中国安芯控股有限公司
Anxin-China Holdings Limited

Incorporated in the Cayman Islands with limited liability

Stock Code: 1149

2011

Annual Report

中國安芯 安心中國

Anxin-China, your safety is our business

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Zhongkui, *Chairman and Chief Executive Officer*
Mr. Lin Supeng
Mr. Yang Ma

Independent Non-Executive Directors

Mr. Pei Renjiu
Mr. Xie Baitang
Mr. Cheung Chuen
Mr. Chen Feng

BOARD COMMITTEES

Audit Committee

Mr. Cheung Chuen *(Chairman)*
Mr. Pei Renjiu
Mr. Xie Baitang
Mr. Chen Feng

Remuneration Committee

Mr. Xie Baitang *(Chairman)*
Mr. Cheung Chuen
Mr. Pei Renjiu
Mr. Chen Feng

Nomination Committee

Mr. Liu Zhongkui *(Chairman)*
Mr. Xie Baitang
Mr. Cheung Chuen
Mr. Chen Feng

AUTHORIZED REPRESENTATIVES

Mr. Liu Zhongkui
Ms. Leung Pui Ki

COMPANY SECRETARY

Ms. Leung Pui Ki ACS, ACIS

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Minsheng Banking Corp. Ltd.
Agricultural Bank of China
China Development Bank
Baoshang Bank

AUDITOR

BDO Limited
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26/F, Tesbury Centre
28 Queen's Road East,
Wanchai
Hong Kong

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

HEAD OFFICE

Units 2001-2005
20th Floor
Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN CHINA

9/F., Building A, Future Plaza
Qiao Xiang Road
Nanshan District
Shenzhen
The PRC

COMPANY'S WEBSITE

www.anxin-china.com.hk

STOCK CODE

1149

Chairman's Statement

On behalf of the Board of Directors of Anxin-China Holdings Limited (the "Company" or "Anxin-China") and its subsidiaries (the "Group"), I am pleased to deliver a set of impressive results for the year ended 31 December 2011 to our shareholders.

During the year, the Group's turnover increased substantially by 96% to HK$598 million, as compared to HK$305 million in the previous year. Profit for the year from continuing operations was HK$404 million (2010: HK$171 million), representing a spectacular year-on-year increase of 137%. Total comprehensive income attributable to owners of the Company also increased by a staggering 191% to HK$530 million (2010: HK$182 million). Basic earnings per share from continuing operations rose by 43% to HK$16.37 cents (2010: HK$11.45 cents). Diluted earnings per share amounted to HK$15.35 cents (2010: HK$8.70 cents), representing an increase of 76%.

Cash flows generated from operations amounted to HK$336 million (2010: HK$314 million).

Our balance sheet is equally strong. As at 31 December 2011, cash held by the Group amounted to HK$1,078 million (31 December 2010: HK$400 million). Thanks to strong operating cash inflows, the Group's borrowings were reduced to zero at the year end (31 December 2010: HK$20.48 million).

The Board of Directors has recommended the payment of a final dividend of HK$3 cents per share in respect of this financial year.

Our resounding success is primarily due to two factors. Firstly, thanks to the Chinese Government's increasing emphasis on the safety of coal mining and multi-industrial after accession to the WTO, we enjoy favorable policies and strong support from local governments. Secondly, we possess leading edge Internet-of things technologies which enable us to maintain our undisputed leadership in the ISD industry.

We are not only a first mover, but is also the dominant ISD solution provider in China. At the end of 2011, our footprint spanned across 30 municipalities in 9 provinces and covered a total of 13,002 surveillance points in China.

Despite our strong financial performance, it has to be reminded that the ISD industry is still at its infancy stage and there is more than ample room for continuing exponential growth. In 2008, the State Administration of Work Safety identified 31 categories of "origins of peril" for public and industrial safety purposes. In its 12th 5-year Plan, the Central Government re-affirmed its determination and commitment to improving coal mining and multi-industrial safety. ISD systems are expected to be installed to cover all 31 categories of "origins of peril" over the next 10 to 15 years. Based on our own estimates, there are at least 1 million surveillance points across the country if the government's goal of installing ISD systems to cover all 31 categories of "origins of peril" is to be fulfilled. What is more noteworthy is that in October 2011, the "Safe Industrial Production 12-5 Plan"《安全生產「十二五」規劃》was announced. The Plan stipulates that local governments are expected to dedicate at least 5% of their annual budgets to support and facilitate the improvement of industrial production safety. This new measure is expected to further fuel the already rapid growth of the ISD market.

Chairman's Statement

In its 12th 5-Year Plan, the Chinese Government put forward the concept of "Smart City". This concept encompasses the ideas of "Safe City", "Public Safety" and "Environmental Protection Surveillance". This offers an enormous business opportunity to the Group. In its "China Public Safety 12-5 Development Plan" 《中國安防行業「十二五」發展規劃）》, the Government has set a target to double the country's public safety infrastructure by 2015. It is estimated that the industry size of public safety could reach RMB 500 billion by 2015. In addition, according to the recently announced "Environmental Protection 12-5 Plan"《國家環境保護「十二五」規劃》, RMB3,400 billion is expected to be spent in order to enforce and monitor the implementation of environmental protection regulations.

Our R&D expenditure is budgeted at 8% of turnover. Our aim is to develop more high tech products for applications in the industrial safety and environmental protection business. For example, we are currently at testing stage for our state-of-the-art intelligent wide-angle CCTV with facial recognition and scenario analysis capabilities. Using the latest Internet-of-things technologies, this new product automatically collects, analyses and manages data and information relating to public safety or environmental protection. This new product will assist government institutions in monitoring public safety and the environment on a real time basis, as well as providing advance alert and taking rescue or remedial actions.

To conclude, the current macro backdrop is greatly beneficial to us. Supported by favorable government policies, enormous growth opportunities are abound for us. Our leading edge in Internet-of-things technologies also equips us with the ability to become first movers to exploit the opportunities made available to us by the government's initiatives to step up coal mining and multi-industrial safety, public safety and environmental protection surveillance.

Last but not the least, on behalf of the Board, I would like to take this opportunity to acknowledge the tremendous efforts and contributions made by our management and staff last year. I would also like to extend my heartfelt gratitude to our stakeholders and business partners for their unrelenting support and trust.

Liu Zhongkui
Chairman and Chief Executive Officer

Hong Kong, 15 March 2012

FINANCIAL HIGHLIGHTS

Year 2011 saw significant progress in the Group's performance.

Turnover increased substantially by 96% to HK$598 million, as compared to HK$305 million in the previous year. Profit for the year from continuing operations was HK$404 million, representing a spectacular year-on-year increase of 137% (2010: HK$171 million). Total comprehensive income attributable to owners of the Company also increased by a staggering 191% to HK$530 million (2010: HK$182 million).

Basic earnings per share from continuing operations rose by 43% to HK$16.37 cents (2010: HK$11.45 cents). Diluted earnings per share amounted to HK$15.35 cents (2010: HK$8.70 cents), representing an increase of 76%.

Cash flows generated from operations amounted to HK$336 million (2010: HK$314 million). As at 31 December 2011, cash held by the Group amounted to HK$1,078 million (31 December 2010: HK$400 million). Thanks to strong operating cash inflows, borrowings were reduced to zero at the year end (31 December 2010: HK$20.48 million).

The Group did not have any significant contingent liabilities as at 31 December 2011.

PROFILE OF THE GROUP

The Group is a first-mover and the largest integrated solution provider of ISD systems in China. It derives its income from: (1) customizing ISD solutions according to customer needs; (2) the provision of ISD hardware and software; and (3) ongoing ISD agency operations and maintenance services. (Please refer to Diagram 1 for a pictorial description of a typical ISD System.) The target customers of the Group are primarily government authorities, including the Administration of Work Safety, the Administration of Coal Mine Safety and the Production Safety Emergency Control Center, etc.

What are ISD Systems?

ISD systems are unique to China. ISD is an acronym standing for "Intelligent Surveillance, Disaster alert and Rescue Co-ordination". The system involves the setting up of a dedicated communications platform using leading edge Internet-of-things technologies, through which all the safety parameters obtained via on-site electronic sensors located at surveillance points, eg, gas content in a coal mine, oil pressure in an oil depot, etc, are transmitted to the Local Government Monitoring Centre via the Internet. Various transmission means can be employed, including public telecom networks, dedicated optical fiber cables or even satellites.

The Local Government Monitoring Centre monitors such information and data on a real-time basis. Should any parameter exceed the pre-set safety limit, the system automatically sends out warning signals and rescue information to different interested parties, including the responsible person of the enterprise, relevant government departments such as the local safety bureau as well as other rescue agencies such as the police offices and the local hospitals.

Not only does the system alert the enterprise to take precautionary measures to avoid industrial disasters (under the supervision of the local government), but it also assists the local government in devising the optimal rescue co-ordination and contingency measures after the occurrence of an accident in order to minimize casualties.

In 2008, the State Administration of Work Safety identified 31 categories of "origins of peril" for coal-mining and multi-industrial safety purposes. (See Diagram 2). Examples of such origins of peril are coal mines, gasoline stations and high human density locations. It is the Central Government's objective to install ISD systems to monitor all 31 categories of origins of peril across the nation over the next 10 to 15 years.

Management Discussion and Analysis

The Group is one of the pioneers and first movers of ISD systems and participated in the formulation of the standards of China's coal mining ISD system. It is also one of the earliest coal mining ISD system providers formally endorsed by the Chinese government. At present, the Group is the one and only ISD solution provider that is capable of providing multi-industry ISD systmes.

In 2008, the State Administration of Work Safety identified 31 categories of "origins of peril" that are prone to massive injuries and deaths. Currently, the Group's ISD systems are applied to 11 out of these 31 categories. These include coal mines, non-coal underground mines, open-pit mines, construction sites, storage area, gas stations, storage tank area, LPG stations, tailing ponds, dangerous goods operation and terminals for dangerous goods.

In addition to enjoying favorable government policies and support from local governments, the Group also places heavy emphasis on research and development in order to maintain its leading edge in the industry arena. As of 31 December 2011, the Group has already been awarded 32 patents and copyrights in China and was also accredited with the ISO9001: 2008 Quality Management System Standard Certification. The technology standards of the Group's subsidiaries are widely recognized. Jiangsu Hongxin Intelligence Technology Co., Ltd. ("Jiangsu Hongxin")(江蘇省洪芯智能技術有限公司) and Shenzhen Anxin Digital Development Co., Ltd. ("Shenzhen Anxin")(深圳市安芯數字發展有限公司) have been acknowledged with "State Hi-Tech Enterprise Certification" by the Ministry of Science and Technology of China. Shenzhen Anxin was also awarded various honors such as "The Leading Enterprise of China Software and Information Service of Internet-of-Things in 2009-2010" by the China Software Industry Association and the China Institute for Information Industry Development, as well as the Top Shenzhen 500 Small and Medium-sized Enterprises. Shenzhen Anxin successfully passed the CMMI Level 3 qualifications in 2011 and was further accredited for its technological achievements in the industry.

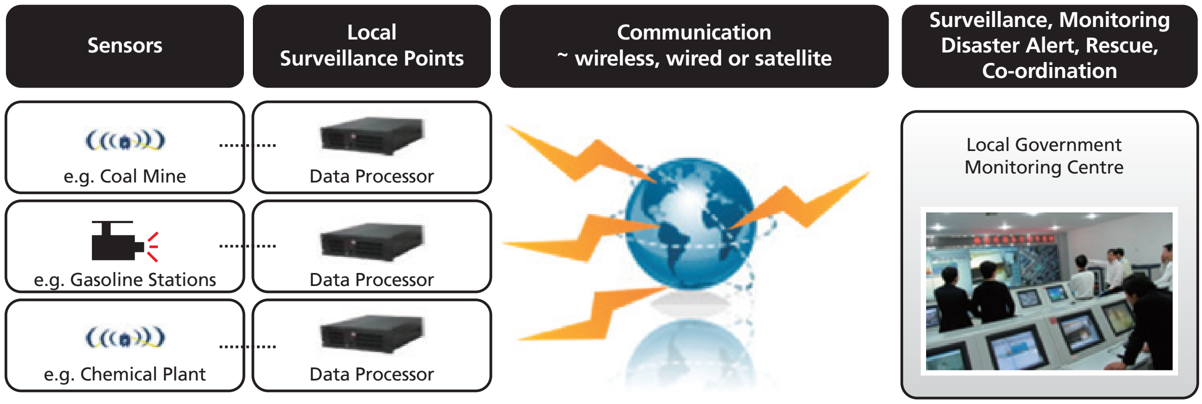
What is Internet-of things?

The concept of "internet-of-things" refers to the connection of objects (or "things" or "devices") through the internet, as distinguished from the old context of internet which refers to the connection of "people". Internet-of-things has multiple applications. "Things" that can be connected include various detection devices such as infrared sensors, global positioning systems, laser scanners, etc. Internet-of-things applications include intelligent identification and management (such as positioning, tracking, monitoring and management) of different objects, as well as analysis functionalities. Thanks to the breakthrough developments in wireless network technologies in recent years, applications of Internet-of-things technology have experienced rapid development around the world.

Internet-of-things in China

In 2010, the Chinese government promulgated the 12th Five-Year Plan in which it pushed forward the development of the Internet-of-things technologies and established Internet-of-things as one of the 7 new industries for strategic development purposes. The Plan also advocates the construction of a digital national government affairs network that will integrate and upgrade the capabilities of public services and management. According to the China Research and Development Center for Internet-of-things, the industry size of Internet-of-things could reach RMB750 billion by 2015.

Diagram 1：ISD System Operation Module for Coal Mine



BUSINESS REVIEW

Since China's accession to the World Trade Organization ("WTO"), the Government has been placing increasing emphasis on coaling mining and multi-industry production safety. In October 2011, the "Safe Industrial Production 12-5 Plan（安全生產「十二五」規劃）" was announced. The Plan stipulates that local governments are expected to dedicate at least 5% of their annual budgets to support and facilitate the improvement of industrial production safety.

Thanks to these favorable policies, the demand for ISD systems has enjoyed tremendous growth. As a result, the Group delivered remarkable results in the year under review. With its leading technology and R&D capabilities, the Group has also managed to maintain its undisputed market leadership position.

Why ISD systems are split between Coal-Mining ISD and Multi-Industry ISD system?

Prior to joining the WTO, China's pre-occupation of "generating economic growth" had resulted in relatively poor public and industrial safety records when compared to other developed countries. The situation is particularly acute in the coal-mining industry. According to the China Labor Bulletin, coal mining fatalities in China were 2,613 in 2009 as compared to only 18 in the US for that year. As such, coal mining safety was singled out by the Central Government as its top priority. The concept of using ISD systems as a monitoring tool in coal mining safety was first introduced in 2004, a year prior to its formal endorsement by the Central Government in the nation's 11th 5-year Plan in 2005 .

In 2008, the State Administration of Work Safety formally identified 31 categories of "origins of peril" that are prone to severe casualties. Not surprisingly, coal mines were included as a major origin of peril, along with other categories such as gas stations, non-coal mines, operations involving dangerous chemicals and radioactive devices, etc. ISD systems have since been proposed to monitor all 31 categories of "origins of peril". At present, two directly affiliated institutions under the State Council, namely, the State Administration of Coal Mine Safety and the Headquarters of the State Administration of Work Safety are respectively responsible for the monitoring of coal mining safety and safety over the other 30 categories of origins of peril.

Management Discussion and Analysis

During the year under review, various strategic measures were initiated by the Group in order to fully capitalize on the favorable industry backdrop, including: (1) successfully develop a new generation data processor; (2) the launch of a new market survey module (in the form of a USB) for enterprises to feed information and data to local safety bureaus through the internet; (3) a strategic acquisition to increase revenues and profits; and (4) conducting research and development to prepare the Group to expand into the arenas of public safety and environmental protection surveillance.

As a result of this historical background, the ISD industry is conveniently split between coal-mining ISD and multi-industry ISD.

In its 12th 5-year Plan in 2010, the Central Government re-affirmed it determination and commitment to improving public and industrial safety. ISD systems are expected to be installed to cover all 31 categories of "origins of peril" over the next 10 to 15 years. Based on the Group's own estimates, there are at least 1 million surveillance points across the country if ISD systems are to cover all 31 categories of "origins of peril".

Geographical and Business Coverage

During the year under review, the Group's business coverage increased from 8 provinces and over 20 municipalities and counties in 2010 to 9 provinces and 30 municipalities and counties by the year end. During the year under review, the Group established 3 new monitoring centers and increased its surveillance points under coverage from 6,493 in 2010 to 13,002 by the end of 2011, implying a net increase of over 100% in just one year. As at the end of 2011, the Group has established a total of 30 ISD monitoring centers covering a total of 13,002 surveillance points.

