had not been notified of any short position being held by any substantial equity holders or other persons in the shares or underlying shares of the Company.

Save as disclosed above, as at 31 December 2010, the Company has not been notified of any interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2010, none of the Directors of the Company was considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

None of the Directors of the Company proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

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

DIRECTORS' REPORT

EMOLUMENT POLICY

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in notes 9 and 10 to the consolidated financial statements respectively.

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of the employees' 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2010, the Group's revenue attributed to the five largest customers accounted for approximately 97% of the Group's total revenue while the Group's revenue attributed to the largest customer accounted for approximately 62% of the Group's total revenue.

The Group had no major suppliers due to the nature of principal activities of the Group.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group and the employer's retirement benefit costs charged to the profit or loss for the year are set out in note 32 to the consolidated financial statements.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK$65,000.

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2010.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 35 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditors of the Company.

For and on behalf of the Board

Au Tin Fung
Director

Hong Kong, 23 March 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

TO THE MEMBERS OF THE HONG KONG BUILDING AND LOAN AGENCY LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of The Hong Kong Building and Loan Agency Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 85 which comprise the consolidated and Company's statements of financial position as at 31 December 2010, 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 Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, 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.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of 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 2010, and of the Group's profit 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 Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 23 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	5(a)	**18,850**	3,845
Interest income		**18,850**	3,815
Fair value changes on financial assets at fair value through profit or loss			
– designated at fair value through profit or loss		**–**	12,614
– held for trading		**(44,621)**	(2,682)
Realised gain on available-for-sale investments		**–**	1,574
Dividend income		**–**	30
Other income	5(b)	**1,644**	98
Operating expenses		**(11,197)**	(12,026)
Interest expense on trading account		**(624)**	–
Gain on disposal of a subsidiary		**553**	–
(Loss) Profit before taxation	7	**(35,395)**	3,423
Taxation	8	**1,668**	(39)
(Loss) Profit for the year		**(33,727)**	3,384
Other comprehensive income (expense)			
Fair value change on available-for-sale investments		**10,320**	699
Deferred tax relating to fair value change on available-for-sale investments		**(1,703)**	–
Reclassification adjustment to profit or loss upon disposal of available-for-sale investments		**–**	(1,574)
Other comprehensive income (expense) for the year		**8,617**	(875)
Total comprehensive (expense) income for the year		**(25,110)**	2,509
(Loss) Profit for the year attributable to the equity holders of the Company		**(33,727)**	3,384
Total comprehensive (expense) income attributable to the owners of the Company		**(25,110)**	2,509
		HK cents	*HK cents* (restated)
(Loss)/Earnings per share			
Basic	12	**(1.18)**	0.12
Diluted		**(1.18)**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	**2010** **HK$'000**	2009 HK$'000
NON-CURRENT ASSETS			
Equipment	13	**134**	184
Mortgage loans	14	**128,295**	68,268
Loan receivables	18	**64,000**	–
Available-for-sale investments	17	**16,680**	–
		209,109	68,452
CURRENT ASSETS			
Mortgage loans	14	**1,245**	1,562
Financial assets at fair value through profit or loss	16	**28,243**	109,941
Loan receivables	18	**60,000**	10,000
Prepayments, deposits and other receivables		**21,476**	19,350
Tax recoverable		**–**	127
Bank balances	19	**77,055**	23,004
		188,019	163,984
CURRENT LIABILITIES			
Other payables and accruals		**2,769**	1,347
Tax payable		**2**	–
		2,771	1,347
NET CURRENT ASSETS		**185,248**	162,637
		394,357	231,089
CAPITAL AND RESERVES			
Share capital	20	**399,470**	225,000
Reserves		**(5,113)**	6,089
		394,357	231,089

The consolidated financial statements on pages 36 to 37 were approved and authorised for issue by the Board of Directors on and are signed on its behalf by:

So Yuen Chun
Director

Au Tin Fung
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	**2010** **HK$'000**	2009 HK$'000
NON-CURRENT ASSETS			
Equipment	13	**134**	183
Mortgage loans	14	**16**	84
Amounts due from subsidiaries	27	**191,000**	65,000
Investments in subsidiaries	26	**152**	152
		191,302	65,419
CURRENT ASSETS			
Mortgage loans	14	**62**	59
Financial assets at fair value through profit or loss	16	**–**	45,520
Amounts due from subsidiaries	27	**116,817**	77,910
Loan receivables	18	**–**	10,000
Prepayments, deposits and other receivables		**15,399**	18,739
Bank balances	19	**72,972**	20,574
		205,250	172,802
CURRENT LIABILITIES			
Other payables and accruals		**2,741**	1,289
Amount due to a subsidiary	28	**113**	–
		2,854	1,289
NET CURRENT ASSETS		**202,396**	171,513
		393,698	236,932
CAPITAL AND RESERVES			
Share capital	20	**399,470**	225,000
Reserves	23	**(5,772)**	11,932
		393,698	236,932