In 2011, the Group further expanded its coverage from 7 categories of the 31 types of origins of peril as stipulated by the State Administration of Work Safety to 11 categories, namely, coal mines, non-coal mines, open-pit mines, construction sites, storage area, gas stations, storage tank area, LPG stations, tailing ponds, dangerous chemical goods operation and dangerous goods production plants.

Diagram 2: 31 Types of Origins of Peril

Note: Those marked in green represent the newly coverage by Anxin-China in 2011 and those marked in yellow represent the types that Anxin-China had covered as at 31 December 2010.

Coal Mining ISD

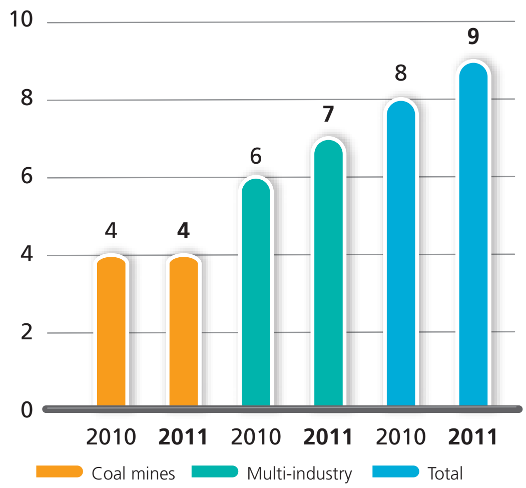
As at the end of 2011, the footprint of the Group's coal mining ISD systems spanned across 4 provinces with a total of 23 monitoring centers and 6,019 surveillance points, making the Group the largest provider of ISD systems in the coal mining ISD market.

Multi-industry ISD

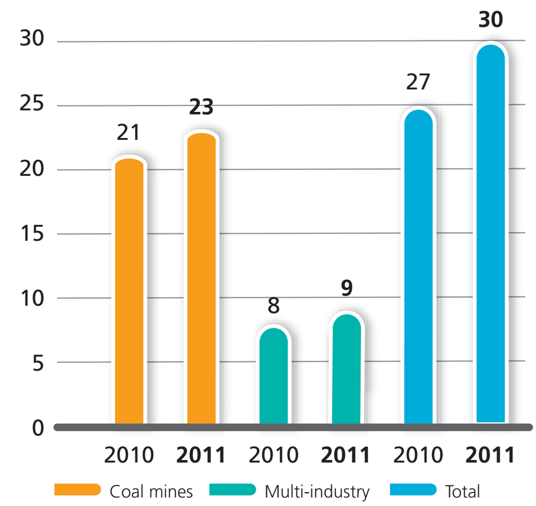
Currently, the Group is the one and only provider of multi-industry ISD system providers in China.

As at the end of 2011, the Group's multi-industry ISD systems spanned across 7 provinces covering a total of 7 monitoring centers and 6,983 surveillance points.

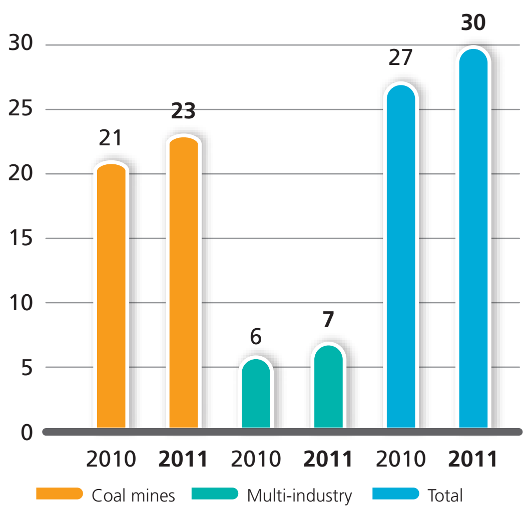
Provinces



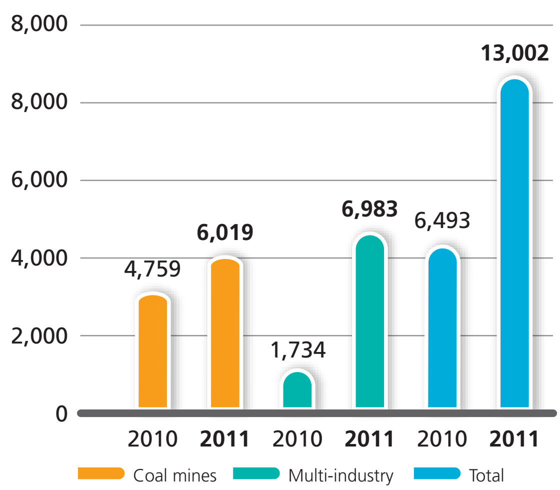
Cities and region



Monitoring centers



Surveillance points



Launch of new Market Survey Module in the form of a USB flash drive with built-in software

During the year under review, the Group has launched a new market survey module, in the form of a USB flash drive with built-in software. With the use of these new modules, reliable information and data regarding the 31 categories of "origins of perils" are fed through from the enterprises to the local safety bureaus speedily, thus enabling the local safety bureaus to devise optimal plans for public and industrial safety under their jurisdiction.

The Group charges a prescribed fee for each module sold to each local enterprise and the fees are collected via the local safety bureaus.

Research and Development Capabilities

The Group currently employs over 60 professionals in its R&D Department. During the year under review, the Group obtained two new patented rights, both of which also met with international quality certification standards. The Group's contribution to China's public and industrial safety is widely acclaimed. During the year, the Group won a number of new awards and honors, namely, the Shenzhen Nanshan Leading Enterprise Award（深圳市南山領軍企業）; and was given corporate seats to act as the standing vice-president of the "Society of Shenzhen City Safety Production Science and Technology"（深圳市安全生產科學技術學會）as well as the standing director of the "Shenzhen International Chamber of Commerce"（深圳國際商會）.

Management Discussion and Analysis

Strategic Acquisition

In November 2011, the Group announced its acquisition of a PRC-based company called 深圳市豪威未來科技有限公司 (hereinafter referred to as "Hawell"). Hawell is principally engaged in the design, development, production and distribution of security and protection products as well as CCTV products such as DVR memory cards, DVRs, CCD cameras and relevant accessories for CCTV systems. The Group believes that synergistic benefits of this acquisition will be significant. As the Group already possesses leading edge intelligent facial recognition and scenario analysis technologies, these technologies can be readily applied to the CCTV products produced by Hawell, thus enabling the Group to expand its product offerings by moving down the value chain.

The total consideration of this acquisition is HK$315 million, of which HK$126 million is paid in cash with the balance of HK$189 million settled by way of a promissory note issued by the Group. The Vendor has provided a guarantee that the 2012 profit of Hawell shall not be less than HK$90 million, failing to meet with which the purchase price will be appropriately reduced.

Conducting R&D to pave the way of entry into the "Public Safety" and "Environmental Protection Surveillance" Markets

Currently, the Group's ISD systems are primarily catered for coal mining and multi-industrial production safety. In its 12th Five-Year Plan, the Central government initiated the concept of "Safe Cities (平安城市)" and "Smart Cities". The conceptual plan comprises various initiatives relating to public safety (公共安全) and surveillance of environmental protection (環保監控). These two areas present enormous business opportunities to the Group.

The China Public Safety 12-5 Development Plan (中國安防行業「十二五」發展規劃)

As early as 2004, the Chinese government began to put forward the concept of "Safe Cities (平安城市)" in an effort to enhance public safety. In its 12th Five-Year Plan, the Chinese government concretizes the concept by advocating the construction of an "Urban safety surveillance and warning system" covering all the urban areas in China. In March 2011, the "China Public Safety Industry 12-5 Development Plan (中國安防行業「十二五」發展規劃)" was announced. As per this Plan, by the end of the 12th Five-Year Planning period, ie Year 2015, the scale of China's public safety infrastructure is targeted to double. This implies an average annual growth rate of 20% for the industry. It is expected that by 2015, the industry size of public safety would reach RMB500 billion.

In order to capitalize on the government's initiative on "Safe Cities（平安城市）", during the year under review, the Group completed the R&D in applying the Group's ISD system to public safety. Through wide-angle intelligent CCTV cameras with intelligent facial recognition and scenario analysis capabilities, the Group's newly developed system allows data and information relating to public safety to be collected and analyzed, thus realizing the government's goal of real time public safety monitoring and surveillance.

Under the recently announced "National Environmental Protection 12-5 Plan（國家環境保護「十二五」規劃）", the Chinese Government has proposed the establishment of a nationwide joint control mechanism for the monitoring of air pollution. The Plan also specifies that the monitoring of ozone and PM2.5 (which refers to granulated matter in the atmosphere with a diameter of less than or equal to 2.5 micrometers) shall be carried out and be included in routine measurements of air quality.

The Group has started to study the benchmarks for environment pollution proposed by the Government. During the year under review, the Group has also embarked on the development of an online real-time system using Internet-of-things technologies in order to monitor pollution sources such as exhaust air and water sewage discharged by enterprises, noise emitted from construction sites and radioactive sources, etc.

The National Environmental Protection 12-5 Plan（國家環境保護「十二五」規劃）

Along with rapid industrialization and urbanization in China, the country is threatened by environmental pollution such as water pollution, emissions of pollutants, and heavy metal and chemical pollution, which cause serious ecological damage in certain regions and jeopardize the quality of the environment.

In order to preserve the environment, the Chinese Government recently announced the "Environmental Protection 12-5 Plan". Under the Plan, RMB3,400 billion is expected to be invested in order to enforce and monitor the implementation of environmental protection regulations. Measures taken would include regular inspections of key environmental risk sources and regions.

The Plan also proposes that a nationwide control mechanism on air pollution, together with the relevant laws, regulations, and legally acceptable limits, be devised and formulated by 2015. With respect to air quality, the high priority regions, which include Beijing, Tianjin and Hebei, the Yangtze River Delta Region and the Pearl River Delta Region, are expected to meet with the National Grade II Standard by 2015. By then, acid rain, ash haze and photochemical smog pollution are expected to be reduced significantly and air quality is expected to be markedly improved in these regions.

Management Discussion and Analysis

Appointment of new Chief Executive Officer

In June 2011, the Group appointed Mr. Liu Zhongkui as Chief Executive Officer. Since taking up his new position, Mr. Liu has delivered impressive performance by leading the Group in the completion of various projects. Under the leadership of Mr. Liu, we believe the Group will continue its rapid development and success in the future.

PROSPECTS

Thanks to favorable government policies and the Group's undisputed leadership position in the ISD industry, we believe that the Group will continue to see rapid earnings growth in the forthcoming years.

Going forward, in addition to the growth offered by ISD applications to industrial safety, Chinese government's increasing emphasis on "public safety" and "environmental protection surveillance" also present enormous growth opportunities to the Group.

Last but not the least, we wish to re-affirm that maximizing shareholder value, whilst adhering to the highest standards of corporate governance practices, always remain our top priority.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2011, the consolidated turnover of the Group amounted to approximately HK$598,172,000 (2010: HK$304,970,000), representing an increase of approximately 96% compared with last year.

Gross Profit and Profit for the year

During the year, the Group's gross profit and profit for the year amounted to approximately HK$536,483,000 (2010: HK$258,738,000) and approximately HK$404,220,000 (2010: HK$244,909,000) respectively.

Total Comprehensive Income for the year, attributable to owners of the Company

Total Comprehensive Income for the year, attributable to owners of the Company was approximately HK$529,937,000 (2010: HK$181,896,000).

Earnings Per Share

The basic and diluted earnings per share for the year was HK$16.37 cents (2010: HK$16.44 cents) and HK$15.35 cents (2010: HK$11.66 cents) respectively.

Liquidity and Financial Resources

For the year, the Group's working capital requirement was principally financed by its internal resources.

As at 31 December 2011, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of approximately HK$1,077,795,000 (2010: HK$400,322,000), HK$1,261,316,000 (2010: HK$436,026,000) and HK$2,587,525,000 (2010: HK$1,706,615,000) respectively.

As at 31 December 2011, the Group had no bank borrowings (2010: HK$20,483,000).

Total equity attributable to equity shareholders of the Company as at 31 December 2011 increased by 71% to approximately HK$2,573,153,000 (2010: HK$1,505,496,000).

The ratio of total liabilities to total assets of the Group as at 31 December 2011 was 2.8% (2010: 14.6%).

Share Capital

Shares were issued during the year on placing of shares, conversions of convertible notes and exercise of warrants. Details of the movement of share capital during the year are set out in note 30 to the consolidated financial statements.

SEGMENT INFORMATION

The Group has only one operating segment and no information of segment results, segment assets and liabilities is disclosed for the year ended 31 December 2011. The directors of the Group consider that the Group's total consolidated revenue and substantial consolidated results are attributable to the market in the PRC. The Group's consolidated non-current assets are substantially located in the PRC. As a result , no geographical information is presented.

SIGNIFICANT INVESTMENTS

Shenzhen Ruian Information Technology Co., Ltd.（深圳市睿安信息技術有限公司）(Shenzhen Ruian) was incorporated in PRC in November 2011. The fully paid up capital of Shenzhen Ruian was RMB10 million. The Company subscribed 80% fully paid up capital of Shenzhen Ruian with RMB8 million. The Company anticipated that Shenzhen Ruian can further explore the ISD market.

Save as disclosed above, the Group had no significant investment held during the year.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 14 November 2011, the Company, Yu Sheng Holdings Limited (the Vendor) and Mr. Wong King（王琼）, the sole shareholder and director of the Vendor (the Guarantor) entered into an Acquisition Agreement.

Pursuant to the Acquisition Agreement, the Company as purchaser has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares, representing the entire issued share capital of Yu Hong Investments Limited (the Target Company), together with the Shareholder's Loan free from encumbrance and together with all rights now or hereinafter attached thereto including but not limited to all dividends and distribution declared, paid or made in respect thereof on or after the Completion Date.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial information of the Target Group (the Target Company, Island Wide Investments Limited and 深圳市豪威未來科技有限公司 (the PRC Company)) will be consolidated into the accounts of the Group.

The aggregate consideration for the Acquisition shall be HK$315 million (subject to adjustment) which shall be paid in the following manner upon Completion:

(i) HK$126 million shall be satisfied by cash; and

(ii) HK$189 million shall be satisfied by promissory note.

The consideration for the Acquisition has been determined after arm's length negotiation between the Company and the Vendor with reference to, among other things,

(i) the price-to-earnings ratio of 3.5 times, which is within the range of the price-to-earnings ratio of companies in the PRC whose principal activity is the production of CCTV products and system for security and surveillance purposes, which is similar to that of the PRC Company;

(ii) the 2012 Profit Guarantee (the audited net profit after taxation but before extraordinary items of the PRC Company, prepared in accordance with the Hong Kong GAAP, for the year ending 31 December 2012 shall not be less than HK$90 million); and

(iii) the prospect of the security and protection industry in which the PRC Company carries on its business.

The Directors consider the consideration for the Acquisition is fair and reasonable and on normal commercial terms and that the entering into the Acquisition Agreement is in the interests of the Company and the shareholders as a whole. The process of the Acquisition has not been completed at the date of this announcement as not all the conditions precedent have been fulfilled.

Save as disclosed above, there was no material acquisition or disposal of subsidiaries or associated companies by the Group during the year.

EMPLOYEE INFORMATION

As at 31 December 2011, the Group employed a total of 201 employees (2010: 185). The Group regularly reviews the remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including the staff provident fund scheme and the discretionary bonus scheme.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement. During the year, the employment cost (including Directors' emoluments) amounted to approximately HK$14,430,000 (2010: HK$5,866,000).

SHARE OPTION SCHEME

The Company adopted a share option scheme as an incentive to selected participants. During the year, 37,000,000 share options have been granted and outstanding under the Scheme. No option has been exercised, cancelled or lapsed during the year.

CHARGE ON GROUP ASSETS

As at 31 December 2011, the Group did not have any charges on its assets.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

The Group had no future plans for material investments subject to disclosure as at 31 December 2011.

The Group will continue to monitor the industry closely and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests. The management, if considered beneficial to the future of the Group, may make new investments. In view of the market situation, the management may consider raising capital for funding new investments while reserving internal financial resources to support its core business.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most assets, liabilities and transactions of the Group are denominated in RMB and HK$. The Group does not expect any appreciation or depreciation of the Renminbi Yuan against foreign currency which might materially affects the Group's result of operations. The Group did not use any financial instruments to hedge its exposure to currency risk during the year and will continue to closely monitor such risk exposures from time to time.