So Yuen Chun
Director

Au Tin Fung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital *HK$'000*	Share premium *HK$'000*	Convertible bonds *HK$'000*	Convertible bond options *HK$'000*	Warrants *HK$'000*	Investments revaluation reserve *HK$'000*	(Accumulated loss)/ Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2009	225,000	–	–	–	–	875	2,705	228,580
Fair value changes of available-for-sale investments	–	–	–	–	–	699	–	699
Transfer to profit or loss on disposal of available for sale investments	–	–	–	–	–	(1,574)	–	(1,574)
Profit for the year	–	–	–	–	–	–	3,384	3,384
Total comprehensive income for the year	–	–	–	–	–	(875)	3,384	2,509
At 1 January 2010	**225,000**	**–**	**–**	**–**	**–**	**–**	**6,089**	**231,089**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(33,727)**	**(33,727)**
Fair value changes of available-for-sale investments	**–**	**–**	**–**	**–**	**–**	**10,320**	**–**	**10,320**
Deferred tax relating to fair value change to on available-for-sale investments	**–**	**–**	**–**	**–**	**–**	**(1,703)**	**–**	**(1,703)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**8,617**	**(33,727)**	**(25,110)**
Issue of ordinary shares and options for convertible bonds (note 20b)	**56,250**	**–**	**–**	**51,763**	**–**	**–**	**(51,763)**	**56,250**
Issue of convertible bonds (note 21)	**–**	**–**	**10,277**	**(5,498)**	**–**	**–**	**–**	**4,779**
Issue of shares upon conversion of convertible bonds (note 21)	**4,720**	**5,429**	**(10,149)**	**–**	**–**	**–**	**–**	**–**
Issue of warrants (note 22)	**–**	**–**	**–**	**–**	**5,620**	**–**	**–**	**5,620**
Issue of ordinary shares by placement (note 20c)	**113,500**	**11,350**	**–**	**–**	**–**	**–**	**–**	**124,850**
Transaction cost attributable to issue of shares	**–**	**(3,121)**	**–**	**–**	**–**	**–**	**–**	**(3,121)**
At 31 December 2010	**399,470**	**13,658**	**128**	**46,265**	**5,620**	**8,617**	**(79,401)**	**394,357**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
(Loss) Profit before taxation		**(35,395)**	3,423
Adjustments for:			
Dividend income		**–**	(30)
Interest expenses		**624**	–
Depreciation		**76**	52
Share issuance expenses		**2,420**	–
Write back of impairment allowances on mortgage loans		**(123)**	(52)
Realised gain on available-for-sale investments		**–**	(1,574)
Gain on disposal of a subsidiary		**(553)**	–
Operating cash flows before movements in working capital		**(32,951)**	1,819
Increase in mortgage loans		**(59,587)**	(59,770)
Decrease (Increase) in financial assets at fair value through profit or loss		**72,525**	(69,685)
Increase in loan receivables		**(114,000)**	(10,000)
Decrease (Increase) in prepayments, deposits and other receivables		**7,574**	(1,050)
Increase (Decrease) in other payables and accruals		**1,458**	(352)
		(124,981)	(139,038)
Dividend received		**–**	30
Interest paid		**(624)**	–
Income tax refund (paid)		**94**	(251)
NET CASH FLOW USED IN OPERATING ACTIVITIES		**(125,511)**	(139,259)
CASH GENERATED FROM INVESTING ACTIVITIES			
Purchase of equipment		**(26)**	(122)
Purchase of available-for-sale investment		**(6,360)**	–
Principal repayment of available-for-sale investments		**–**	6,423
Net sale proceeds from disposal of available-for-sale investments		**–**	33,455
Net proceeds from disposal of a subsidiary	30	**(10)**	–
NET CASH FLOW (USED IN) FROM INVESTING ACTIVITIES		**(6,396)**	39,756
CASH GENERATED FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options for convertible bonds		**56,250**	–
Proceeds from issue of shares by placement		**124,850**	–
Proceeds from issue of convertible bonds		**4,779**	–
Proceeds from issue of warrants		**5,620**	–
Share issuance costs		**(5,541)**	–
NET CASH FLOW FROM FINANCING ACTIVITIES		**185,958**	–
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**54,051**	(99,503)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**23,004**	122,507
CASH AND CASH EQUIVALENTS AT 31 December represented by Bank balances		**77,055**	23,004

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. GENERAL

The Company is a limited company incorporated in Hong Kong and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Room 3501, 35th Floor, China Online Centre, No. 333 Lockhart Road, Wanchai, Hong Kong. The consolidated financial statements are presented in Hong Kong dollars ("HKD"), which is the same as the functional currency of the Company. The principal activities of the Company and its subsidiaries are investment holding, treasury investments and the provision of loan financing and other related services.

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

In the current year, the Group has applied a number of new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for 2010 financial year ends.

The application of the new and revised HKFRSs has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (as revised in 2009)	Related party disclosures[6]
HKAS 32 (Amendments)	Classification of rights issues[7]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and the directors are still in the progress of assessing the potential impact.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

Basis of consolidation

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

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

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

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

Interests in subsidiaries

Interests in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivables. 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:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

(i) interest income from a financial asset including financial assets at fair value through profit and loss and available-for-sale investments is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable;

(ii) dealings in financial assets at fair value through profit or loss are recognised on a trade date basis when the relevant contract notes are exchanged;

(iii) dividend income from investments is recognised when the shareholder's rights to receive payment have been established; and

(iv) consulting service income is recognised when services are provided.

Equipment

Equipment is stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

An item of equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit and loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which case, the exchange differences are also recognised directly in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Financial instruments

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

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

Financial assets

The Group's and the Company's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Income is recognised on an effective interest basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets at fair value through profit or loss

The financial assets at FVTPL of the Group and the Company comprise financial assets held-for-trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

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

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

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

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

Loans and receivables

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group classified its investments in certain listed equity securities as available-for-sale financial assets.

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

Impairment of financial assets

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

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

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

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

For certain categories of financial assets, such as mortgage loans and loan receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and delayed payments record.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets (continued)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

Financial liabilities and equity instruments

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

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

Effective interest method

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity instruments *(continued)*

Other financial liabilities

Other financial liabilities, representing other payables, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Options to subscribe for convertible bonds and convertible bonds

Options to subscribe for convertible bonds and the convertible bonds are classified as equity instruments based on the contractual terms of the options and convertible bonds. On initial recognition, the fair value of the options to subscribe for convertible bonds is determined using option pricing model and recognised in "convertible bond options" included in equity. When the options are exercised, the carrying amount of options to subscribe for convertible bonds in "convertible bond options" will be transferred to "convertible bonds" together with the consideration received. Where the options to subscribe for convertible bonds remained unexercised at the expiry date, the balance stated in "convertible bond options" will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the options to subscribe for convertible bonds.

When the conversion options of the convertible bonds are exercised, the balance in the "convertible bonds" will be transferred to the share capital and share premium.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

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

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

Operating leases

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

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

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

Taxation

At 31 December 2010, a deferred tax asset of HK$1,703,000 (31 December 2009: nil) in relation to the unused tax loss of HK$10,320,000 (31 December 2009: nil) has been recognised in the Group's consolidated statement of financial position. No deferred tax assets have been recognised in the Group's and the Company's statements of financial position in relation to the remaining estimated unused tax losses of HK$62,676,000 and HK$32,190,000 (31 December 2009: HK$56,812,000 and HK$50,597,000) respectively due to unpredictability of future assessable profit streams. In cases where the actual future assessable profits generated are more than expected, deferred tax asset may arise, which would be recognised in the profit or loss for the period in which such a recognition takes place.

Impairment allowances on mortgage loans and loan receivables

The Group and the Company have established impairment allowances in respect of estimated incurred loss in mortgage loans and loan receivables. The allowances on mortgage loans are set out in note 15 to the financial statements.

In determining individual impairment allowances, management considers objective evidence of impairment. When a loan is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The quantum of the allowance is also impacted by the collateral value and this, in turn, may be discounted in certain circumstances to take into account the impact of forced sale or quick liquidation.

In determining collective impairment allowances, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio adjusted for current conditions.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

As at 31 December 2010, the details of mortgage loans and loan receivables are disclosed in notes 14 and 18 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

5(a). REVENUE

Revenue represents interest income from loan financing and interest income and dividend income from treasury investments.

An analysis of the revenue of the Group by principal activity is as follows:

	2010	2009
	HK$'000	*HK$'000*
Loan financing:		
Interest on mortgage loans	**13,784**	1,579
Interest on loan receivables	**4,968**	115
Treasury investments:		
Interest on bank deposits	**3**	454
Interest on available-for-sale investments	**–**	1,422
Interest on held-for-trading investments	**–**	43
Interest on financial assets designated at fair value through profit or loss	**95**	202
Dividend income from held-for-trading investments		
Equity securities listed in Hong Kong	**–**	30
	18,850	3,845

5(b). OTHER INCOME

	2010	2009
	HK$'000	*HK$'000*
Consultancy income	**1,500**	–
Management fee income	**125**	–
Other	**19**	98
	1,644	98

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENT INFORMATION

For management purposes, the Group is currently organized into two operating divisions by nature of the business, namely, treasury investment and loan financing.

These divisions are the basis on which, the Board of Directors, being the chief operating decision maker, reviews the operating results and financial information.

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

	2010		
	Loan financing *HK$'000*	**Treasury investments** *HK$'000*	**Total** *HK$'000*
Revenue	**18,752**	**98**	**18,850**
Segment profit (loss)	**18,578**	**(45,213)**	**(26,635)**
Centralised administration costs			**(10,813)**
Other income			**1,500**
Gain on disposal of a subsidiary			**553**
Profit before taxation			**(35,395)**
Taxation			**1,668**
			(33,727)
Segment assets	**263,341**	**117,895**	**381,236**
Unallocated assets			**15,892**
Total assets			**397,128**
Other information:			
Interest income	**18,752**	**98**	**18,850**
Write back of impairment allowances on mortgage loans	**123**	**–**	**123**
Net exchange loss	**–**	**(190)**	**(190)**
Fair value changes on financial assets at fair value through profit or loss	**–**	**(44,621)**	**(44,621)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENT INFORMATION *(continued)*

	2009		
	Loan financing *HK$'000*	Treasury investments *HK$'000*	Total *HK$'000*
Revenue	1,694	2,151	3,845
Segment profit	1,665	13,263	14,928
Central administration costs			(11,505)
Other income			–
Profit before taxation			3,423
Taxation			(39)
Profit for the year			3,384
Segment assets	82,506	149,036	231,542
Unallocated assets			894
Total assets			232,436
Other information:			
Interest income	1,694	2,121	3,815
Write back of impairment allowances on mortgage loans	52	–	52
Net exchange loss	–	(106)	(106)
Fair value changes on financial assets at fair value through profit or loss	–	9,932	9,932

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENT INFORMATION *(continued)*

During the current and prior year, there were no inter-segment transactions.

Segment profit represents the pre-tax profit earned by each segment without allocation of central administration costs such as director's emoluments, staff salaries, operating lease rentals and legal and professional fees. This is the measure reported to board of directors for the purposes of resource allocation and performance assessment.

Segment assets represents the assets allocated to reportable segments other than equipment, prepayments and tax recoverable.

There is no segment liability as at 31 December 2010 and 2009.

The Group's operations are based in Hong Kong and the Group's revenue is derived from customers and counterparties located in Hong Kong.

Information about major customers

Interest income from customers in loan financing business segment contributing over 10% of the total revenue of the Group are as follows:

	Year ended	
	31/12/2010	31/12/2009
	HK$'000	*HK$'000*
Customer A	**11,618**	–
Customer B	**4,790**	–

There were no customers contributing over 10% of the total revenue of the Group for the year ended 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. (LOSS) PROFIT BEFORE TAXATION

(Loss) Profit before taxation has been arrived at after charging (crediting):

	2010 HK$'000	2009 HK$'000
Employee benefits expense (including Directors' emoluments): (note 9)		
Wages, salaries and bonus	**3,718**	4,603
Retirement benefit costs (note 32)	**81**	43
	3,799	4,646
Depreciation	**76**	52
Auditor's remuneration	**430**	380
Operating lease payments	**758**	922
Write back of impairment allowances on mortgage loans	**(123)**	(52)
Net exchange loss	**190**	106
Legal and professional fees	**1,833**	2,603

8. TAXATION

	2010 HK$'000	2009 HK$'000
Hong Kong Profits Tax		
– Provision for the year	**35**	33
– Underprovision in prior years	**–**	6
	35	39
Deferred tax (note 29)	**(1,703)**	–
(Credit) charge for the year	**(1,668)**	39

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

8. TAXATION *(continued)*

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

	2010	2009
	HK$'000	*HK$'000*
(Loss) profit before taxation	**(35,395)**	3,423
Tax at the Hong Kong Profits tax rate of 16.5%	**(5,840)**	565
Tax effect of non taxable income	**(31)**	(1,331)
Tax effect of non deductible expenses	**432**	284
Utilisation of tax losses previously not recognised	**(3,014)**	(510)
Recognition of tax loss previously not recognised	**(1,703)**	–
Tax effect of tax losses not recognised	**8,490**	1,025
Underprovision in prior years	**–**	6
Others	**(2)**	–
(Credit) charge for the year	**(1,668)**	39

9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 9 (2009: 13) Directors were as follows:

2010	**Mr. Tang Yu Ming, Nelson***	**Mr. Ng Cheuk Fan Keith****	**Mr. Lam Kwok Hing Wilfred****	**Mr. So Yuen Chun*****	**Mr. Soong Kok Meng****	**Mr. Au Tin Fung**	**Mr. Chan Chun Wai**	**Mr. Lau Yu Fung, Wilson***	**Mr. Chan Chi Yuen**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Fees	200	96	8	88	–	–	–	–	200	592
Others emoluments										
Salaries and other benefits	–	–	–	22	22	520	520	440	–	1,524
Contributions to pension schemes	–	–	–	1	1	12	12	11	–	37
Total emoluments	200	96	8	111	23	532	532	451	200	2,153

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

9. DIRECTORS' EMOLUMENTS *(continued)*

2009	Mr. John Zwaanstra# *HK$'000*	Mr. John Pridjian# *HK$'000*	Mr. Todd David Zwaanstra# *HK$'000*	Mr. Jonathon Jarrod Lawless# *HK$'000*	Mr. Alan Howard. Smith, J.P# *HK$'000*	Mr. Stephen King Chang-Min# *HK$'000*	Mr. Patrick Smulders# *HK$'000*	Mr. Tang Yu Ming, Nelson## *HK$'000*	Mr. Au Tin Fung## *HK$'000*	Mr. Chan Chun Wai## *HK$'000*	Mr. Lau Yu Fung, Wilson## *HK$'000*	Mr. Chan Chi Yuen## *HK$'000*	Mr. Yu Kam Kee Lawrence# *HK$'000*	Total *HK$'000*
Fees	–	–	–	–	–	–	–	119	11	–	–	49	33	212
Others emoluments														
Salaries and other benefits	–	–	–	–	–	–	–	–	100	129	129	–	–	358
Contributions to pension schemes	–	–	–	–	–	–	–	–	3	3	3	–	–	9
Total emoluments	–	–	–	–	–	–	–	119	114	132	132	49	33	579
Payments paid to former directors for loss of office	–	249	–	–	200	200	200	–	–	–	–	–	–	849
	–	249	–	–	200	200	200	119	114	132	132	49	33	1,428

There were no arrangements under which a Director waived or agreed to waive any emoluments.