CAPITAL COMMITMENTS

The Group did not have any capital commitments that were contracted for as at 31 December 2011.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2011.

Directors, Senior Management and Staff

DIRECTORS

Executive Directors

Mr. Liu Zhongkui（劉中奎）, aged 30, is the Chairman and Chief Executive Officer of the Company. He graduated from Nanjing University of Technology（南京工業大學） in 2005. Mr. Liu joined Shenzhen Anxin in 2004. From 2004 to 2007, he worked in the research and development department and was responsible for the research and development of real-time system data collection program and security surveillance system center program. From 2007 to 2009, he worked in the market engineering department and was responsible for the implementation of engineering projects and led the team towards the successfully completion of various projects. Since 2009, Mr. Liu assumed the offices as the manager of the research and development department and chief operating officer of Shenzhen Anxin and Jiangsu Hongxin successively. He became the Director of the Group in June 2011.

Mr. Yang Ma（楊馬）, aged 34, is an Executive Director of the Company. Mr. Yang is currently the vice president of the market engineering department of Shenzhen Anxin and is responsible for the maintenance of the developed markets and project management. Mr. Yang graduated from Huaiyin Institute of Technology（淮陰工學院）in 2000. Mr. Yang once worked in a cement plant in Hongze Preferecture of Jiangsu Province（江蘇省洪澤縣水泥廠）and had very extensive experience in project development and market maintenance. He joined Shenzhen Anxin in 2003 and became the Director of the Group in June 2010.

Mr. Lin Supeng（林蘇鵬）, aged 30, is an Executive Director of the Company. Mr. Lin is currently the vice president of the strategy planning department of Shenzhen Anxin and is responsible for the technical development and strategy planning of relevant works to provide suggestions for the long-term development of the Company. He holds a Bachelor Degree of Science in Mathematics and Applied Mathematics (Information and Computational Science)（數學與應用數學（信息與計算科學））from Shenzhen University（深圳大學）and a Master Degree of Information Technology from The University of Queensland, Australia. Mr. Lin had once worked in the research and development department of the Company and has extensive experience in project management on software development. He could clearly position the strategic development of the Company with the direction of this kind of experience. He joined Shenzhen Anxin in May 2009 and became the Director of the Group in February 2010.

Independent Non-executive Directors

Mr. Cheung Chuen（張全）, aged 38, graduated from the accounting department of Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in 1999 and obtained a Master degree in accounting from Hong Kong Polytechnic University in 2004. Mr. Cheung is currently a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. He has more than 10 years' experience in accounting and auditing and is currently qualified to practise as a certified public accountant in the US and Hong Kong. Mr. Cheung joined the Group as independent non-executive director in September 2004. He is also an independent non-executive director of Kingwell Group Limited (stock code: 1195), a listed company in Hong Kong and an executive director of China High Precision Automation Group Limited (stock code: 591), a listed company in Hong Kong.

Mr. Pei Renjiu（裴仁九）, aged 46, graduated from Bangfu Academy of Medical Sciences（蚌阜醫學院）in 1990, majoring in pharmacology. Mr. Pei has been granted various awards. In 1997, one of Mr. Pei's theses was accredited with a first honours award by the chief logistic department of the People's Liberation Army（中國人民解放軍總後勤部）and in 1994 and 1995, two of Mr. Pei's theses were accredited with a third honours award by the logistic department of the Nanjing military zone of the People's Liberation Army（中國人民解放軍南京軍區後勤部）. Mr. Pei was appointed as independent non-executive Director in April 2003.

Mr. Xie Baitang（謝柏堂）, aged 60, completed his study of 自動控制專業 (Specialty in Automatic Control) in Nanjing Aeronautical Institute 中華人民共和國南京航空學院 (currently known as Nanjing University of Aeronautics and Astronautics 南京航空學院), the People's Republic of China, in 1975 and is a senior economist (research fellow level). He started his career in the aeronautics and astronautics industry in 1975 and served various positions, including Head of Asset Operations, Deputy Head and Secretary General of Supervisory Committee of China Aerospace Science and Industry Corporation（中國航天科工集團公司）. Since December 2001, Mr. Xie has been serving as a director of Guizhou Space Appliance Company Limited（貴州航天電器股份有限公司）, a company listed on the Shenzhen Stock Exchange, and was also the chairman of Guizhou Space Appliance Company Limited from December 2001 to April 2004. Since December 2006, he has been serving as a director of Aerospace Communications Holdings Company Limited（航天通信控股集團股份有限公司）, a company listed on the Shanghai Stock Exchange. From February 2007 to January 2009, Mr. Xie served as the chairman of Aerospace Hi-Tech Holding Group Company Limited（航天科技控股集團股份有限公司）, a company listed on the Shenzhen Stock Exchange. Mr. Xie was appointed as independent non-executive Director in June 2011.

Directors, Senior Management and Staff

Mr. Chen Feng（陳楓）, aged 49, graduated from Hainan School of Agricultural Machinery（海南農機學校）in 1983. Mr. Chen completed his part-time study in Mathematic department of Shenzhen Education School（深圳市教育學院）and the CEO Training Program of Party School of CPC（中央黨校大型企業董事長培訓班）in 1985 and 1997 respectively. From 1983 to 1999, Mr. Chen held several senior positions from Technician to Deputy General Manager and President in Baoan Chicken Rising Company（深圳市寶安養雞公司）(predecessor company of Shenzhen Kondarl (Group) Co., Ltd. 深圳市康達爾（集團）股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code 48). In 1999, Mr. Chen was appointed as the Secretary of the Party Committee（黨委書記）, the President of Shenzhen City Qianwan Power Development Co., Ltd.（深圳市前灣電力發展有限公司）and the vice president of Shenzhen City Guangqian Power Co., Ltd.（深圳市廣前電力有限公司）respectively. Mr. Chen is currently a president of Huijiang Investment Holding Limited（慧江投資集團控股有限公司）since 2004. Mr. Chen is currently elected as a vice president of China Association of small and medium enterprises（中國中小企業協會）and the president of Shenzhen small and medium enterprises credit association（深圳市中小企業信用互助協會）. Mr. Chen was appointed as independent non-executive Director in January 2012.

SENIOR MANAGEMENT

Mr. Wang Qiao（王橋）, aged 45, is currently the senior technical consultant of Shenzhen Anxin and Jiangsu Hongxin and his major research focus is image processing and sensor related application technologies. He is a professor, director and PhD tutor of National Key Discipline of Signal and Information Processing of Southeast University（東南大學）. From 2003 to 2004, he was a senior visiting scholar of Engineering and Applied Science Department of Harvard University, USA and was engaged in the cooperation and research of signal analysis discipline. During the past decade, he issued nearly 20 academic articles including "Image and Vision Computing", "Computer Vision and Image Understanding", "IEEE Transactions on Signal Processing", "Computers and Mathematics with Applications", "Nano Letters", "Frontiers in Bioscience" and "Wireless Personal Communications" in a series of leading international periodicals. At the same time, he published a series of articles in international top-class academic conferences in respect of information and technology discipline, including ICC, ICASSP, ISIT and GlobeCom. In 2009, he also published "Digital Image Processing"（《數字圖像處理》）(the scheduled textbook materials of Chinese Academy of Science, published by Science Press).

Mr. Dai Zhaoming（戴兆明）, aged 35, is currently Project Manager of Shenzhen Anxin and a senior engineer. He graduated from Hohai University in 2002 specialized in Computer Science and Technology and is now pursuing a Master Degree in Southeast University majoring in software engineering. Mr. Dai conducted the research and application development of wireless sensor networks (WSN) and the research of geographic information systems (GIS) and cloud computing platform for a long period of time. He once participated in or independently completed the design and development of GIS sub-system of GPS vehicle tracking and dispatching system project, coal mine gas digitalization remote monitoring system, coal mine GIS map editing software, coal mine GIS surveillance center software, embedded wireless intelligent video surveillance system, automobile identity card system, cloud computing service platform of Internet-of-Autos. He participated in the research and development of a number of patents, products and software copyright of the Company and is now responsible for the research and development of new projects and technology management.

Mr. Li Zhanbin (李戰斌), aged 29, is currently Project Manager of Shenzhen Anxin and a senior engineer. He obtained a Bachelor Degree in measuring and control technology and instruments from Xi'an Technological University (西安工業大學) in 2006 and a Master Degree in optical engineering from Xi'an Technological University in 2009. Mr. Li had studied and worked in the research and development institutes such as China Aviation Numeration Research Institute (中航計算所) and Shanghai Micro Electronics Equipment (上海微電子裝備) successively, and has extensive experience in the design of intelligent instrument and equipment and software products. He once participated in the system research and development works like the design of intelligent traffic electronic police system based on video processing technology, testing and tuning software for high-end object projection lens scanning lithography machine lighting and exposure system, object projection lens scanning lithography machine wave aberration detecting and rectifying system, and was in charge of the research and development of outdoor scene intelligent recognition system, school bus intelligent warning monitoring system and so on. In recent years, he had all along been responsible for the software and hardware system design and project management of new products, especially carrying out abundant of works in terms of imaging system and algorithm design. He successfully developed an embedded outdoor intelligent monitoring and recognition system with recognition accuracy and speed reaching international advanced level.

Mr. Yao Xuesheng (姚學升), aged 38, is currently Project Manager of Shenzhen Anxin and a senior engineer. He obtained a Bachelor Degree in Mechanical Production from Henan University of Science and Technology (河南科技大學) in 1996 and a Master Degree in mechatronic engineering majoring in the research and application of parallel robot kinematics from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in 2001. In 1996, he worked in Luoyang Hussmann Refrigeration Company Limited (洛陽哈斯曼製冷有限公司) and was engaged in numerical control programming, tooling mold design and so on. In 2001, he worked in Huawei Technologies Company Limited (華為技術有限公司), and received professional CMM training and software development training of the entire process, engaged in the software testing and market maintenance of optical transmission network management and intelligent network projects and so on successively. He once worked as a testing officer of comprehensive network management and was responsible for the system testing of the whole project. He promoted the application of automation testing in the testing team. He joined Shenzhen Anxin in 2010, responsible for the development and promotion of relevant projects and is now responsible for the marketing and project management of human protection and emergency rescue projects.

Miss Leung Pui Ki (梁珮琪) is the company secretary and authorised representative of the Company from 13 July 2011. Miss Leung graduated from the University of Hertfordshire in the United Kingdom with a Bachelor degree in Business Administration. She is an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Chartered Secretaries (HKICS). Miss Leung has over 10 years experience in the Company Secretarial field. She was a company secretary of HC International, Inc., a company listed on the Growth Enterprise Market of the Stock Exchange and China Seven Star Shopping Limited, a company listed on main board of the Stock Exchange.

Directors' Report

The directors of the Company (the "Directors") present their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally involved in the sale of system hardware and application software for installation of Intelligent Surveillance Disaster Alert & Rescue Coordination ("ISD") System and provision of system solutions services. The principal activities of subsidiaries are set forth on in note 35 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

Details of the segment information of the Group for the year ended 31 December 2011 are set out in note 6 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 46 of this annual report.

DIVIDENDS

The directors recommended the payment of a final dividend of HK$3 cents per ordinary share, totaling approximately HK$80,426,000 in respect of the year to shareholders on the register of members on 28 May 2012. The proposed final dividend for the year ended 31 December 2011 has been approved at the Company's board meeting on 13 March 2012, but is subject to the approval of the shareholders at the forthcoming annual general meeting. This recommendation has been incorporated in the financial statements as an allocation of share premium within the equity section of the statement of financial position.

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years, as extracted from the consolidated financial statements, is set forth on page 118 of this annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

In 2010, the Group prepaid to a vendor for acquisition of a property located in Hongze Country of Jiangsu Province, at a consideration of RMB82,000,000 (equivalent to approximately HK$96,530,000). The Group recognised it as property, plant and equipment in 2011.

Details of movements in the property, plant and equipment of the Group during the year are set out in note 19 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements. Share were issued during the year on placing of shares, conversions of convertible notes and exercise of warrants.

RESERVES AND DISTRIBUTABLE RESERVES

Movements in the reserves of the Company and of the Group during the year are set out in note 31 to the consolidated financial statements and on page 49 of this annual report to the consolidated statement of changes in equity.

Distributable reserves (including share premium and equity attributable to equity holders of the Company) of the Company as at 31 December 2011 amounted to approximately HK$1,596,949,000 (2010: HK$997,751,000).

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive Directors

Mr. Liu Zhongkui, *Chairman and Chief Executive Officer (appointed on 3 June 2011)*
Mr. Lin Supeng
Mr. Yang Ma
Mr. Zhong Houtai *(resigned on 9 January 2012)*
Mr. Zhong Houyao *(resigned on 9 January 2012)*

Independent non-executive Directors

Mr. Pei Renjiu
Mr. Xie Baitang *(appointed on 3 June 2011)*
Mr. Li Kai Ming *(resigned on 3 June 2011)*
Mr. Cheung Chuen
Mr. Chen Feng *(appointed on 9 January 2012)*

Pursuant to the Company's articles of association, Mr. Lin Supeng and Mr. Cheung Chuen will retire from office as Directors by rotation at the forthcoming annual general meeting of the Company and Mr. Chen Feng will retire from office as Director at the forthcoming annual general meeting. All of Mr. Lin Supeng, Mr. Cheung Chuen and Mr. Chen Feng, being eligible, will offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 18 to 21 of this annual report.

DIRECTORS' SERVICE CONTRACTS

All executive Directors except Mr. Zhong Houtai and Mr. Zhong Houyao have not entered into any written service contract with the Company and they are not appointed for specific term. Mr. Zhong Houtai and Mr. Zhong Houyao entered into a service contract with the Company respectively for an initial fixed term of 3 years commencing from 24 November 2003, and continue thereafter until terminated by giving not less than 3 months' notice in writing by either party to the other, and the notice period shall not expire until after the fixed service term. Mr. Zhong Houtai and Mr. Zhong Houyao are entitled to the respective annual basic salary HK$600,000 and HK$480,000 respectivey (subject to an annual increment after the first anniversary of the commencement date of the respective service contracts at the discretion of the Directors of not more than 10% of the annual salary immediately prior to such increase). In addition, for the financial year ended 31 December 2003 and each of the financial years thereafter during the initial term, Mr. Zhong Houtai and Mr. Zhong Houyao are also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to Mr. Zhong Houtai and Mr. Zhong Houyao in respect of any financial year of the Company shall not exceed 5% of the audited net profit of the Company (or as the case may be, combined or, consolidated audited net profit of the Company and its subsidiaries (if any)) (after taxation but before extraordinary and exceptional items and payment of such bonuses) in respect of that financial year of the Company. An executive Director shall not vote on any resolution of the Directors regarding the amount of the discretionary bonus payable to him.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the Company within one year without the payment of compensation (other than statutory compensation)).

The independent non-executive Directors are not appointed for a specific term (except for Mr. Xie Baitang and Mr. Chen Feng who were both appointed for a term of two years), but all are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

No Director proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Name of Directors	**No. of Shares Held**		**Percentage of Interest**
	Personal interest	**Corporate interest**	
Zhong Houtai	–	211,720,000 (Notes 1, 2, 3)	7.90%
Liu Zhongkui	7,600,000	–	0.28%

Notes:

1. The shares are registered under the name of Elite Achieve Limited.

2. The entire issued share capital of Elite Achieve Limited is legally and beneficially owned by Mr. Zhong Houtai as at 31 December 2011. Since from 9 January 2012, the entire issued share capital of Elite Achieve Limited have been transferred to Mr. Chen Hong.

3. Under the Securities and Futures Ordinance, Mr. Zhong Houtai is deemed to be interested in all the shares registered in the name of Elite Achieve Limited as at 31 December 2011.

4. The percentage has been calculated based on the total number of 2,680,872,842 ordinary shares of the Company in issue as at 31 December 2011.

Saved as disclosed above, as at 31 December 2011, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who have the interest or short positions in the shares, underlying shares of the equity derivatives of the Company which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the highest paid individuals of the Group are set out in notes 12 and 13 to the financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors of the Company is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the year or at 31 December 2011.

SHARE OPTION SCHEME

On 3 November 2003, the shareholders of the Company approved the adoption of a share option scheme (the "Share Option Scheme"). The Share Option Scheme will expire on 2 November 2013. 37,000,000 share options were granted at an exercise price of HK$2.25 per share during the year under review and the share option cost that was charged to the income statement was approximately HK$25,289,000 (2010: HK$Nil). No share option has been exercised, cancelled or lapsed during the year under review.