* The Directors resigned during the year 2010.

** The Directors were appointed during the year 2010.

*** Mr. So Yuen Chun was appointed as Independent Non-Executive Director on 15 January 2010 and re-designated as Executive Director on 01 December 2010.

The Directors resigned during the year 2009.

The Directors were appointed during the year 2009.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2009: two) were Directors of the Company whose emoluments are included in note 9 above. The emoluments of the remaining two (2009: three) individuals were as follows:

	2010 ***HK$'000***	2009 *HK$'000*
Basic salaries, bonus, allowances and benefits in kind	**844**	2,601
Retirement benefit costs	**24**	27
	868	2,628

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

10. EMPLOYEES' EMOLUMENTS *(continued)*

Their emoluments were within the following bands:

	2010 Number of employees	2009 Number of employees
Nil – HK$1,000,000	**2**	2
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**–**	1

11. DIVIDENDS

No dividend was paid or proposed during 2010 and 2009, nor has any dividend been proposed since the end of the reporting periods.

12. (LOSS) EARNINGS PER SHARE

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

	2010 ***HK$'000***	2009 *HK$'000*
(Loss) profit for the purposes of basic (loss) earnings per share and diluted (loss) earnings per share		
(Loss) profit attributable to shareholders	**(33,727)**	3,384
	2010 ***Shares***	2009 *Shares* (restated)
Weighted average number of ordinary share for the purposes of basic and diluted (loss) earnings per share	**2,848,023,090**	2,787,789,355

The computation of diluted loss per share for the year ended 31 December 2010 does not assume the exercise or conversion of the Company's outstanding options for convertible bonds, convertible bonds or warrants since their exercise or conversion would result in a decrease in the loss per share.

No diluted earnings per share was presented for the year ended 31 December 2009 as there were no potential ordinary shares in issue during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

12. (LOSS) EARNINGS PER SHARE *(continued)*

The weighted average number of ordinary shares for the purpose of basic (loss) earnings per share for the year of 2010 and 2009, have been adjusted for the share subdivision on 10 Febrary 2010 and the bonus element in an open offer on 5 May 2010 as disclosed in notes 20(a) and (b).

13. EQUIPMENT

	The Group Furniture and equipment *HK$'000*
COST	
At 1 January 2009	191
Additions	122
At 31 December 2009 and 1 January 2010	313
Additions	26
At 31 December 2010	339
DEPRECIATION	
At 1 January 2009	77
Provided for the year	52
At 31 December 2009 and 1 January 2010	129
Provided for the year	76
At 31 December 2010	205
CARRYING AMOUNT	
At 31 December 2010	134
At 31 December 2009	184

Furniture and equipment are depreciated on a straight-line basis at 20% to 33 1/3% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

13. EQUIPMENT *(continued)*

	The Company Furniture and equipment *HK$'000*
COST	
At 1 January 2009	179
Additions	122
At 31 December 2009 and 1 January 2010	301
Additions	26
At 31 December 2010	327
DEPRECIATION	
At 1 January 2009	69
Provided for the year	49
At 31 December 2009 and 1 January 2010	118
Provided for the year	75
At 31 December 2010	193
CARRYING AMOUNT	
At 31 December 2010	134
At 31 December 2009	183

Furniture and equipment are depreciated on a straight-line basis at 20% to 33 1/3% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

14. MORTGAGE LOANS

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**1,699**	3,326
Variable-rate loan receivables	**127,841**	66,504
	129,540	69,830
Carrying amount analysed for reporting purposes:		
Current assets (receivable within 12 months from the reporting date)	**1,245**	1,562
Non-current assets (receivable after 12 months from the reporting date)	**128,295**	68,268
	129,540	69,830

Included in the variable-rate loan receivables are two mortgage loans to a customer amounting to HK$127,000,000 (31 December 2009: HK$65,000,000). The loans bear variable interest rate based on the best lending rate offered by the Hong Kong and Shanghai Banking Corporation Limited and will mature during January to May 2011. Subsequent to the end of the reporting period, the Group entered into an agreement with the customer to reschedule the repayment of the loan to January 2012.

The credit quality of the loan is satisfactory as the loan is secured by the pledge of properties with a fair value of HK$430,000,000 at the end of the reporting period. The directors are of the view that the properties collateral can fully cover the outstanding loans after taking into account other mortgages of the properties. Accordingly, no impairment allowance is considered necessary.

The remaining mortgage loans of HK$2,540,000 (2009: HK$4,830,000) are secured by mortgage properties. These mortgage loans at 31 December 2010 are net of impairment allowances of approximately HK$45,000 (2009: approximately HK$168,000).

14. MORTGAGE LOANS *(continued)*

The maturity profile of these mortgage loans, net of impairment allowances, at the reporting date, is analysed by the remaining periods to their contractual maturity dates as follows:

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Repayable:		
Within 3 months	**897**	757
Between 3 months and 1 year	**348**	805
Between 1 and 5 years	**1,169**	2,830
After 5 years	**126**	438
	2,540	4,830

Before accepting any new customer, the Group uses internal assessment system to assess the potential credit quality and determines credit limits by customer. The mortgage loans of approximately HK$1,705,000 (2009: approximately HK$4,362,000) that are neither past due nor impaired have timely repayment of principal and interest.

The ageing of mortgage loans, net of impairment allowances, which are past due but not impaired, at the end of the reporting period is analysed as follows:

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Within 3 months	**835**	468

The directors are of the view that no individual impairment allowance is necessary since the outstanding loans are fully secured by the respective mortgage properties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

14. MORTGAGE LOANS *(continued)*

	The Company	
	2010	2009
	HK$'000	*HK$'000*
Variable-rate loan receivables	**78**	143
Carrying amount analysed for reporting purposes:		
Current assets (receivable within 12 months from the end of reporting period)	**62**	59
Non-current assets (receivable after 12 months from the end of reporting period)	**16**	84
Variable-rate loan receivables	**78**	143

Variable-rate loan receivables are secured by mortgage properties and bear interest at market interest rates.

The maturity profile of variable-rate mortgage loans, net of impairment allowances, at the reporting date, is analysed by the remaining periods to their contractual maturity dates as follows:

	The Company	
	2010	2009
	HK$'000	*HK$'000*
Repayable:		
Within 3 months	**11**	11
Between 3 months and 1 year	**51**	48
Between 1 and 5 years	**16**	84
	78	143

All the mortgage loans of the Company are neither past due nor impaired.

The fair value of the Group's and the Company's mortgage loans, determined based on the present value of the estimated future cash flows discounted using the applicable interest rate at the reporting date, approximates the carrying amount of the mortgage loans.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

15. IMPAIRMENT ALLOWANCES ON MORTGAGE LOANS

	The Group Collective impairment allowances *HK$'000*
At 1 January 2009	220
Write back during the year	(52)
At 31 December 2009 and 1 January 2010	168
Write back during the year	**(123)**
At 31 December 2010	**45**

There are no individual impairment allowances made for mortgage loans of the Company as at 31 December 2010 and 2009.

Individual impairment is made when the mortgage loan borrower is unable to repay the principal on time and the present value of the collateral held by the Group and the Company is not sufficient to cover the carrying amount of the loan.

In addition to conducting individual assessment of impairment, the Group and the Company have also carried out collective assessment. Mortgage loan impairment allowances were made on a collective basis with reference to historical loss experience.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Held-for-trading investments:		
Equity securities listed in Hong Kong	**28,243**	64,421
Convertible bonds	**–**	19,520
	28,243	83,941
Designated at fair value through profit or loss:		
Structured secured loan to a listed company in Hong Kong	**–**	26,000
	28,243	109,941

	The Company	
	2010	2009
	HK$'000	*HK$'000*
Held-for-trading investments:		
Convertible bonds	**–**	19,520
Designated at fair value through profit or loss:		
Structured secured loan to a listed company in Hong Kong	**–**	26,000
	–	45,520

The held-for-trading investments of the Group as at 31 December 2010 represent the fair values of two equity investments representing 2.14% (2009: 4.97%) and 4.97% (2009: nil) of total outstanding issued shares of the relevant listed entities at the end of the reporting period.

As at 31 December 2010, fair value of the listed equity security, amounting to HK$14,760,000, was determined based on the quoted market bid prices available on the Hong Kong Stock Exchange. As the trading of the shares of the other listed equity security, has been suspended from 30 November 2010 to 17 January 2011, the fair value as at 31 December 2010, amounting to HK$13,483,000, was determined with reference to the closing bid price as at 29 November 2010.

As at 31 December 2009, the fair value of the listed equity security was determined based on the quoted market bid prices available on the Hong Kong Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

In 2009, the Company purchased a convertible zero coupon bond issued by a company listed on the Hong Kong Stock Exchange with a principal amount US$10 million at consideration of HK$19,520,000. The convertible bond was unlisted and was convertible at the option of the bondholder(s), at any time up to and including 4 February 2011, into existing shares of a subsidiary of the company issuing the bond. The convertible bond was disposed of at a consideration of HK$21,661,000 during the year, resulting in a gain of HK$2,141,000.

In 2009, the Company purchased a structured secured loan issued by a listed company in Hong Kong from a secondary market prior to its Initial Public Offering in the Hong Kong Stock Exchange. The structured secured loan entitled the Company to a guaranteed interest return on the principal if the Initial Public Offering was successful and a put option to request the issuer to redeem the loan at a fixed amount, if the Initial Public Offering was not successful. The final maturity date of the loan was 31 October 2010. The structured secured loan was denominated in USD and carried interest rate above the LIBOR rate. Upon the successful Initial Public Offering of the issuer of the structured secured loan, the Company received the guaranteed interest return and the put option expired.

As at 31 December 2009, the fair value of the loan which approximate to its principal amount, was measured based on valuation techniques using inputs derived mainly from observable market data. The outstanding structured secured loan was fully repaid during the year.

17. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments include:

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong	**16,680**	–

The amount represents the fair value of an equity investment in 4.97% of total outstanding issued shares of listed entity at the end of the reporting period.

The fair value of the listed equity securities was determined based on the quoted market bid price available on the Hong Kong Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. LOAN RECEIVABLES

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Carrying amount analysed for reporting purposes		
Current assets (receivable within 12 months from the reporting date)	**60,000**	10,000
Non-current assets (receivable after 12 months from the reporting date)	**64,000**	–
	124,000	10,000

	The Company	
	2010	2009
	HK$'000	*HK$'000*
Carrying amount analysed for reporting purposes		
Current assets (receivable within 12 months from the reporting date)	**–**	10,000
Non-current assets (receivable after 12 months from the reporting date)	**–**	–
	–	10,000

18. LOAN RECEIVABLES *(continued)*

As at 31 December 2010, loan receivables, which are denominated in HKD, carry fixed interest rates at 8% per annum. A loan receivable amounting to HK$64,000,000 is secured by promissory notes issued by a listed entity in Hong Kong while another loan receivable amounting to HK$60,000,000 is secured by a convertible bond issued by a listed entity in Hong Kong. Subsequent to the end of the reporting period, the Group entered into an agreement with the borrower of loan receivable of HK$64,000,000 to reschedule the repayment of the loan to January 2012.

As at 31 December 2009, the loan receivable of HK$10,000,000 was denominated in HKD, unsecured, carried a fixed interest rate of 8% per annum and was repayable on demand. The loan was fully repaid during the current year.

No impairment allowance are made for loan receivables which are neither past due nor impaired as at 31 December 2010 and 2009.

The fair value of the Group's and the Company's loan receivables, determined based on the present value of the estimated future cash flows discounted using the applicable interest rate at the reporting date, approximates the carrying amount of the loan receivables.

19. BANK BALANCES

The amounts comprise bank balances held by the Group and the Company and short-term bank deposits bearing market interest rates ranging from 0.1% to 0.2% (31 December 2009: 0.1% to 0.2%) per annum. The fair value of these assets approximates the corresponding carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

20. SHARE CAPITAL OF THE COMPANY

	Number of shares	HK$'000
Authorised:		
Ordinary shares of par value HK$0.1 each		
As at 1 January 2009 and 31 December 2009	300,000,000	300,000
Share subdivision (note a)	2,700,000,000	N/A
Increase in authorised share capital (note a)	2,000,000,000	200,000
As at 31 December 2010	5,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of par value HK$0.1 each		
As at 1 January 2009 and 31 December 2009	225,000,000	225,000
Share subdivision (note a)	2,025,000,000	N/A
Issue of ordinary shares (note b)	562,500,000	56,250
Shares placement on 23 Dec 2010 (note c)	1,135,000,000	113,500
Issue of shares upon conversion of convertible bonds (note 21)	47,200,358	4,720
As at 31 December 2010	3,994,700,358	399,470

Note:

(a) Pursuant to an extraordinary general meeting of the Company held on 10 February 2010 (the "EGM"), each of the issued and unissued shares of HK$1.00 each in the share capital of the Company was subdivided into 10 shares (the "Share Subdivision") of HK$0.10 each (the "Subdivided Shares"). Following the Share Subdivision, the authorised share capital of the Company was further increased from HK$300,000,000 to HK$500,000,000 by the creation of an additional 2,000,000,000 shares of HK$0.10 each at the same EGM. The new shares rank pari passu in all respects with the existing issued shares of the Company.