Movements of the options, which were granted under the Share Option Scheme, during the year under review were listed below:

Category	Date of grant	Number of option shares held as at 01/01/2011	Number of option shares granted during the year	Number of option shares exercised during the year	Number of option shares lapsed during the year	Number of option shares held as at 31/12/2011	Exercise price HK$	Exercise period
Consultants	1 April 2011	–	37,000,000	–	–	37,000,000	2.25	01/04/2011 – 02/11/2013
		–	37,000,000	–	–	37,000,000		

Further details of share options were set out in note 34 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Saved as disclosed under the section headed "Connected and Related Party Transactions" on page 29 of this annual report, no contract of significance to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or is existing during the year ended 31 December 2011.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following persons or companies (other than the Directors and chief executives) had interests or short positions in the shares or underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group were as follow:

Name of substantial shareholder	Capacity in which shares were held	Number of shares	Approximate percentage of shareholding
Chen Hong	Beneficial owner and Interest of controlled corporation (Note 2)	241,276,000	9.00%
Jin Yong Investments Limited	Beneficial owner (Note 2)	218,660,000	8.16%

Notes:

1. The above are all long positions in the ordinary shares of the Company.

2. The entire share capital of Jin Yong Investments Limited is legally and beneficiary owned by Chen Hong. Therefore, Chen Hong is deemed to be interested in the 218,660,000 shares held by Jin Yong Investments Limited under the SFO.

3. The percentage has been calculated based on the total number of 2,680,872,842 ordinary shares of the Company in issue as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, the Directors are not aware of any other person (other than the Directors, whose interests are set out in the paragraph headed "Directors' Interests and Short Positions in Shares and Underlying Shares"), had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register kept by the Company under Part XV of section 336 of the SFO.

EMOLUMENT POLICY

The Group regularly reviews the remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including the staff provident fund scheme and the discretionary bonus scheme.

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

The Company adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 34 to the financial statements.

INDEPENDENCE CONFIRMATION

The Board considered that all non-executive Directors to be independent in character and judgment. None of the independent non-executive Directors have relationships or circumstances that are likely to adversely affect their professional judgment and each of the non-executive Director has provided confirmation of his independence to the Group pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

Particulars of the independent non-executive Directors are set out in the section headed "Directors, Senior Management and Staff" on pages 18 to 21 of this annual report.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the year ended 31 December 2011, apart from those disclosed in note 36 to the consolidated financial statements, the Group had no transactions with any of the related or connected parties.

RETIREMENT SCHEME

The Group provides retirement benefits to its staff. The retirement contributions paid by the Group are based on certain percentage of the relevant portion of the payroll of all eligible employees in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. The contribution paid for the year ended 31 December 2011 was approximately HK$461,000 (2010: HK$492,000 (including the continuing operations and discontinuing operations)). The Group has made adequate provision in the financial statements in respect of the benefit schemes. In addition, the Group also provides housing and food allowance to its staff.

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK$1,000 by each of the employee and the Group) on a monthly basis to the fund.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules as its code of conduct for corporate governance, the particulars of which are set out in the section headed "Corporate Governance Report" on pages 33 to 43 of this annual report.

AUDIT COMMITTEE

The annual report of the Group for the year ended 31 December 2011 has been reviewed by the Audit Committee. Details on the composition of the Audit Committee are set out in the section headed "Corporate Governance Report" on pages 33 to 43 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained during the year the amount of public float as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

Of the continuing operation, the percentages of the Group's purchases and turnover attributable to major suppliers and customers are as follows:

	2011	2010
	%	%
Percentage of purchases:		
From the largest supplier	**84**	40
From the five largest suppliers	**92**	77
Percentage of turnover:		
From the largest customer	**24**	26
From the five largest customers	**70**	62

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

During the year ended 31 December 2011, the Company acquired an aggregate of 46,280,000 of its own shares through purchases on the Stock Exchange at an aggregate consideration of HK$60,855,920 with a view to benefit its shareholders as a whole in enhancing the net assets and earnings per share of the Company. Details of the repurchases are as follows:

Month of repurchase	Number of shares repurchased	Purchase price per share Highest (HK$)	Purchase price per share Lowest (HK$)	Aggregate consideration (HK$)
July 2011	5,940,000	1.83	1.67	10,283,280
September 2011	32,508,000	1.42	1.13	41,635,000
October 2011	7,832,000	1.18	1.10	8,937,640
	46,280,000			60,855,920
Total expenses on shares repurchased				176,109
				61,032,029

All the 46,280,000 shares repurchased were cancelled on delivery of the share certificates during the year ended 31 December 2011. The issued share capital of the Company was accordingly reduced by the par value of the repurchased shares so cancelled.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2011.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 42 to the consolidated financial statements.

AUDITOR

Crowe Howath (HK) CPA Limited was auditor of the Company for the year ended 31 December 2009 and resigned as auditor of the Company on 6 December 2010. Deloitte Touche Tohmatsu ("Deloitte") was appointed as auditor of the Company on 15 December 2010 and the consolidated financial statements for the year ended 31 December 2010 was audited by Deloitte.

Deloitte was auditor of the Company for the year ended 31 December 2010 and resigned as auditor of the Company on 5 December 2011. BDO Limited ("BDO") was appointed as auditor of the Company on 8 December 2011 and the consolidated financial statements for the year ended 31 December 2011 was audited by BDO. A resolution for the re-appointment of BDO as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Liu Zhongkui
Chairman and Chief Executive Officer

Hong Kong, 15 March 2012

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2011.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standard of corporate governance to safeguard the interests of all shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Throughout the year under review, the Company has complied with the code provisions set out in the CG Code, save for the deviations from code provisions A.2.1 and A.4.1 which are explained below.

According to the code provision A2.1 of the CG Code, the roles of the chairman and the chief executive officer should be segregated. However, during the period from 1 January 2011 to 2 June 2011, the Company has no chief executive officer and Mr. Zhong Houtai is the chairman and executive Director of the Company responsible for the Group's operations in the PRC. The responsibility of that of a chief executive officer is taken up by the chairman of the Company. In order to better develop the ISD business, Mr. Liu Zhongkui has been appointed as an executive Director and as a chief executive officer of the Company on 3 June 2011.

According to the code provision A4.1 of the CG Code, independent non-executive directors should be appointed for a specific term of service. However, independent non-executive Directors of the Company (except for Mr. Xie Baitang who were appointed for a term of two years) are not appointed for a specific term as required under the CG Code, but they are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once for every three years according to the articles of association of the Company. Such practice meets the same objective and is no less exacting than those prescribed under the code provision A4.1 of the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory and the CG Code and align with the latest developments.

Corporate Governance Report

BOARD OF DIRECTORS

The Composition of the Board of Directors

As at 31 December 2011 and as at the date of the report, there were seven Board members consisting of three executive Directors and four independent non-executive Directors.

Executive Directors:
Mr. Liu Zhongkui *(chairman and chief executive officer)*
Mr. Lin Supeng
Mr. Yang Ma

Independent Non-executive Directors:
Mr. Cheung Chuen
Mr. Pei Renjiu
Mr. Xie Baitang
Mr. Chen Feng

The composition of the Board of Directors is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. Each of the Directors' respective biographical details is set out in the section headed "Directors, Senior Management and Staff" of this annual report. The Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group for the year under review. Besides, to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship between the Directors and each of the Directors also does not have any direct or indirect material relationship with the Group.

Role and Function

The Board is responsible for overall management of the Company's business, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

Delegation by the Board

The Board also reserves for its decisions on all major matters of the Company, including: the approval and monitoring of major policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and senior management. The delegated functions and work tasks are reviewed from time to time.

Board Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. Notice of at least 14 days have been given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying Board papers in respect of regular Board meetings are sent out in full to all Directors within reasonable time before the meeting. Draft minutes of all Board meetings are circulated to Directors for comment within a reasonable time prior to confirmation.

Minutes of Board meetings and meetings of Board committees are kept by duly appointed secretaries of the respective meetings and all Directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

Corporate Governance Report

Number of Board Meetings and Attendance Records

During the year ended 31 December 2011, the Company held 18 Board meetings, and the Directors' attendance records for the meetings held are set out below.

	Number of Board meeting attended/ Number of Board meeting held
Executive Directors	
Mr. Liu Zhongkui *(Chairman and Chief Executive Officer)* (Note 1)	5/5
Mr. Lin Supeng	18/18
Mr. Yang Ma	18/18
Mr. Zhong Houtai (Note 2)	1/18
Mr. Zhong Houyao (Note 2)	0/18
Independent non-Executive Directors	
Mr. Cheung Chuen	18/18
Mr. Pei Renjiu	0/18
Mr. Xie Baitang (Note 3)	5/5
Mr. Li Kai Ming (Note 4)	0/13

Note 1: Mr. Liu Zhongkai was appointed as an executive Director of the Company on 3 June 2011. During his appointment period in 2011, there were a total of 5 Board Meetings.

Note 2: Mr. Zhong Houtai and Mr. Zhong Houyao were resigned as executive Directors of the Company on 9 January 2012.

Note 3: Mr. Xie Baitang was appointed as an independent non-executive Director of the Company on 3 June 2011. During his appointment period in 2011, there were a total of 5 Board Meetings.

Note 4: Mr. Li Kai Ming was resigned as an independent non-executive Director of the Company on 3 June 2011. Before his resignation, there were a total of 13 Board Meetings.

Number of Written Resolution and Signing Record

During the year ended 31 December 2011, the Company passed 13 written resolutions of the Board in accordance with the articles of association of the Company and the Directors' signing records for the written resolution are set out below.

	Number of written resolution signed/Number of written resolution passed
Executive Directors	
Mr. Liu Zhongkui *(Chairman and Chief Executive Officer)* (Note 1)	12/12
Mr. Lin Supeng	13/13
Mr. Yang Ma	13/13
Mr. Zhong Houtai (Note 2)	13/13
Mr. Zhong Houyao (Note 2)	13/13
Independent non-Executive Directors	
Mr. Cheung Chuen	13/13
Mr. Pei Renjiu	13/13
Mr. Xie Baitang (Note 3)	12/12
Mr. Li Kai Ming (Note 4)	1/1

Note 1: Mr. Liu Zhongkai was appointed as an executive Director of the Company on 3 June 2011. During his appointment period in 2011, there were a total of 12 written resolutions.

Note 2: Mr. Zhong Houtai and Mr. Zhong Houyao were resigned as executive Directors of the Company on 9 January 2012.

Note 3: Mr. Xie Baitang was appointed as an independent non-executive Director of the Company on 3 June 2011. During his appointment period in 2011, there were a total of 12 written resolutions.

Note 4: Mr. Li Kai Ming was resigned as an independent non-executive Director of the Company on 3 June 2011. Before his resignation, there was a total of 1 written resolution.

Corporate Governance Report

In compliance of Rule 3.10(1) of the Listing Rules, there are three independent non-executive Directors representing over one-third of the Board of Directors. Amongst them, Mr. Cheung Chuen, who is currently a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants and has more than 10 years' experience in accounting and auditing, has the appropriate professional qualifications required under Rule 3.10(2) of the Listing Rules.

CHAIRMAN AND CEO

According to the code provision A2.1 of the CG Code, the roles of the chairman and the chief executive officer should be segregated. However, during the period from 1 January 2011 to 2 June 2011, the Company has no chief executive officer and Mr. Zhong Houtai is the chairman and executive Director of the Company responsible for the Group's operations in the PRC. The responsibility of that of a chief executive officer is taken up by the chairman of the Company. In order to better develop the ISD business, Mr. Liu Zhongkui has been appointed as an executive Director and as a chief executive officer of the Company on 3 June 2011.

NON-EXECUTIVE DIRECTORS

According to the code provision A4.1 of the CG Code, independent non-executive directors should be appointed for a specific term of service. However, independent non-executive Directors of the Company (except for Mr. Xie Baitang who were appointed for a term of two years) are not appointed for a specific term as required under the CG Code, but they are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once for every three years according to the articles of association of the Company. Such practice meets the same objective and is no less exacting than those prescribed under the code provision A4.1 of the CG Code.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the code for securities transactions by Directors. During the accounting period covered by this annual report, the Company had complied with the Model Code. After making inquiry of the Directors, the Company confirmed that the Directors had complied with the provisions of the Model Code.

BOARD COMMITTEES

Audit Committee

The Company established an audit committee on 3 November 2003 with written terms of reference in compliance with the CG Code. The audit committee has three members, including the Company's three independent non-executive Directors, namely Mr. Pei Renjiu, Mr. Xie Baitang and Mr. Cheung Chuen. Mr. Cheung Chuen is the chairman of the committee. The duties of the audit committee are to review the Company's annual report and accounts, interim reports and to provide advice and comments thereon to the Board. In addition, the audit committee will consider any significant and unusual items that are, or may need to be reflected in such reports and accounts and must give due consideration to any matter that has been raised by the Company's auditor. The audit committee is also responsible for reviewing and supervising the financial reporting process and the internal control system of the Group. Besides, the audit committee will make recommendations to the Board on matters regarding the appointment of external auditors and auditing fee etc. The external auditors of the Group may request a meeting of the Audit Committee to be convened if they consider that it is necessary. 4 meetings were held during the current financial year. The attendance records for the audit committee meetings are set out below:

Members of the audit committee	Number of audit committee meeting attended/ Number of audit committee meeting held
Mr. Cheung Chuen *(Chairman)*	4/4
Mr. Pei Renjiu	2/4
Mr. Li Kai Ming *(resigned as Audit Committee member on 3 June 2011)* (Note 1)	0/2
Mr. Xie Baitang *(appointed as Audit Committee member on 3 June 2011)* (Note 2)	2/2

Note 1: Mr. Li Kai Ming was resigned as an independent non-executive Director on 3 June 2011. Before his resignation, there were a total of 2 Audit Committee meetings.

Note 2: Mr. Xie Baitang was appointed as an independent non-executive Director on 3 June 2011. During his appointment period in 2011, there were a total of 2 Audit Committee meeting.

During the year ended 31 December 2011, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2010 and interim results and interim report for the six months ended 30 June 2011, the financial reporting and compliance procedures, the report on the Company's internal control and processes and the re-appointment of the external auditor.

Nomination Committee

According to the Code, the Company shall set up a nomination committee with a majority of the members thereof being independent non-executive Directors. However, the Company did not establish a nomination committee.

All Directors of the Company are responsible for making recommendations to the Board on nomination and appointment of Directors and Board succession, with a view to appoint to the Board individuals with suitable experience and capabilities to maintain and improve the competitiveness of the Company.

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

During the year under review, one Board meeting was held to consider the appointment of Mr. Liu Zhongkui as executive Director and Mr. Xie Baitang as an independent non-executive Director by going through the selection process stated as above and the re-election of the Directors retired by rotation in accordance with the Company's articles of association.

Remuneration Committee

The Company established a remuneration committee on 5 August 2005. The remuneration committee is led by Mr. Xie Baitang, an independent non-executive Director. Other members of the remuneration committee include Mr. Pei Renjiu and Mr. Cheung Chuen, both are independent non-executive Directors. The remuneration committee meets at least once a year. The remuneration committee has adopted a defined terms of reference in consistence with the Code and it is available from the Company Secretary at any time.

The duties of the remuneration committee includes making recommendations with respect to the remuneration of the executive Directors for approval by the Board, reviewing and recommending salaries, bonuses, merit plans, reward and recognition strategies, including the appropriation of funds for incentive awards for Directors, and administering and making determinations with regard to the Company's share option scheme.

The Remuneration Committee held 1 meeting during the year ended 31 December 2011 to review the remuneration policy and structure and determine the annual remuneration packages of the Directors and the senior management and determine the annual remuneration of Mr. Xie Baitang and Mr. Liu Zhongkui, the newly appointed Directors during the year. In determining the emolument payable to Directors, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and the desirability of performance based remuneration.

The attendance record of individual committee members is set out below:

Members of the remuneration committee	Number of remuneration committee meeting attended/ Number of remuneration committee meeting held
Mr. Xie Baitang *(Chairman) (appointed on 3 June 2011)* (Note 1)	1/1
Mr. Cheung Chuen	1/1
Mr. Pei Renjiu	0/1
Mr. Li Kai Ming *(resigned on 3 June 2011)* (Note 2)	0/0

Note 1: Mr. Xie Baitang was appointed as an independent non-executive Director of the Company on 3 June 2011. During his appointment period in 2011, there was a total of 1 Remuneration Committee meeting.

Note 2: Mr. Li Kai Ming was resigned as an independent non-executive Director of the Company on 3 June 2011. Before his resignation, there were no Remuneration Committee meeting.