(b) On 5 May 2010, the Company allotted and issued 562,500,000 ordinary shares of HK$0.1 each at a subscription price of HK$0.1 per share to the existing qualifying shareholders on the basis of one offer share for every four existing shares (the "Open Offer") and 449,999,997 options to subscribe for convertible bonds in a principal amount of HK$45,000,000 that can be convertible to the Company's shares with a conversion price of HK$0.1 per share. The fair value of options for convertible bonds amounting to HK$51.8 million, which was estimated after taking into account the market prices of the Company's ordinary shares, at issue date of the options, is recognised in equity and the difference between the deemed consideration received (which is nil) and fair value of the options to subscribe for convertible bonds is deducted from retained profits. The net proceeds of approximately HK$54 million after deducting the issue expense of HK$2.2 million were used as general working capital of the Group. Details of the Open Offer are set out in a prospectus of the Company dated 15 April 2010.

(c) On 28 December 2010, the Company allotted and issued 1,135,000,000 shares through placement at the price of HK$0.11 per share. The total gross proceeds of the placement amounted to approximately HK$124.85 million. The net proceeds from the placing, after the deduction of the placing commission and other related expenses, amounted to approximately HK$121.73 million.

NOTES TO THE FINANCIAL STATEMENTS

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21. OPTIONS TO SUBSCRIBE FOR CONVERTIBLE BONDS AND CONVERTIBLE BONDS

Pursuant to the open offer as disclosed in note 20(b), the Company issued 449,999,997 options to the subscribers of the offer shares conferring the rights to the holders of the options thereof to subscribe in cash for convertible bonds of the Company in the principal amount of HK$45,000,000 of HK$0.10 each at any time during the period from 5 May 2010 to 4 May 2011.

The fair value of the convertible bond options on date of issuance are calculated by the Binomial Model with the following key attributes:

Volatility	101.24%
Share price of the Company	HK$0.18 (note)
Expected life	1 year
Dividend yield	0%
Risk free rate	0.988%

Note: The share price of the Company was adjusted for the impact of the open offer.

During the period up to maturity date, the convertible bond holders shall be able to convert, but not redeem the convertible bonds, in their entirety (and not in portions). The Company may, during the same period, unilaterally enforce redemption in its sole and absolute discretion, upon obtaining the written confirmation from the convertible bond holders, at 90% of the principal amount without interest. The convertible bonds are zero-coupon, denominated in Hong Kong dollars and will mature on 31 December 2012. The directors consider the convertible bonds as equity instruments of the Company based on the substance of the contractual terms and the definition of a financial liability and an equity instrument.

Unless previously converted by the convertible bond holders before maturity date, on the maturity date, the Company shall have the sole and absolute discretion to determine whether to redeem the convertible bonds on the maturity date at 100% of the principal amount of the convertible bonds or to issue ordinary shares of the Company to the convertible bond holders based on the conversion price of HK$0.1 per share.

During the current year, 47,793,618 options were exercised by the convertible bond option holders and the Company has issued convertible bonds in the principal amount of HK$4,779,362 accordingly.

During the current year, convertible bonds in the principal amount of HK$4,720,036 were converted into 47,200,358 ordinary shares of HK$0.1 each of the Company. At 31 December 2010, the Company had convertible bonds in the principal amount of HK$59,326 outstanding and 402,206,379 outstanding options, the exercise in full of these options would result in further issuance of convertible bonds in the principal amount of HK$40,220,638.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

22. WARRANTS

On 10 May 2010, the Company and Fortune (HK) Securities Limited entered into a placing agreement in respect of the placement of 562,000,000 warrants of the Company to independent investors at a price of HK$0.01 per warrant. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.10 each at a subscription price of HK$0.18. Subsequently, the placing agent and the Company agreed to vary the warrant placement by terminating the warrant placing agreement dated 10 May 2010 and entering into a supplemental warrant placing agreement on 7 June 2010. Pursuant to the supplemental agreement 7 June 2010, the exercise price was amended from HK$0.18 to HK$0.147 per warrant. The placement was completed on 22 June 2010 with the warrants expiring on 21 June 2012. Details of the above are set out in the Company's announcements dated 11 May 2010, 7 June 2010 and 22 June 2010.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

23. RESERVES

	The Company						
	Share Premium HK$'000	Convertible bonds HK$'000	Convertible bond options HK$'000	Warrants HK$'000	Investment revaluation reserve HK$'000	(Accumulated loss)/ Retained profits HK$'000	Total HK$'000
At 1 January 2009	–	–	–	–	875	2,511	3,386
Profit for the year	–	–	–	–	–	9,421	9,421
Fair value changes of available-for-sale investments	–	–	–	–	699	–	699
Reclassification adjustment to profit or loss upon disposal of available-for-sale investments	–	–	–	–	(1,574)	–	(1,574)
Total comprehensive income for the year	–	–	–	–	(875)	9,421	8,546
At 31 December 2009 and 1 January 2010	–	–	–	–	–	11,932	11,932
Loss and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(31,612)**	**(31,612)**
Issue of ordinary shares and options for convertible bonds	**–**	**–**	**51,763**	**–**	**–**	**(51,763)**	**–**
Issue of convertible bonds	**–**	**10,277**	**(5,498)**	**–**	**–**	**–**	**4,779**
Issue of shares upon conversion of convertible bonds	**5,429**	**(10,149)**	**–**	**–**	**–**	**–**	**(4,720)**
Issue of warrants	**–**	**–**	**–**	**5,620**	**–**	**–**	**5,620**
Issue of ordinary shares by placement	**11,350**	**–**	**–**	**–**	**–**	**–**	**11,350**
Transaction cost attributable to issue of shares	**(3,121)**	**–**	**–**	**–**	**–**	**–**	**(3,121)**
At 31 December 2010	**13,658**	**128**	**46,265**	**5,620**	**–**	**(71,443)**	**(5,772)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

24. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and reserves. The management reviews the capital structure by considering the cost of capital. In view of this, the Group manages its overall capital structure through monitoring the cash level, payment of dividends and issuance of share capital and convertible bonds (options), if the need arise.

25. FINANCIAL INSTRUMENTS

(A) Categories of financial instruments

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale investments	**16,680**	–
Financial assets at fair value through profit or loss	**28,243**	109,941
Loans and receivables (including cash and cash equivalents)	**350,277**	121,958

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Financial liabilities		
Other financial liabilities	**2,642**	1,281

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. FINANCIAL INSTRUMENTS *(continued)*

(A) Categories of financial instruments *(continued)*

	The Company	
	2010	2009
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale investments	**–**	–
Financial assets at fair value through profit or loss	**–**	45,520
Loans and receivables (including cash and cash equivalents)	**394,472**	192,141
Financial liabilities		
Other financial liabilities	**2,614**	1,240

(B) Financial risk management objectives and policies

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. These risks include market risks (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's and the Company's activities expose them primarily to the financial risks of changes in foreign currency exchange rates, interest rates and prices of held-for-trading equity investments and available-for-sale investments.