Remuneration package for executive Directors

Each of the executive Directors is entitled to the respective basic salary which is reviewed annually. In addition, for the financial year ending 31 December 2003 and each of the financial years thereafter during the initial term, Mr. Zhong Houtai and Mr. Zhong Houyao are also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to Mr. Zhong Houtai and Mr. Zhong Houyao in respect of any financial year of the Company shall not exceed 5% of the audited net profit of the Company (or as the case may be, combined or, consolidated audited net profit of the Company and its subsidiaries (if any)) (after taxation but before extraordinary and exceptional items and payment of such bonuses) in respect of that financial year of the Company. An executive Director shall not vote on any resolution of the Directors regarding the amount of the discretionary bonus payable to him.

Corporate Governance Report

In order to attract, retain and motivate executives and key employees serving any member of the Group or other persons contributing to the Group, the Company has adopted a Share Option Scheme where the principal terms of which are set out in note 34 to the financial statements on pages 103 to 105 of this annual report. Such incentive schemes enable the eligible persons to obtain an ownership interest in the Company and thus will motivate them to optimize their contributions to the Group. The Group also provides retirement benefits to its employees. The retirement contributions paid by the Group are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK$1,000 each of the employee and the Group) on a monthly basis to the fund.

ACCOUNTABILITY AND AUDIT

Directors' Responsibility for the Financial Statements

The Board is responsible for the preparation of the financial statements. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

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

Internal controls

The Board through the audit committee is responsible for maintaining proper internal controls within the Group.

The internal control systems are designed to provide reasonable assurance of the Company's assets, safeguarding them against unauthorised use or disposition by making sure transactions are executed in accordance with management's authorization and that the accounting records are reliable for the preparation of financial information used for the business and publication. The Company has adopted proper procedures with duly assigned levels of authority in areas of financial, operational and compliance controls and risk management to ensure the Company's assets and resources are safeguarded.

During the year, the Board has engaged Crowe Horwath (HK) Corporate Consultancy Limited to perform internal control review to assist the Board in reviewing the effectiveness of the internal control system of the Group. The Board and the audit committee are satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory and will make further improvements.

Auditor's Remuneration

During the year ended 31 December 2011, the fees paid/payable to BDO Limited, the auditor of the Company, in respect of audit and non-audit services provided by BDO Limited to the Group were as follows:

	2011 **HK$**
Audit services	1,170,000
Non-audit services	
Taxation advisory services	30,000
Total:	1,200,000

INVESTOR RELATIONSHIP AND COMMUNICATION WITH SHAREHOLDERS

The Board of Directors recognizes the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. To promote investor relations and communications, meeting with fund managers and potential substantial investors are held frequently. The Company acknowledges that its annual general meeting is an important channel for having direct communication with shareholders of the Company. At the meeting, the Directors and key executives of the Group will answer and explain to shareholders issues relating to the Group's business strategies and financial results.

The Company is dedicated to providing quality and timely disclosure of information to enhance transparency. The Company is committed to providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. The Company has also maintained a website at http://www.anxin-china.com.hk which enables shareholders, investors and the general public to have access to the information of the Company on a timely basis.

Independent Auditor's Report

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TO THE SHAREHOLDERS OF ANXIN-CHINA HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Anxin-China Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 117, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, 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 as to whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's 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 disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants
Chow Tak Sing, Peter
Practising Certificate Number P04659

Hong Kong, 15 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Continuing operations			
Turnover	7	**598,172**	304,970
Cost of sales		**(61,689)**	(46,232)
Gross profit		**536,483**	258,738
Other revenue	8	**48,368**	38,934
Other gains and losses	9	**(22,315)**	(628)
Distribution costs		**(40,163)**	(20,146)
Administrative expenses		**(56,317)**	(30,308)
Research and development expenses		**(51,462)**	(13,934)
Finance costs	14	**(12,346)**	(49,667)
Profit before income tax expense	10	**402,248**	182,989
Income tax expense	15	**1,972**	(12,458)
Profit for the year from continuing operations		**404,220**	170,531
Discontinued operation			
Profit for the year from discontinued operation	16	**–**	74,378
Profit for the year		**404,220**	244,909
Other comprehensive income includes			
Exchange gains arising during the year		**125,717**	13,113
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of foreign operations		**–**	(76,126)
Other comprehensive income for the year		**125,717**	(63,013)
Total comprehensive income for the year, attributable to owners of the Company		**529,937**	181,896
Profit for the year attributable to owners of the Company			
Profit for the year from continuing operations		**404,220**	170,531
Profit for the year from discontinued operations		**–**	74,378
		404,220	244,909
Earnings per share from continuing and discontinued operations (HK$ cents)	18		
– Basic		**16.37**	16.44
– Diluted		**15.35**	11.66
Earnings per share from continuing operations (HK$ cents)	18		
– Basic		**16.37**	11.45
– Diluted		**15.35**	8.70

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	19	**107,719**	18,300
Payments for acquisition of non-current assets	20	**–**	96,530
Goodwill	21	**1,129,430**	1,040,427
Deferred tax assets	29	**5,338**	–
Other intangible assets	22	**83,722**	115,332
Total non-current assets		**1,326,209**	1,270,589
Current assets			
Inventories	23	**10,798**	1,925
Trade and other receivables	24	**235,468**	89,717
Cash and cash equivalents	26	**1,077,795**	400,322
Total current assets		**1,324,061**	491,964
Total assets		**2,650,270**	1,762,553
Current liabilities			
Trade and other payables	27	**49,782**	26,344
Borrowings	28	**–**	20,483
Current tax liabilities		**12,963**	9,111
Total current liabilities		**62,745**	55,938
Net current assets		**1,261,316**	436,026
Total assets less current liabilities		**2,587,525**	1,706,615
Non-current liabilities			
Convertible notes	37	**–**	183,430
Deferred tax liabilities	29	**11,929**	17,689
Total non-current liabilities		**11,929**	201,119
Total liabilities		**74,674**	257,057
NET ASSETS		**2,575,596**	1,505,496
Capital and reserves attributable to owners of the Company			
Share capital	30	**268,087**	207,975
Reserves	31	**2,305,066**	1,297,521
Equity attributable to owners of the Company		**2,573,153**	1,505,496
Non-controlling interests		**2,443**	–
TOTAL EQUITY		**2,575,596**	1,505,496

On behalf of the Board

Liu Zhongkui
Director

Lin Supeng
Director

Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	19	**1,505**	7
Investment in subsidiaries	35	**1**	1
Total non-current assets		**1,506**	8
Current assets			
Other receivables	24	**1,706,843**	1,391,204
Cash and cash equivalents	26	**10,179**	28,822
Total current assets		**1,717,022**	1,420,026
Total assets		**1,718,528**	1,420,034
Current liabilities			
Other payables	27	**1,199**	3,199
Total current liabilities		**1,199**	3,199
Net current assets		**1,715,823**	1,416,827
Total assets less current liabilities		**1,717,329**	1,416,835
Non-current liabilities			
Convertible notes	37	**–**	183,430
Total non-current liabilities		**–**	183,430
Total liabilities		**1,199**	186,629
NET ASSETS		**1,717,329**	1,233,405
Capital and reserves attributable to owners of the Company			
Share capital	30	**268,087**	207,975
Reserves	31	**1,449,242**	1,025,430
TOTAL EQUITY		**1,717,329**	1,233,405

On behalf of the Board

Liu Zhongkui
Director

Lin Supeng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share Capital HK$'000	Share premium HK$'000	Convertible notes equity reserve HK$'000	Warrant reserve HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	General reserve HK$'000	Special reserve HK$'000	Share option reserve HK$'000	Foreign exchange reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Equity attributable to equity holders of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2010	100,430	364,052	422,116	–	–	20,416	33,955	19,608	–	76,121	(194,147)	–	–	842,551
Profit for the year	–	–	–	–	–	–	–	–	–	–	244,909	–	–	244,909
Other comprehensive income	–	–	–	–	–	–	–	–	–	(63,013)	–	–	–	(63,013)
Total comprehensive income	–	–	–	–	–	–	–	–	–	(63,013)	244,909	–	–	181,896
Issue of warrants	–	–	–	1,000	–	–	–	–	–	–	–	–	–	1,000
Transaction costs attributable to issue of warrants	–	–	–	(128)	–	–	–	–	–	–	–	–	–	(128)
Issue of new shares on exercise of warrants	1,000	11,300	–	(100)	–	–	–	–	–	–	–	–	–	12,200
Issue of shares on conversion of convertible notes	106,545	622,399	(300,278)	–	–	–	–	–	–	–	–	–	–	428,666
Proceeds from exercise of warrants	–	–	–	24,400	–	–	–	–	–	–	–	–	–	24,400
Reclassification of reserves to retained profits upon disposal of subsidiaries	–	–	–	–	–	(20,416)	(33,955)	–	–	–	54,371	–	–	–
Waiver of amount due to a shareholder	–	–	–	–	14,911	–	–	–	–	–	–	–	–	14,911
Balance at 31 December 2010	207,975	997,751	121,838	25,172	14,911	–	–	19,608	–	13,108	105,133	–	–	1,505,496
Balance at 1 January 2011	207,975	997,751	121,838	25,172	14,911	–	–	19,608	–	13,108	105,133	–	–	1,505,496
Profit for the year	–	–	–	–	–	–	–	–	–	–	404,220	–	–	404,220
Other comprehensive income	–	–	–	–	–	–	–	–	–	125,717	–	–	–	125,717
Total comprehensive income	–	–	–	–	–	–	–	–	–	125,717	404,220	–	–	529,937
Issue of shares on conversion of convertible notes	43,230	274,019	(121,838)	–	–	–	–	–	–	–	–	–	–	195,411
Issue of shares on exercise of warrants	7,500	84,641	–	(25,041)	–	–	–	–	–	–	–	–	–	67,100
Capital injection from non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–	2,443	2,443
Issue of new shares	14,010	296,942	–	–	–	–	–	–	–	–	–	–	–	310,952
Purchase of own shares for cancellation	(4,628)	(56,404)	–	–	–	–	–	–	–	–	–	–	–	(61,032)
Provision for statutory reserves	–	–	–	–	–	13,255	–	–	–	–	(13,255)	–	–	–
Share-based payment expenses	–	–	–	–	–	–	–	–	25,289	–	–	–	–	25,289
Proposed final dividend	–	(80,426)	–	–	–	–	–	–	–	–	–	80,426	–	–
Balance at 31 December 2011	268,087	1,516,523	–	131	14,911	13,255	–	19,608	25,289	138,825	496,098	80,426	2,443	2,575,596

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Profit before income tax expense		**402,248**	257,367
Adjustments for:			
Interest income		**(4,564)**	(633)
Finance costs		**12,341**	50,651
Exchange (gains)/losses, net		**(10,540)**	390
Depreciation and amortisation		**39,328**	57,229
Equity-settled share-based payment expenses		**25,289**	–
Loss on disposal of plant and equipment		**168**	–
Impairment loss on trade receivables		**23,493**	–
Impairment loss on property, plant and equipment		**9,133**	–
Gain on disposal of subsidiaries	41	**–**	(83,130)
Operating profit before working capital changes		**496,896**	281,874
(Increase)/decrease in trade and other receivables		**(170,514)**	65,465
(Increase)/decrease in inventories		**(8,873)**	5,608
Increase/(decrease) in trade and other payables		**24,746**	(26,731)
Cash generated from operations		**342,255**	326,216
Income taxes paid		**(5,657)**	(10,260)
Interest expenses paid		**(360)**	(1,918)
Net cash from operating activities		**336,238**	314,038
Cash flows from investing activities			
Purchases of property, plant and equipment		**(7,107)**	(50,550)
Prepayment for property, plant and equipment		**–**	(96,530)
Purchase of intangible assets		**–**	(101)
Amounts advanced to related parties		**(1,308)**	(10)
Repayments by related parties		**739**	25,835
Interest received		**4,564**	633
Refund of prepayments of intangible assets		**–**	17,100
Disposal of subsidiaries	41	**–**	78,520
Net cash used in investing activities		**(3,112)**	(25,103)
Cash flows from financing activities			
Proceeds from issue of warrants		**–**	1,000
Proceeds from issue of shares upon exercise of warrants		**67,100**	12,200
Proceeds from issue of new shares		**310,952**	–
Repurchase of shares		**(61,032)**	–
Capital injection from a non-controlling shareholder		**2,443**	–
Proceeds from exercise of warrants pending issuance of shares		**–**	24,400
Transaction costs attributable to issue of warrants		**–**	(128)
Repayment of borrowings		**(20,483)**	(25,784)
Net cash from financing activities		**298,980**	11,688
Net increase in cash and cash equivalents		**632,106**	300,623
Cash and cash equivalents at beginning of year		**400,322**	92,329
Effect of exchange rate changes on cash and cash equivalents		**45,367**	7,370
Cash and cash equivalents at end of year	26	**1,077,795**	400,322
Analysis of the balances of cash and cash equivalents cash and bank balances		**1,077,795**	400,322

1. GENERAL

Anxin-China Holdings Limited ("the Company") is a limited liability company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Its principal place of business is located at Unit 01-05, 20F, Harbour Centre, No.25 Harbour Road, Wanchai, Hong Kong.

The Group, comprising the Company and its subsidiaries, is engaged in sale of system hardware and application software for installation of Intelligent Surveillance Disaster Alert & Rescue Coordination ("ISD") Systems and provision of system solutions services and investment holding.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2011

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to the Group's financial statements for the annual period beginning on 1 January 2011:

HKFRSs (Amendments)	Improvements to HKFRSs 2010
Amendments to HKAS 32	Classification of Rights Issues
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosures

Except as explained below, the adoption of these new/revised standards and interpretations has no material impact on the Group's financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2011 (Continued)

HKFRS 3 (Amendments) – Business Combinations

As part of the Improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests ("NCI") at either fair value or the NCI's proportionate share in the recognised amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of NCI are measured at their acquisition date fair value unless another measurement basis is required by HKFRSs. The Group has amended its accounting policies for measuring NCI but the adoption of the amendment has had no impact on the Group's financial statements as there was no business combination transaction during the year and the business combinations in prior years did not include any NCI.

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition and no change in related parties was identified for the current year and comparative periods. The adoption of HKAS 24 (Revised) has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[2]
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities[4]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[3]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 11	Joint Arrangements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HKAS 19 (2011)	Employee Benefits[3]
HKAS 27 (2011)	Separate Financial Statements[3]

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

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 12 – Deferred Tax – Recovery of Underlying Assets

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments will be applied retrospectively.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3. BASIS OF PREPARATION (Continued)

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during a financial year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates 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.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business combination and basis of consolidation (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

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

(c) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. Property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	over the shorter of the term of the lease or 20 years
Leasehold improvements	20%
Plant and machinery	10%
Office and other equipment	20%
Motor vehicles	10%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Leasing

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

The Group as lessor

Amounts due from lessees under finance leases recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and buildings as a finance lease of property, plant and equipment.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in cost of sales.

Patent	5-10 years
Technology, customer base and unfinished contracts	2-5 years

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and expenditure on the project can be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets (Continued)

(ii) Internally generated intangible assets (research and development costs) (Continued)

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of sales.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iii) Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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.

When 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.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments

(i) Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade and other debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of the debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit and loss when there is objective evidence that a financial 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 through the use of an allowance account. When any part of a financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments (Continued)

(iii) Financial liabilities

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible notes issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Convertible notes

Convertible notes issued by the Group that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the conversion option derivative is recognised at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method, until extinguished on conversion or maturity. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

When the notes are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the notes are redeemed, and difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments (Continued)

(iv) Convertible notes (Continued)

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

(v) Effective interest method

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

(vi) Equity instruments

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

(vii) Warrants

Warrants issued by the Company that will be settled by the exchange of a fixed number of the Company's own equity instruments are classified as an equity instrument. The warrant reserve will be transferred to share premium upon exercise of the warrants. Where the warrants remain unexercised at the expiry date, the amount previously recognised in warrants reserve will be transferred to retained profits.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments (Continued)

(viii) Derecognition

The Company derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39. Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(h) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(i) Revenue recognition

Revenue from sales of system hardware and application software is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Revenue recognition (Continued)

System solution services income is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assesses on the basis of the actual service provided as a proportion of the total services to be provided. When the services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. Then a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

Subsidy income is recognised when the rights to receive the income is established and approved.

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

(j) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or 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 in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal and are attributable to the owners of the Company are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

(l) Employee benefits

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

The Group also operates a phantom share option scheme. An option pricing model is used to measure the Group's liability at the end of each reporting period, taking into account the terms and conditions on which the bonus is awarded and the extent to which employees have rendered service. Movements in the liability (other than cash payments) are recognised in profit or loss.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

- property, plant and equipment ; and
- intangible assets with finite lives.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) 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, to the extent 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.