Foreign currency risk management

The Group and the Company have US$ denominated bank balances, financial assets at FVTPL and other receivables, which expose the Group and the Company to foreign currency risk.

No sensitivity analysis is presented for foreign currency risk as the directors considered that the effect is insignificant under the linked exchange rate system between HK$ and US$.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. FINANCIAL INSTRUMENTS *(continued)*

(B) Financial risk management objectives and policies *(continued)*

Interest rate risk management

The Group's exposure to cashflow interest rate risk is mainly caused by variable-rate mortgage loans.

If interest rates had been 100 (2009: 100) basis points higher/lower and all other variables were held constant, the Group's loss after tax for the year ended 31 December 2010 would decrease/increase by HK$1,067,000 (2009: profit after tax increase/decrease by HK$555,000).

The Group's and the Company's exposure to fair value interest rate risk was mainly caused by structured secured loan as at 31 December 2009. The instrument is considered to be a fixed rate instrument by the management since the interest rate until repayment was fixed as at 31 December 2009 although the interest rate of the loan is variable at issuance. If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's and the Company's profit after tax for the year ended 31 December 2009 would decrease/increase by HK$22,000/HK$23,000. There is no such exposure as at 31 December 2010.

The sensitivity analyses have been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. The analysis is prepared assuming the amount of structured secured loan and variable-rate mortgage loans at the reporting date were outstanding for the whole year. A 100 basis point increase or decrease in the Hong Kong lending rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The Group currently has no hedging approach to the cashflow interest rate risk and fair values interest rate risk.

Price risks

The Group is exposed to price risk through its investments in listed equity securities during the reporting period. The price risk is monitored by the management of the Group and appropriate action will be taken to mitigate the risk exposure should the need arise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. FINANCIAL INSTRUMENTS *(continued)*

(B) Financial risk management objectives and policies *(continued)*

Sensitivity analysis

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

If market prices of held for trading equity investments have been 20% (2009: 20%) higher/lower, loss after tax for the year ended 31 December 2010 would decrease/increase by HK$4,717,000 (31 December 2009: profit before tax increase/decrease by HK$10,758,000).

If market prices of available-for-sale equity securities have been 20% higher/lower, investment revaluation reserve as at 31 December 2010 would increase/decrease by HK$2,786,000 (31 December 2009: HK$: nil).

The Group's and the Company's sensitivity to prices have decreased during the current year mainly due to drop in fair value of the listed equity securities.

Credit risk

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position and statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue loans. In addition, the Group and the Company review the recoverable amount of each individual mortgage loan and loan receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The credit risk on liquid funds is limited because the counterparties are banks located in Hong Kong subject to the supervision by the Hong Kong Monetary Authority.

As at 31 December 2010, the Group had concentration of credit risk on a mortgage loan of HK$127,000,000 (31 December 2009:HK$65,000,000) to a particular borrower and loan receivables of HK$124,000,000 to two borrowers (31 December 2009: HK$10,000,000 to a particular borrower). The directors closely monitor the risk exposure of the customers and collateral and would take appropriate action to ensure the risk exposure is acceptable. The directors are of the view that the expected cash flow of the mortgage loan and loan receivables are sufficient to cover the carrying amount of the mortgage loan and loan receivables as at 31 December 2010. The Group has no other significant concentration of credit risk, with exposures spread over a number of counterparties in Hong Kong.

For the investment in a structured secured loan to a listed company in Hong Kong (note 16) as at 31 December 2009, the Group and the Company also had concentration of credit risk in a single geographical location in the People's Republic of China. The credit rating of the structured loan is non investment credit rating as at 31 December 2009. The directors have closely monitored the risk exposure to be maintained at a level that the Group can bear. The structured secured loan was fully settled during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. FINANCIAL INSTRUMENTS *(continued)*

(B) Financial risk management objectives and policies *(continued)*

Credit risk (continued)

The credit quality of the convertible bonds (note 16) held by the Group and the Company as at 31 December 2009 was mainly determined by the credit quality of the issuer, which is a listed company in The Stock Exchange of Hong Kong Limited. The directors had closely monitored the risk exposure of the convertible bond to ensure the risk exposure is acceptable. The investment was disposed of during the reporting period.

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

No analysis of maturity profile on financial liabilities is prepared as, in the opinion of directors, the Group and the Company's financial liabilities are repayable on demand by virtue of their nature.

Fair value of financial instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. FINANCIAL INSTRUMENTS *(continued)*

(B) Financial risk management objectives and policies *(continued)*

Fair value of financial instruments (continued)

	The Group			
	31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at FVTPL				
Equity securities listed in Hong Kong	**28,243**	**–**	**–**	**28,243**
Available-for-sale investments	**16,680**	**–**	**–**	**16,680**
Total	**44,923**	**–**	**–**	**44,923**

	The Group			
	31 December 2009			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL				
Equity securities listed in Hong Kong	64,421	–	–	64,421
Convertible bonds	–	19,520	–	19,520
Structured secured loan to a listed company in Hong Kong	–	26,000	–	26,000
Total	64,421	45,520	–	109,941

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. FINANCIAL INSTRUMENTS *(continued)*

(B) Financial risk management objectives and policies *(continued)*

The Company does not hold any financial investments measured at fair value as at 31 December 2010. The analysis as at 31 December 2009 is as follows:

	The Company			
	31 December 2009			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at FVTPL				
Convertible bond	–	19,520	–	19,520
Structured secured loan to a listed company in Hong Kong	–	26,000	–	26,000
Total	–	45,520	–	45,520

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

26. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010	2009
	HK$'000	*HK$'000*
Unlisted shares, at cost	**152**	152

Particulars of subsidiaries at 31 December 2010 and 2009 are as follows:

Name of Company	Place of incorporation and operation	Issued and fully paid ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			2010	2009	
The Building and Loan Agency (Asia) Limited	Hong Kong	HK$2	100%	100%	Money lending
Winbest Holdings Limited	British Virgin Islands	US$1	100%	100%	Dormant
Alpha Gain Limited	Hong Kong	HK$2	100%	100%	Dormant
Palmy Right Limited	British Virgin Islands	US$1	100%	100%	Securities investment
Tack On Limited	British Virgin Islands	US$1	–	100%	Securities investment
United Warrior Limited	British Virgin Islands	US$1	100%	–	Dormant
Wise Planner Limited	British Virgin Islands	US$1	100%	–	Dormant
Diamond Team Limited	British Virgin Islands	US$1	100%	–	Dormant

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

27. AMOUNTS DUE FROM SUBSIDIARIES

	The Company	
	2010	2009
	HK$'000	*HK$'000*
Amounts due from subsidiaries	**363,102**	150,804
Allowance for impairment loss	**(55,285)**	(7,894)
	307,817	142,910

	The Company	
	2010	2009
	HK$'000	*HK$'000*
Carrying amount analysed for reporting purpose:		
Current assets (receivable within 12 months from the reporting date)	**116,817**	77,910
Non-current assets (receivable after 12 months from the reporting date)	**191,000**	65,000
	307,817	142,910

The amounts due from subsidiaries totalling HK$56,817,000 (2009:HK$142,910,000) are unsecured, interest-free and have no fixed repayment terms and the amounts due from subsidiaries totalling HK$251,000,000 (2009:nil) are unsecured, bear interest at rates ranging from 7.25% p.a. to 11.25% p.a. and have no fixed repayment terms.