(o) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

(q) Related parties

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

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

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Related parties (Continued)

(b) (Continued)

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person’s children and spouse or domestic partner;

(ii) children of that person’s spouse or domestic partner; and

(iii) dependents of that person or that person’s spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Critical judgments in applying accounting policies

Determination of functional currency

The directors consider that the functional currency of the Company is and has always been Hong Kong dollars as the Company is an investment holding company in Hong Kong with its investing decisions and financing activities carried out under the economic environment in Hong Kong.

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

Assessment of useful lives of property, plant and equipment

The management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(b) Key sources of estimation uncertainty (Continued)

Impairment of intangible assets

The policy for impairment of intangible assets of the Group is based on an evaluation of their recoverable amount with reference to expected future cash flows based on management's estimation. A considerable amount of judgement is required in estimating the expected future cash flows from the Group's system hardware and application software acquired and system solution services provided. If the recoverable amounts are less than the carrying amounts of the intangible assets, impairment may be required.

Impairment of receivables

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provisions are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates based on the credit history of the customers and the current market conditions. Where the expectation is different from the original estimate, such difference will impact carrying amount of receivables and doubtful debt expenses in the period in which such estimate has been changed.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(b) Key sources of estimation uncertainty (Continued)

Valuation of share-based payment

The directors use their judgement in selecting an appropriate valuation technique used in the valuation of share-based payment. Valuation techniques commonly used by market practitioners are applied. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate, where possible, by observable market prices or rates.

6. SEGMENT REPORTING

The Group determines its operating segment based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions and assess performance.

Business segment

With the disposal of the Group's Pharmaceutical business of manufacturing, sale, and research and development of pharmaceutical products on 6 August 2010 (details of the disposal of "Pharmaceutical business" are set out in notes 16 and 41), the Group focuses only on the "Intelligent Surveillance Disaster Alert & Rescue Coordination ("ISD") Systems" operations (which is made up of the sale of system hardware and application software for installation of Intelligent Surveillance Disaster Alert & Rescue Coordination Systems and provision of system solutions services). Therefore, the Group only has one operating segment in its continuing operations, and no information of segment results and segment assets and liabilities is disclosed for the years ended 31 December 2010 and 2011.

Geographical information

The revenue from external customers attributable to ISD Systems operations amounted to HK$598,172,000 (2010: HK$304,970,000). The directors of the Group consider that the Group's total consolidated revenue and substantial consolidated results are attributable to the market in the PRC. The Group's consolidated non-current assets are substantially located in the PRC. Accordingly, no geographical information is presented.

6. SEGMENT REPORTING (Continued)

Information about major customers

The following is the Group's major external customers, who contributed 10% or more to the Group's revenue:

	2011	2010
	HK$'000	HK$'000
Customer A	**141,645**	79,732
Customer B	**114,786**	–
Customer C	**75,971**	–

7. TURNOVER

Turnover represents the invoiced value of sale of application software and system hardware and system solution service income, after discounts and rebates, earned by the Group. The amounts of each significant category of revenue recognised in turnover during the year are as follows:

	2011	2010
	HK$'000	HK$'000
Sales of application software and system hardware	**563,843**	267,940
System solution service income	**34,329**	37,030
	598,172	304,970

8. OTHER REVENUE

	2011	2010
	HK$'000	HK$'000
Refund of value-added tax (note a)	**41,723**	38,028
Interest income from bank deposit	**4,564**	633
Subsidy income (note b)	**2,081**	273
	48,368	38,934

Note (a): The refund of value-added tax ("VAT") represents the benefits from VAT collected from customers on the sale of self-developed software which are eventually retained by the Group according to the "Circular on value-added tax ("VAT") policy on software products " (No. 100 [2011] Cai-Shui), issued by the State Administration of Taxation and the Ministry of Finance.

Note (b): The Group received subsidies from local PRC government for launching projects relating to research and development activities. There are no unfulfilled conditions relating to these grants.

9. OTHER GAINS AND LOSSES

	2011 HK$'000	2010 HK$'000
Exchange (gains)/losses, net	**(10,540)**	628
Provision for impairment loss on trade receivables	**23,493**	–
Provision for impairment loss on property, plant and equipment	**9,133**	–
Others	**229**	–
	22,315	628

10. PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATION

Profit before income tax expense is arrived at after charging:

	2011 HK$'000	2010 HK$'000
Cost of inventories recognised as an expense	**27,019**	10,748
Auditor's remuneration	**2,044**	2,600

11. STAFF COSTS

	2011 HK$'000	2010 HK$'000
Staff costs (including directors) comprise:		
Contributions on defined contribution retirement plans	**461**	119
Salaries and other employees benefits	**13,969**	5,747
	14,430	5,866

12. DIRECTORS' EMOLUMENTS

The remuneration of directors for the year ended 31 December 2011 is set out below:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Employer's contribution to pension HK$'000	Total HK$'000
Executive directors					
Zhong Houtai	–	–	–	–	–
Zhong Houyao	–	–	–	–	–
Lin Supeng	30	93	13	8	144
Liu Zhongkui[1]	17	173	34	7	231
Yang Ma	30	145	22	9	206
Independent non-executive directors					
Xie Baitang[2]	17	–	–	–	17
Pei Renjiu	30	–	–	–	30
Li Kai Ming[3]	13	–	–	–	13
Cheung Chuen	45	–	–	–	45
	182	411	69	24	686

The remuneration of directors for the year ended 31 December 2010 is set out below:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Employer's contribution to pension HK$'000	Total HK$'000
Executive directors					
Zhong Houtai	–	–	–	–	–
Zhong Houyao	–	–	–	–	–
Chong Hoi Fung	–	–	–	–	–
Sun Daquan	12	–	–	–	12
Lin Supeng	27	71	–	5	103
Yang Ma	18	84	–	4	106
Independent non-executive directors					
Pei Renjiu	28	–	–	–	28
Li Kai Ming	28	–	–	–	28
Cheung Chuen	45	–	–	–	45
	158	155	–	9	322

1 Liu Zhongkui was appointed on 3 June 2011.

2 Xie Baitang was appointed on 3 June 2011.

3 Li Kai Ming resigned on 3 June 2011.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2010: none) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining three (2010: five) individuals were as follows:

	2011	2010
	HK$'000	HK$'000
Salaries, allowances and other benefits	**1,933**	1,274
Retirement benefits scheme contributions	**18**	32
	1,951	1,306

The emoluments fall within the following bands:

	Number of individuals	
	2011	2010
Emolument band		
Nil to HK$1,000,000	**4**	5
HK$1,000,001 – HK$2,000,000	**1**	–

No emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join the Group or upon joining the Group or as compensation for loss of office for the years ended 31 December 2011 and 2010.

14. FINANCE COSTS

	2011	2010
	HK$'000	HK$'000
Interest on bank loan wholly repayable within five years	**365**	1,925
Effective interest expense on convertible notes	**11,981**	47,742
	12,346	49,667

15. INCOME TAX EXPENSE

(a) The amount of taxation in the consolidated statement of comprehensive income represents:

	2011	2010
	HK$'000	HK$'000
Current tax – PRC Enterprise Income Tax ("EIT")		
– tax for the year	**12,677**	9,528
– over provision in respect of prior year	**(3,667)**	–
	9,010	9,528
Deferred tax (note 29)		
– (credit)/charge to profit or loss for the year	**(10,982)**	2,930
Income tax (credit)/expense	**(1,972)**	12,458

No provision for profits tax for group entities in the Cayman Islands or the British Virgin Islands has been made as these entities had no income assessable for profits tax in these jurisdictions for current and prior years.

Hong Kong profits tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for subsidiaries incorporated in Hong Kong. No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2010: Nil).

According to the Implementation Guidance, Shenzhen Anxin Digital Development Co., Ltd. ("Shenzhen Anxin") was subject to a transitional period of five years as it is located in Shenzhen Special Economic Zone whereby the applicable EIT rate will be progressively increased to 18%, 20%, 22%, 24% and 25% for the years 2008, 2009, 2010, 2011 and 2012 respectively.

Pursuant to an approval document dated 25 June 2010 issued by the Tax Bureau of Hongze, Jiangsu Province, the Company's subsidiary, Jiangsu Hongxin Intelligence Technology Co., Ltd. ("Jiangsu Hongxin") qualifies as a software-producing enterprise enterprise and is entitled to EIT exemption for the years 2010 and 2011 and a 50% reduction in EIT for the years from 2012 to 2014.

Other subsidiaries, which were established and operate in the PRC, are subject to EIT at a standard rate of 25% (2010: 25%).

15. INCOME TAX EXPENSE (Continued)

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

	2011 HK$'000	2010 HK$'000
Profit before tax	**402,248**	182,989
Tax calculated at PRC EIT rate of 24% (2010: 22%) (note)	**96,540**	40,257
Effect of tax exemption and different tax rates of subsidiaries operating in other jurisdictions	**(94,200)**	(48,803)
Tax effect of expenses not deductible for tax purpose	**1,878**	22,794
Tax effect of revenue not taxable	**(2,523)**	(1,790)
Over provision in respect of prior year	**(3,667)**	–
Income tax (credit)/expense	**(1,972)**	12,458

Note: The 24% tax rate represents the applicable tax rate of the Company's major subsidiary, Shenzhen Anxin.

16. DISCONTINUED OPERATION

Disposal of pharmaceutical manufacturing operations

On 14 May 2010, the Company entered into a sale agreement to dispose of Long Master and Fujian Nanshaolin, which carried out all of the Group's Pharmaceutical manufacturing operations. The disposal of the Pharmaceutical manufacturing operations is consistent with the Group's long-term policy to focus its activities in the ISD Systems market. The disposal was completed on 6 August 2010, when the control of the Pharmaceutical manufacturing operations passed to the acquirer. The disposal represented the discontinuance of the Group's pharmaceutical manufacturing operations in prior year.

16. DISCONTINUED OPERATION (Continued)

Disposal of pharmaceutical manufacturing operations (Continued)

The profit for the year ended 31 December 2010 from the discontinued operation is analysed as follows:

	1.1.2010 to 06.08.2010 HK$'000
Loss of pharmaceutical operation for the year	(8,752)
Gain on disposal of pharmaceutical operation (note 41)	83,130
Profit for the year	74,378

The results of the discontinued operations for the period from 1 January 2010 to 6 August 2010, which have been included in the consolidated statements of comprehensive income were as follows:

	Period ended 6 August 2010 HK$'000
Revenue	31,837
Cost of sales	(28,337)
	3,500
Other gains and losses	238
Distribution costs	(1,221)
Administrative expenses	(10,285)
Finance costs	(984)
Loss for the year	(8,752)

16. DISCONTINUED OPERATION (Continued)

Disposal of pharmaceutical manufacturing operations (Continued)

Profit (loss) for the period ended 6 August 2010 from discontinued operations includes the following:

	Period ended 6 August 2010 HK$'000
Depreciation of property, plant and equipment	12,435
Amortisation of intangible assets	6,493
Amortisation of prepaid lease payments	65
Employee benefit expenses	1,833
Cash flows from discontinued operations	
Net cash inflows from operating activities	32,135
Net cash outflows from investing activities	(31,753)
Net cash inflows	382

The carrying amounts of the assets and liabilities of Long Master and Fujian Nanshaolin at the date of disposal are disclosed in note 41.

17. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Loss attributable to shareholders includes an amount of HK$53,796,000 (2010: HK$58,224,000) which has been dealt with in the financial statements of the Company.

18. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

From continuing operations and discontinued operations

	2011	2010
	HK$'000	HK$'000
Earnings for the purposes of basic earnings per share	**404,220**	244,909
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	**11,981**	47,742
Earnings for the purposes of diluted earnings per share	**416,201**	292,651

Number of shares

Weighted average number of ordinary shares for the purposes of basic earnings per share (thousands)	**2,469,690**	1,489,569
Effect of dilutive potential ordinary shares (thousands):		
– convertible notes	**229,657**	1,013,799
– warrants	**12,064**	6,681
Weighted average number of ordinary shares for the purposes of diluted earnings per share (thousands)	**2,711,411**	2,510,049

18. EARNINGS PER SHARE (Continued)

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the parent entity is based on the following data:

	2011 HK$'000	2010 HK$'000
Profit for the year attributable to equity holders of the parent	**404,220**	244,909
Less:		
Profit for the year from discontinued operations	**–**	74,378
Earnings for the purposes of basic earnings per share from continuing operations	**404,220**	170,531
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	**11,981**	47,742
Earnings for the purposes of diluted earnings per share from continuing operations	**416,201**	218,273

Note: The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for the year ended 31 December 2011.

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

Basic earnings per share for the discontinued operation for the year ended 31 December 2010 was HK$4.99 cents per share and diluted earnings per share for the discontinued operation was HK$2.96 cents per share, based on the profit for the year from the discontinued operations of HK$74,378,000 and the denominators detailed above for both basic and diluted earnings per share.

19. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office and other equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation						
At 1 January 2010	211,491	2,107	399,340	41,730	3,973	658,641
Additions	–	1,894	–	515	830	3,239
Derecognised on disposal of subsidiaries	(210,951)	–	(401,546)	(28,580)	(3,342)	(644,419)
Currency realignment	1,254	108	2,206	710	55	4,333
At 31 December 2010	1,794	4,109	–	14,375	1,516	21,794
Additions	98,789	1,359	–	978	2,511	103,637
Disposals	–	(289)	–	(582)	(113)	(984)
Currency realignment	2,365	178	–	836	53	3,432
At 31 December 2011	102,948	5,357	–	15,607	3,967	127,879
Accumulated depreciation and impairment						
At 1 January 2010	174,492	289	333,648	24,187	1,486	534,102
Depreciation charge for the year	5,641	745	5,193	3,265	343	15,187
Eliminated on disposal of subsidiaries	(181,227)	–	(340,709)	(25,509)	(1,592)	(549,037)
Currency realignment	1,217	19	1,868	112	26	3,242
At 31 December 2010	123	1,053	–	2,055	263	3,494
Depreciation charge for the year	4,266	962	–	1,848	534	7,610
Impairment losses provided for the year	–	–	–	9,133	–	9,133
Written back on disposals	–	(289)	–	(513)	(14)	(816)
Currency realignment	134	53	–	520	32	739
At 31 December 2011	4,523	1,779	–	13,043	815	20,160
Net book value						
At 31 December 2011	98,425	3,578	–	2,564	3,152	107,719
At 31 December 2010	1,671	3,056	–	12,320	1,253	18,300

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company	Leasehold improvements	Office and other equipment	Total
	HK$'000	HK$'000	HK$'000
Cost or valuation			
At 1 January 2010 and 31 December 2010	289	148	437
Additions	1,359	371	1,730
Disposals	(289)	(134)	(423)
At 31 December 2011	1,359	385	1,744
Depreciation and impairment			
At 1 January 2010	289	138	427
Depreciation charge for the year	–	3	3
At 31 December 2010	289	141	430
Depreciation charge for the year	180	52	232
Written back on disposals	(289)	(134)	(423)
At 31 December 2011	180	59	239
Net book value			
At 31 December 2011	1,179	326	1,505
At 31 December 2010	–	7	7

The carrying values of the leasehold land payments above comprise land outside Hong Kong held under medium term leases as at 31 December 2011 and 2010.

A subsidiary of the Company is in a process of applying for the property ownership certificate of leasehold land and buildings with carrying value of HK$96,795,000 (2010: Nil) as detailed in note 20.

The carrying value of leasehold land and buildings pledged by the Group is to secure bank borrowing granted to the Group amounted HK$Nil as at ended 31 December 2011 (2010: HK$1,671,000).

20. PAYMENTS FOR ACQUISITION OF NON-CURRENT ASSETS

Group	2011 HK$'000	2010 HK$'000
Prepayment for the acquisition of property, plant and equipment	–	96,530

The balance as at 31 December 2010 represented prepayment to a vendor for the acquisition of a property located in Hongze Preferecture of Jiangsu Province, at a consideration of RMB82 million (equivalent to approximately HK$96.53 million). The vendor is a company which was indirectly and wholly controlled by two directors of Shenzhen Anxin. The transaction was completed in February 2011 and relevant payment has been recorded as leasehold land and buildings during the year ended 31 December 2011.

21. GOODWILL

Group	2011 HK$'000	2010 HK$'000
Carrying amount		
At 1 January	**1,040,427**	1,040,427
Exchange adjustment	**89,003**	–
At 31 December	**1,129,430**	1,040,427

The amount represents goodwill arising on the acquisition of interest in Eagle Mascot Group and Jiangsu Hongxin Intelligence Technology Co., Ltd., which was completed in October 2009.

For the purposes of impairment testing, goodwill has been allocated to an individual cash generating unit (CGU), that comprises two subsidiaries in the ISD System business segment.

As at 31 December 2011, management of the Group determines that there is no impairment of the above CGU containing goodwill.

21. GOODWILL (Continued)

The recoverable amount has been determined based on a value in use calculation with reference to assessment made by independent professional valuer, Assets Appraisal Limited. Valuation of the goodwill using cash flow projections based on financial budgets approved by management covering a two-year period, and a discount rate of 17.0% (2010: 17.17%) per annum. The discount rate is determined based on the risk free interest rate adjusted by the specific risk associated with the CGU. The cash flows beyond the two-year period are extrapolated using the steady growth rate of 3% (2010: 3%) for eight years, which does not exceed the average growth rate of the ISD system industry. Cash flows for the first two financial periods are based on expected sales orders of ISD systems estimated by the management. Budgeted gross margin of approximately 80% (2010: 84%) is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

22. OTHER INTANGIBLE ASSETS

Group	Patents	Technology	Customer base	Unfinished contracts	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation					
At 1 January 2010	144,097	122,621	21,613	13,203	301,534
Additions	–	101	–	–	101
Derecognised on disposal of subsidiaries	(144,893)	–	–	–	(144,893)
Currency realignment	796	189	–	–	985
At 31 December 2010	–	122,911	21,613	13,203	157,727
Currency realignment	–	278	–	–	278
At 31 December 2011	–	123,189	21,613	13,203	158,005
Amortisation					
At 1 January 2010	128,759	4,523	797	1,490	135,569
Amortisation charge for the year	6,493	23,561	4,156	7,767	41,977
Eliminated on disposal of subsidiaries	(135,995)	–	–	–	(135,995)
Currency realignment	743	101	–	–	844
At 31 December 2010	–	28,185	4,953	9,257	42,395
Amortisation charge for the year	–	23,616	4,156	3,946	31,718
Currency realignment	–	170	–	–	170
At 31 December 2011	–	51,971	9,109	13,203	74,283
Net book value					
At 31 December 2011	–	71,218	12,504	–	83,722
At 31 December 2010	–	94,726	16,660	3,946	115,332

23. INVENTORIES

Group	2011 HK$'000	2010 HK$'000
Raw materials	**1,030**	999
Work in progress	**413**	–
Finished goods	**9,355**	926
	10,798	1,925

24. TRADE AND OTHER RECEIVABLES

	2011		2010	
	Group HK$'000	**Company HK$'000**	Group HK$'000	Company HK$'000
Trade receivables	**207,427**	**–**	66,100	–
Other receivables	**11,709**	**–**	11,337	–
Amount due from related party	**–**	**–**	10	–
Amount due from a director (note 25)	**495**	**–**	336	–
Amounts due from subsidiaries	**–**	**1,704,143**	–	1,390,490
Rental and utility deposits	**2,700**	**2,700**	716	714
Advance to suppliers	**13,137**	**–**	11,218	–
	235,468	**1,706,843**	89,717	1,391,204

The amounts due from related party, director, and subsidiaries are unsecured, interest free and repayable on demand.

Other receivables are assessed to be impaired individually based on the indication of financial difficulties and default in payments at each reporting date and no impairment losses was recognised during the years ended 31 December 2011 and 2010. The Group does not hold any collateral over these balances. Other receivables, deposits and prepayments are interest free.

In general, the credit terms granted by the Group ranged from 90 to 180 days, while the retention monies held in relation to the application software are receivable 12 months after installation of software. The following is an aged analysis of trade receivables net of allowance for impairment losses presented based on the invoice date at the end of reporting period.

24. TRADE AND OTHER RECEIVABLES (Continued)

Group	2011 HK$'000	2010 HK$'000
Aged:		
Within 30 days	**8,277**	9,496
31 – 60 days	**87,829**	15,381
61 – 90 days	**49,220**	14,843
91 – 180 days	**3,946**	20,261
181 – 365 days	**58,155**	2,505
More than 365 days	**–**	3,614
	207,427	66,100

Of the trade receivables balance at the end of the year, HK$67,174,000 (31 December 2010: HK$23,750,000) is due from the Group's largest customer. There are another seven customers (31 December 2010: five customers) who represent more than 5% of the total balance of trade receivables. These customers are governmental bureaus with no history of default in the past.

The below table reconciled the impairment loss of trade receivables for the year:

Group	2011 HK$'000	2010 HK$'000
At 1 January	**–**	–
Provision for impairment loss recognised	**23,493**	–
At 31 December	**23,493**	–

24. TRADE AND OTHER RECEIVABLES (Continued)

Trade receivables (net of impairment losses) with the following aging analysis using allowed credit term as of the end of the reporting period:

Group	2011 HK$'000	2010 HK$'000
Current (note a)	**200,221**	64,730
Less than 30 days past due	**–**	1,370
31-90 days past due	**7,196**	–
91-120 days past due	**10**	–
Amount past due but not impaired at the end of reporting period (note b)	**7,206**	1,370
	207,427	66,100

Notes:

(a) The balances that were neither past due nor impaired relate to customers for whom there was no recent history of default.

(b) At each reporting date, the Group's trade receivables were individually and collectively determined for impairment purposes. The individually impaired receivables are recognised based on the credit history of its customers, indication of financial difficulties, default in payments, and current market conditions. Consequently, specific impairment provision was recognised. The balances that were past due but not impaired because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

25. LOAN TO OFFICER

Details of loan to officer of the Group and the Company disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Loans advanced by the Group and the Company

Name of borrower	Mr. Yang Ma, director

Balance of the relevant loans

	HK$'000
At 31 December 2011	495
At 1 January 2011	336
Maximum balance outstanding during the year	544

26. CASH AND CASH EQUIVALENTS

(a) Included in bank and cash balances of the Group is HK$1,066,106,000 (2010: HK$371,147,000) of bank balances denominated in RMB placed with banks in the PRC. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

(b) Major non-cash transactions

(i) The additions to property, plant and equipment during the year included the prepayment made in 2010 amounting to HK$96,530,000.

(ii) During the year, convertible notes in an aggregate principal amount of HK$281,000,000 (2010: HK$692,540,000) were converted into 432,307,000 (2010: 1,065,447,000) new ordinary shares.

(iii) During the year, 75,000,000 (2010:10,000,000) warrants were exercised at a subscription price of HK$1.22 per share, resulting in the issue of 75,000,000 (2010:10,000,000) ordinary shares, in which included the subscriptions received in 2010 amounting to HK$24,400,000.

27. TRADE AND OTHER PAYABLES

	2011		2010	
	Group	**Company**	Group	Company
	HK$'000	**HK$'000**	HK$'000	HK$'000
Trade payables	**8,714**	**–**	796	–
Other payables and accruals	**38,702**	**1,199**	5,329	3,199
Other tax payables	**40**	**–**	18,567	–
Amounts due to related parties	**2,076**	**–**	1,413	–
Advance from customers	**250**	**–**	239	–
	49,782	**1,199**	26,344	3,199

The amounts due to related parties are unsecured, interest free and repayable on demand.

In general, the credit terms granted by suppliers ranged from 90 to 180 days. The aging analysis of trade payables prepared based on invoice date is as follows:

Group	**2011**	2010
	HK$'000	HK$'000
Aged:		
Within 30 days	**917**	160
31 – 60 days	**–**	–
61 – 90 days	**–**	12
91 – 180 days	**7,323**	122
181 – 365 days	**–**	–
More than 365 days	**474**	502
	8,714	796

28. BORROWING

Group	**2011**	2010
	HK$'000	HK$'000
Interest bearing:–		
Secured bank loan due for repayment within one year	**–**	20,483

28. BORROWING (Continued)

The bank loan as at 31 December 2010 was secured by a corporate guarantee to the extent of HK$22,800,000 executed by an independent guarantee company. The corporate guarantee was secured by a deposit of RMB500,000 (equivalent to approximately HK$588,600) paid to that independent guarantee company and was included in other receivables, a property of the Group with carrying amount of HK$1,870,000 as well as a property of a related company, in which two directors of Shenzhen Anxin have controlling interests. This bank loan was a variable rate loan bearing effective interest rate at 6.30% (2010: 6.16%) and was fully repaid during the year ended 31 December 2011 pursuant to the terms of the loan contract.

29. DEFERRED TAX

Details of the deferred tax assets and liabilities recognised and movements during the current and prior years:

Group	**Intangible assets**	**Provision of impairment loss on property, plant and equipment**	**Provision of impairment loss on trade receivables**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	14,759	–	–	14,759
Charge to profit or loss for the year	2,930	–	–	2,930
At 31 December 2010 and 1 January 2011	17,689	–	–	17,689
Credit to profit or loss for the year	(5,760)	(2,285)	(2,937)	(10,982)
Exchange differences	–	(50)	(66)	(116)
At 31 December 2011	**11,929**	**(2,335)**	**(3,003)**	**6,591**

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$761,636,000 (2010: HK$302,459,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

30. SHARE CAPITAL

Authorised, issued and fully paid

	2011 Number '000	2011 HK$'000	2010 Number '000	2010 HK$'000
Authorised				
Ordinary shares of HK$0.1 each	**4,000,000**	**400,000**	4,000,000	400,000
Issued and fully paid				
Ordinary shares of HK$0.1 each				
At beginning of year	**2,079,746**	**207,975**	1,004,299	100,430
Issue of shares on conversion of convertible notes (note a)	**432,307**	**43,230**	1,065,447	106,545
Issue of shares on exercise of warrants (note b)	**75,000**	**7,500**	10,000	1,000
Purchase of own shares for cancellation (note c)	**(46,280)**	**(4,628)**	–	–
Issue of new shares (note d)	**140,100**	**14,010**	–	–
At end of the year	**2,680,873**	**268,087**	2,079,746	207,975

Note:

(a) On 4 January 2010, 5 January 2010, 16 April 2010, 28 April 2010, 17 May 2010, 14 June 2010, 12 July 2010, 19 August 2010, and 17 November 2010, the convertible notes in an aggregate principal amount of HK$33,540,400, HK$10,000,000, HK$130,000,000, HK$23,059,400, HK$97,500,000, HK$2,940,600, HK$6,500,000, HK$200,000,000 and HK$189,000,000 respectively were converted into the Company's shares at a conversion price of HK$0.65 per share. As a result of the conversion, 1,065,446,770 new shares were issued.

On 19 May 2011, 23 November 2011 and 5 December 2011, the convertible notes in an aggregate principal amount of HK$200,000,000, HK$41,000,000 and HK$40,000,000 were converted into the Company's shares at a conversion price of HK$0.65 per share. As a result of the conversion, 432,307,000 new shares were issued. All the convertible notes were converted during the year ended 31 December 2011.

30. SHARE CAPITAL (Continued)

Authorised, issued and fully paid (Continued)

(b) On 28 October 2010, the Company entered into the warrant placing agreement with an independent placing agent (the "Placing Agent"), whereby the Company appointed the Placing Agent as the sole and exclusive placing agent to procure not less than six placees to subscribe for up to 100,000,000 unlisted warrants (the "Warrants"), on the best effort basis, at the warrant issue price of HK$0.01 per Warrant. The net proceed from issue of warrants amounted to HK$872,000.

The Warrants entitle the placees to subscribe for a maximum of 100,000,000 new shares at an initial subscription price of HK$1.22 per new share (subject to adjustment) for a period of 24 months commencing from (and inclusive of) the date of issue of the Warrants. Each Warrant initially carries the right to subscribe for one new share.

During the years ended 31 December 2010 and 2011, 10,000,000 and 75,000,000 warrants were exercised, respectively, at a subscription price of HK$1.22 per share, resulting in the issue of 10,000,000 and 75,000,000 ordinary shares of HK$0.1 each.

(c) Pursuant to the repurchase mandate granted to the directors at the annual general meeting of the Company held on 3 June 2011 (the "Repurchase Mandate"), the directors is allowed to repurchase shares in the Company not exceeding 10% of the issued share capital of the Company. Up to 31 December 2011, the Company has repurchased a total of 46,280,000 of its own shares pursuant to the Repurchase Mandate.

(d) On 6 January 2011, the Vendor (a shareholder of the Company) and the Company entered into the Subscription and Placing Agreement with the Placing Agent, pursuant to which the Placing Agent has agreed, on a best effort basis, to procure at least six investors to purchase, and the Vendor has agreed to sell, up to 150,000,000 existing shares at a price of HK$2.30 per Placing Share. Subject to the completion of the Placing, the Vendor agrees to subscribe for and the Company agrees to allot and issue to the Vendor up to 150,000,000 new shares which is equal to the number of Placing Shares at a price of HK$2.30 per Subscription Share.

The placing and the subscription took place on 20 January 2011. A total of 140,100,000 Placing Shares have been successfully placed to not less than six independent investors at the Placing Price of HK$2.30 per Placing Share, and a total of 140,100,000 Subscription Shares of HK$0.1 each have been allotted and issued to the Vendor by the Company at the Subscription Price.

30. SHARE CAPITAL (Continued)

Capital management policy

The Group's objectives when managing capital are to safeguard the group entities' ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts. No changes were made to the objectives or policies during the year.

The capital structure of the Group consists of equity attributable to owners of the Company only, comprising share capital and reserves.

The Group monitors capital with reference to its assets position. The Group's strategy is to maintain a solid base to support the operations and development of its business in the long term. The Group's gearing ratio, being the Group's equity attributable to equity shareholders over its total assets, as at 31 December 2011 was 97.1% (2010: 85.4%).

Neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirement.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements. Nature and purpose of the share premium, warrant reserve, convertible notes equity reserve, capital reserve, statutory reserve, special reserve, share option reserve, foreign exchange reserve and retained profits/(accumulated losses) are explained in note (b) below.

31. RESERVES (Continued)

(b) Company

The Company	Share premium (note i) HK$'000	Warrant reserve (note ii) HK$'000	Convertible notes equity reserve (note iii) HK$'000	Capital reserve (note iv) HK$'000	Share option reserve (note vii) HK$'000	Equity attributable to equity holders of the Company (note ix) HK$'000	Accumulated losses (note x) HK$'000	Total HK$'000
At 1 January 2010	364,052	–	422,116	–	–	–	(76,018)	710,150
Issue of convertible notes	622,399	–	(300,278)	–	–	–	–	322,121
Issue of new shares on exercise of warrant	11,300	25,172	–	–	–	–	–	36,472
Waive of amount due to a shareholder	–	–	–	14,911	–	–	–	14,911
Loss for the year	–	–	–	–	–	–	(58,224)	(58,224)
At 31 December 2010 and 1 January 2011	997,751	25,172	121,838	14,911	–	–	(134,242)	1,025,430
Issue of shares on conversion of convertible notes	274,019	–	(121,838)	–	–	–	–	152,181
Issue of shares on exercise of warrant	84,641	(25,041)	–	–	–	–	–	59,600
Issue of new shares	296,942	–	–	–	–	–	–	296,942
Purchase of own shares for cancellation	(56,404)	–	–	–	–	–	–	(56,404)
Share-based payment expenses	–	–	–	–	25,289	–	–	25,289
Proposed final dividend	(80,426)	–	–	–	–	80,426	–	–
Loss for the year	–	–	–	–	–	–	(53,796)	(53,796)
At 31 December 2011	1,516,523	131	–	14,911	25,289	80,426	(188,038)	1,449,242

Note:

(i) Share Premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

(ii) Warrant reserve

Warrants reserve is non-distributable and will be transferred to share premium account upon the exercise of warrants. Balance of warrants reserve in relation to the unexercised warrants at the expiry of the warrants period will be transferred to retained profits.

(iii) Convertible notes equity reserve

Convertible notes equity reserve records the equity portion of the convertible notes issued on 22 October 2009 as described in note 37.

31. RESERVES (Continued)

(b) Company (Continued)

Note: (Continued)

(iv) Capital reserve

Capital reserve represents the waiver of an amount due to a shareholder of the Company.

(v) Statutory reserve

The statutory reserve refers to the PRC statutory reserve fund. Appropriations to such reserve fund are made out of profit after tax as recorded in the statutory financial statements of the PRC subsidiaries. The amount should not be less than 10% of the profit after tax as recorded in the statutory financial statements unless the aggregate amount exceeds 50% of the registered capital of the PRC subsidiaries.

(vi) Special reserve

The special reserve of the Group represented the differences between the nominal value and premium of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of the reorganisation in 2009.