Movement in the allowance for impairment loss

	The Company	
	2010	2009
	HK$'000	*HK$'000*
Balance at beginning of year	**7,894**	7,886
Charge during the year	**47,391**	8
Balance at end of year	**55,285**	7,894

The amounts due from subsidiaries are impaired as the present value of discounted cash flows of the subsidiaries is estimated to be less than its carrying amounts as a result of drop in value of assets held by the subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

28. AMOUNT DUE TO A SUBSIDIARY

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

29. DEFERRED TAXATION

The following are the major deferred tax recognised and movements thereon during the current and prior years:

	Tax losses	**Investment revaluation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009 and 31 December 2009	–	–	–
Credit to profit or loss	1,703	–	1,703
Charge to other comprehensive income	–	(1,703)	(1,703)
At 31 December 2010	1,703	(1,703)	–

At the end of the reporting period, the Group has tax losses of approximately HK$72,996,000 (2009: HK$56,812,000) available for offset against future profits.

No deferred tax asset has been recognised in respect of the Group's estimated unused tax losses of HK$62,676,000 (2009: HK$56,812,000) as it is uncertain that there will be sufficient future profits available to utilise the balances. The unrecognised tax losses may be carried forward indefinitely.

At the end of the reporting period, the Company has unused tax losses of HK$32,190,000 (2009: HK$50,597,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated unused tax loss of the Company as it is uncertain that there will be sufficient future profits available to utilise the balances. The unrecognised tax losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

30. DISPOSAL OF A SUBSIDIARY

On 29 December 2010, the Company disposed of its 100% equity interest of its subsidiary, Tack On Limited, to a third party for a consideration of HK$9,700,000 in cash.

The net assets of the disposed subsidiary are as follows:

	Carrying amount before disposal *HK$'000*
Net assets disposed:	
Financial assets at fair value through profit or loss	9,173
Bank balance	10
Accruals	(36)
Amount due to the Company	(9,349)
	(202)
Debt from Tack On assigned to purchaser	9,349
Gain on disposal	553
Total consideration receivable	9,700
Net cash flow arising on disposal:	
Cash consideration received	–
Bank balance disposed of	(10)
	(10)

31. OPERATING LEASES

At the end of the reporting period, the Group and the Company had commitments for future minimum lease payments of HK$788,320 and HK$752,320 respectively (2009: HK$664,000 and HK$628,000) under non-cancellable operating leases for premises which fall due within one year.

Operating leases payments represent rentals payable by the Group and the Company for certain of its office properties. Leases are negotiated for an average term of one year and rentals are fixed for the respective lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

32. RETIREMENT BENEFIT SCHEME

The Group and the Company participate in a defined contribution scheme which is registered under a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the scheme are held separately from those of the Group and the Company, in funds under the control of trustee.

For members of the MPF Scheme, the Group and the Company contribute 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost charged to the profit or loss of HK$81,000 (2009: HK$43,000) represents contributions payable to the MPF Scheme by the Group in respect of the current year.

33. SHARE OPTION SCHEME

On 22 May 2008, the Company adopted a share option scheme (the "Share Option Scheme"), pursuant to which the Board may, at its discretion, grant options to the eligible participants (as defined in the Share Option Scheme) including employees, directors, shareholders and other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group. The subscription price for the shares under the Share Option Scheme will be a price determined by the Board in its absolute discretion but shall not be lower than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business Day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of a share. The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option scheme(s) of the Company must not exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any 12 month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to a director, chief executive or substantial shareholder or any of their respective associates in excess of 0.1% of the Company's share capital and with a value in excess of HK$5,000,000 must be approved by the Company's shareholders. Options granted under the Share Option Scheme will entitle the holder to subscribe for shares from the date of grant up to 21 May 2018. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

No options were granted to any directors and employees of the Group during the two years ended 31 December 2009 and 31 December 2010 pursuant to the Share Option Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

34. RELATED PARTY TRANSACTIONS

During the year, the Group and the Company entered into the following transactions with related parties:

(A) Income or expense items:

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Services fee paid to a company with common key management personnel	–	532

(B) Compensation of key management personnel

The key management of the Group comprises all Directors, details of their remuneration are disclosed in note 9. The remuneration of Directors is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

35. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the announcement dated 25 February 2011, Wise Planner Limited, a wholly-owned subsidiary of the Company, has entered into a conditional sale and purchase agreement to acquire the entire share capital of Weldtech Technology Co. Limited ("Weldtech Technology"), a company incorporated in Hong Kong, at a consideration of HK$2,800,000,000. Weldtech Technology is engaged in the provision of energy monitoring and energy saving solutions and urban facilities to reduce energy consumption and to enhance overall energy efficiency.

The consideration shall be satisfied by (i) HK$231,000,000 by way of cash; (ii) HK$1,650,000,000 by way of issue of the convertible notes with the conversion price of HK$0.16 per conversion share; (iii) HK$319,000,000 by way of issue of the promissory notes; and (iv) HK$600,000,000 by way of allotment and issue of the consideration shares at the issue price of HK$0.16 per consideration share.

The completion of transaction is conditional upon, among others, the approval of the sales and purchase agreement, increase in authorised share capital of the Company by shareholders at the extraordinary general meeting and the conditions mentioned in the sale and purchase agreement. It is estimated that the commission and professional fee in relation to the acquisition is approximately HK$148,000,000 when the acquisition is completed.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the five financial years ended 31 December 2010, as extracted from the audited consolidated financial statements, is as set out below.

RESULTS

	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**18,850**	3,845	7,553	11,556	12,939
(Loss) Profit for the year attributable to equity holders of the Company	**(33,727)**	3,384	(1,465)	(2,711)	11,271
	HK cents	*HK cents*	*HK cents*	*HK cents*	*HK cents*
(Loss) earnings per share					
– Basic	**(1.18)**	0.12	(0.07)	(0.12)	0.5
– Diluted	**(1.18)**	N/A	N/A	N/A	N/A

ASSETS AND LIABILITIES

	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**397,128**	232,436	230,364	231,033	232,758
Total liabilities	**(2,771)**	(1,347)	(1,784)	(1,773)	(877)
Net assets	**394,357**	231,089	228,580	229,260	231,881