(vii) Share option reserve

Share option reserve is used to record the value of equity benefits provided to employees and consultants as part of their remuneration as described in note 34.

(viii) Foreign exchange reserve

Foreign exchange reserve represents gain/(loss) arising on retranslating the net assets of foreign operations into the Company's functional currency.

(ix) Equity attributable to equity holders of the Company

The reserve represents a final dividend proposed by the directors as described in note 32.

(x) Accumulated losses

The reserve available for distribution to shareholders is based on the lower of the aggregate amount of profit after income tax for the year and retained profits brought forward determined under Hong Kong generally accepted accounting principles.

31. RESERVES (Continued)

(c) Other comprehensive income

	2011 HK$'000	2010 HK$'000
Other comprehensive income includes:		
Exchange differences arising on translating foreign operations:		
Exchange gains arising during the year	**125,717**	13,113
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of foreign operations	**–**	(76,126)
Other comprehensive income	**125,717**	(63,013)

32. DIVIDENDS

At the Company's board meeting on 13 March 2012, the directors recommended a final dividend of HK$3 cents (2010: HK$Nil) per ordinary share. The proposed dividend is subject to the approval of the shareholders at the forthcoming annual general meeting and not reflected as a dividend payable in these financial statements. It will be reflected as an appropriation of share premium for the year ended 31 December 2011.

33. LEASES

Operating leases as lessee

The Group leases the majority of its office properties. The terms of property leases are subject to rent reviews every 1 to 2 years and many have break clauses.

The lease payments recognised as an expense are as follows:

	2011 HK$'000	2010 HK$'000
Minimum leases payments	**7,268**	2,148

33. LEASES (Continued)

The total future minimum lease payments are due as follows:

	2011 HK$'000	2010 HK$'000
Not later than one year	**6,755**	2,183
Later than one year and not later than five years	**796**	1,359
	7,551	3,542

34. SHARE-BASED PAYMENT

The Company operates an equity-settled share based remuneration scheme pursuant to a resolution passed on 3 November 2003 for the primary purpose of providing incentives to selected participants, and will expire on 2 November 2013. Under the Share Option Scheme, the Board of Directors of the Company may grant options to the following eligible participants:

(i) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries and any entity ("Invested Entity") in which any member of the Group holds any equity interest;

(ii) any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries and any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of any member of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; and

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity.

34. SHARE-BASED PAYMENT (Continued)

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue during the twelve-month period before the date of grant, without prior approval from the Company's shareholders.

The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 1 April 2011, there are share options granted. Details and movements of the share options are as follows:

	Weighted average exercise price 2011 HK$'000	**Number 2011** HK$'000
Outstanding at beginning of the year	–	–
Granted during the year	HK$2.25	37,000,000
Outstanding at the end of the year	HK$2.25	37,000,000
Exercisable at the end of the year	HK$2.25	37,000,000

The weighted average exercise price of options outstanding at the end of the year is HK$2.25. The validity period of the share options of the Company granted during the year is from 1 April 2011 to 2 November 2013 and there is no vesting condition for the share options.

The weighted average fair value of each option amounted to HK$25,289,000 determined at the date of grant using the Binomial option pricing model was with reference to assessment by Assets Appraisal Limited.

34. SHARE-BASED PAYMENT (Continued)

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled share based remuneration schemes operated by the Group.

Option pricing model used	Binomial option pricing model
Weighted average share price at grant date	HK$2.25
Grant date	1 April 2011
Exercise price	HK$2.25
Weighted average contractual life	2.6 years
Expected volatility	47.08%
Expected dividend yield	0%
Risk free interest rate	0.96%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last 2.6 years. The weighted average remaining contractual life was 1.8 years.

The expected dividend yield is calculated based on the historical dividend payout records of the Company.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

In the absence of vesting conditions of the share options, the fair value of the share-based payment, amounting to HK$25,289,000, was recognised in profit or loss of the year.

No share options were exercised or lapsed during the year ended 31 December 2011.

35. INVESTMENTS IN SUBSIDIARIES

Company	**2011** **HK$'000**	2010 HK$'000
Unlisted shares, at cost	**1**	1

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

35. INVESTMENTS IN SUBSIDIARIES (Continued)

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

Name of subsidiary	Form of business structure	Place of incorporation/ registration and operation	Issued and paid up shares/ registered capital	Percentage of ownership interest attributable to the Company		Principal activities
				Directly	Indirectly	
Hover Rise Limited	Corporation	The British Virgin Islands ("BVI")	US$50,000	100%	–	Investment holding
Eagle Mascot Limited	Corporation	The British Virgin Islands ("BVI")	US$50,000	–	100%	Investment holding
Eagle Champion Holdings Limited	Corporation	Hong Kong	HK$10,000	–	100%	Investment holding
Shenzhen Anxin Digital Development Co., Ltd. ("Shenzhen Anxin")	Corporation	The PRC	RMB175,000,000	–	100%	Production of system hardware and application software, and provision of system solutions according to client's need and provision of long term agency operation and maintenance services on system solutions
Jiangsu Hongxin Intelligence Technology Co., Ltd. ("Jiangsu Hongxin")	Corporation	The PRC	RMB15,000,000	–	100%	Production of intelligent product and provision of consultancy services on intelligent system
Shenzhen Anke Safety Production Information Services Co., Ltd.	Corporation	The PRC	RMB5,000,000	–	100%	Development on enterprise safety technology and provision of consultancy service for enterprises safety technology
Shenzhen Ruian Information Technology Co., Ltd. ("Shenzhen Ruian")(note)	Corporation	The PRC	RMB10,000,000	–	80%	Production of system hardware and application software, and provision of system solutions according to client's need and provision of long term agency operation and maintenance services on system solutions

Note: Shenzhen Ruian is established on 21 November 2011 by the Company and the third party, Shenzhen Shen Fu Le Investment Company Limited, who own 80% and 20% of its equity interests, respectively.

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

36. RELATED PARTY TRANSACTIONS

Key management is the directors of the Company and details of directors' remuneration are given in note 12 to the financial statements. Other significant related party transactions during the year are as follows:

Related party relationship	Types of transaction	Transaction amount 2011 HK$'000	Transaction amount 2010 HK$'000	Balance owed/(owing) 2011 HK$'000	Balance owed/(owing) 2010 HK$'000
Related parties	Lease	**1,446**	1,377	**(739)**	(1,403)
	Sale of property, plant and equipment	**98,789**	–	**–**	96,530

Related parties represent the companies controlled by Chen Hong, who is one of the major shareholders of the Company.

The Company has not made any provision for bad or doubtful debts in respect of related party debtors nor has any commitment or guarantee been given or received during 2011 and 2010 regarding related party transactions.

37. CONVERTIBLE NOTES

On 22 October 2009, the Company issued zero coupon convertible notes (the "Convertible notes") in an aggregate principal amount of HK$1,179,850,000 as consideration for the acquisition of Eagle Mascot Group. There were two tranches within the Convertible notes, HK$889,850,000 in principal amount of Tranche 1 Convertible notes and HK$290,000,000 in principal amount of Tranche 2 Convertible notes.

The principal terms of the Convertible notes are as follows:

(a) Optional conversion

Tranche 1 Convertible notes may be converted at the option of the holders at any time, while principal amounts of HK$189,000,000 and HK$81,000,000 of Tranche 2 Convertible notes may be converted at the option of the holders at any time from 12 months and 24 months subsequent to the issue date of the Convertible notes respectively up to the maturity date of the Convertible notes which is 22 October 2014. Subject to adjustments upon the occurrence of various events including share consolidation, share sub-division, capitalisation issue, capital distribution, right issue and issue of convertible securities by the Company, the initial conversion price for the Convertible notes is HK$0.65 per conversion share.

37. CONVERTIBLE NOTES (Continued)

(b) Conversion restrictions

The conversion rights under the Convertible notes shall only be exercisable so long as (i) the aggregate shareholdings of such holder of the Convertible notes, its associates and parties acting in concert with it immediately after such exercise will not be or exceed 25% of the then issued share capital of the Company; (ii) the exercise of the conversion rights under the Convertible notes will not result in such holder of the Convertible notes by itself or taken together with its associates and/or parties acting in concert with it becoming the controlling shareholder of the Company or will, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company which such holder of the Convertible notes would be obliged to make a general offer in force from time to time; (iii) the exercise of the conversion rights under the Convertible notes would not result in such holder of the Convertible notes and other then substantial shareholder(s) of the Company (if any), being presumed to be parties acting in concert with each other by virtue of their then respective shareholding in the Company; and (iv) the public float of at least 25% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares can be maintained.

(c) Redemption option of the Company

The Company shall have the right to redeem any portion of the Convertible notes outstanding at an amount equals to the principal amount of the Convertible notes at its sole and absolute discretion at any time and from time to time prior to its maturity.

The conversion price for the Convertible notes denominated in HK$ resulted in settlement of the conversion option by the exchange of a fixed number of the Company's own equity instruments, hence, the equity component represented the conversion option of the holders to convert into the ordinary shares of the Company and the liability component represents the obligation to pay cash, which have been recorded at HK$511,568,893 and HK$668,281,107 respectively as at the date of initial recognition of the Convertible notes.

37. CONVERTIBLE NOTES (Continued)

The liability component of the Convertible notes is measured at amortised cost using discount rate of 12%. The following information is relevant in the determination of the fair value of convertible note at initial recognition.

	As at 22 October 2009
Option pricing model used	Binomial model
Stock price	HK$0.70
Exercise price	HK$0.65
Volatility of share price	41%
Expected dividend yield	0%
Risk free interest rate	1.67%

The equity component, representing the option to convert into ordinary shares of the Company, remained in Convertible notes reserve until the embedded option is exercised (in which case the balance stated in Convertible notes reserve would be transferred to share premium). No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

During the years ended 31 December 2010 and 2009, the Convertible notes in an aggregate principal amount of HK$692,540,400 and HK$206,309,600 respectively were converted into the Company's shares at a conversion price of HK$0.65 per share. As a result of the conversion, 1,065,446,769 and 317,399,383 new shares were issued during the years ended 31 December 2010 and 2009.

During year ended 31 December 2011, the Convertible notes in aggregate principal amount of HK$281,000,000 was converted into the Company's shares at a conversion price of HK$0.65 per share. As a result of the conversion, 432,307,000 new shares were issued. No convertible notes remained outstanding as of 31 December 2011.

37. CONVERTIBLE NOTES (Continued)

The carrying amount movement of the liability component of the convertible notes for the year is set out below:

	2011	2010
	HK$'000	HK$'000
Carrying amount at the beginning of the year	**183,430**	564,354
Conversion to share capital	**(43,230)**	(106,545)
Conversion to share premium	**(152,181)**	(322,121)
Interest expense (note 14)	**11,981**	47,742
Carrying amount at the end of the year	**–**	183,430

The principal amount movement of the convertible notes for the year is set out below:

	2011	2010
	HK$'000	HK$'000
Carrying amount at the beginning of the year	**281,000**	973,540
Conversion to share capital	**(43,230)**	(106,545)
Conversion to share premium	**(237,770)**	(585,995)
Carrying amount at the end of the year	**–**	281,000

38. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group is exposed through its operations to the following risks from its use of financial instruments:

- Market risks (Interest rate risk and foreign exchange risk)
- Liquidity risk
- Credit risk

Policies for managing these risks are set by the Board of Directors and implemented centrally by the management. The policy for each of the above risks is described in more detail below.

(a) Market risks

(i) Interest rate risk

The interest rate risk of the Group is mainly concentrated on the fluctuation of RMB arising from the bank deposits and borrowings denominated in RMB. The Group policy is to keep its bank deposits and borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The directors consider the bank balances are within short maturity period and the effect on fluctuation in interest rates is insignificant.

(ii) Foreign exchange risk

Foreign exchange risk arises when group entities enter into transactions denominated in a currency other than their functional currencies. The management from time to time monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the significant financial assets denominated in foreign currency of RMB at the end of reporting period are HK$284,539,000 (2010: HK$Nil).

38. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(a) Market risks (Continued)

(ii) Foreign exchange risk (Continued)

Sensitivity analysis

The sensitivity analysis on foreign exchange risk includes financial assets that are denominated in a foreign currency, i.e. in a currency other than the functional currency in which they are measured. The following table indicates the approximate effect on the profit after income tax expense in the next accounting period in response to reasonably possible changes in an exchange rate to which the Group has significant exposure at the end of reporting period.

	2011	2010
	Effect on profit after income tax expense	Effect on profit after income tax expense
	HK$'000	HK$'000
RMB to HKD:		
– appreciates by 4% (2010: 4%)	**8,650**	–
– depreciates by 4% (2010: 4%)	**(8,650)**	–

(b) Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of short-term fluctuation in cash flows. The management of the Group is responsible for maintaining a balance between continuity and flexibility of funding through the use of banking facilities in order to meet the Group's liquidity requirements.

38. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The contractual maturities of financial liabilities are shown as below:

Group	2011 Total undiscounted cash flows HK$'000	2011 Carrying amount HK$'000	2010 Total undiscounted cash flows HK$'000	2010 Carrying amount HK$'000
Non-derivative financial liabilities				
Trade and other payables	**49,782**	**49,782**	26,344	26,344
Convertible notes	**–**	**–**	281,000	183,430
Other bank loans	**–**	**–**	20,799	20,483
	49,782	**49,782**	328,143	230,257

Company	2011 Total undiscounted cash flows HK$'000	2011 Carrying amount HK$'000	2010 Total undiscounted cash flows HK$'000	2010 Carrying amount HK$'000
Non-derivative financial liabilities				
Other payables	**1,199**	**1,199**	3,199	3,199
Convertible notes	**–**	**–**	281,000	183,430
	1,199	**1,199**	284,199	186,629

All the contractual maturities of financial liabilities are payable within one year.

38. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(c) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to credit risk from loans and receivables. The Group has adopted a credit policy to monitor and mitigate credit risk arising from trade and bills receivables. Credit limit is regularly reviewed and approved by the Board. The Group assesses credit risk based on customer's past due record, trading history, financial condition or credit rating. During the year, the top five customers of the Group accounted for approximately 70% (2010: 62%) of total turnover of the Group. The Group strives to diversify its business base to ensure that there are controls on the concentrations of credit risk.

39. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

The directors considered that the carrying amounts of all financial assets and liabilities approximate their fair value.

40. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount and fair value of financial assets and liabilities as defined in note 4(g):

Group	**2011** Carrying amount HK$'000	**2011** Fair value HK$'000	2010 Carrying amount HK$'000	2010 Fair value HK$'000
Financial assets				
Loans and receivables	**235,468**	**235,468**	89,717	89,717
Financial liabilities				
Financial liabilities measured at amortised cost	**49,782**	**49,782**	328,143	230,257

40. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

Company	**2011** Carrying amount HK$'000	**2011** Fair value HK$'000	2010 Carrying amount HK$'000	2010 Fair value HK$'000
Financial assets				
Loans and receivables	**1,706,843**	**1,706,843**	1,391,204	1,391,204
Financial liabilities				
Financial liabilities measured at amortised cost	**1,199**	**1,199**	284,199	186,629

41. DISPOSAL OF SUBSIDIARIES

On 6 August 2010, the Group disposed of Long Master and its subsidiary, Fujian Nanshaolin which carried out all of its pharmaceutical operations.

Consideration received

	2010 HK$'000
Consideration received in cash and cash equivalents	79,000

41. DISPOSAL OF SUBSIDIARIES (Continued)

Analysis of assets and liabilities over which control was lost

	06/08/2010 HK$'000
Current assets	
Cash and cash equivalents	480
Trade receivables	5
Inventories	1,029
Non-current assets	
Property, plant and equipment	95,382
Intangible assets	8,898
Prepaid lease payments	2,130
Current Liabilities	
Payables	(35,928)
	71,996

Gain on disposal of subsidiaries

	HK$'000
Consideration received	79,000
Net assets disposed of	(71,996)
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of foreign operations	76,126
Gain on disposal	83,130

41. DISPOSAL OF SUBSIDIARIES (Continued)

Net cash inflow arising on disposal of subsidiaries

	HK$'000
Cash consideration received	79,000
Less: cash and cash equivalent balances disposed of	(480)
	78,520

42. EVENTS AFTER THE REPORTING PERIOD

As announced on 14 November 2011, the Company entered into an acquisition agreement pursuant to which the Company has conditionally agreed to acquire 100% equity interest of Yu Hong Investment Limited ("Yu Hong"). It is an investment holding company involving an aggregate consideration of HK315,000,000 of which HK$126,000,000 was satisfied by cash and the balance of HK$189,000,000 by way of promissory note to be issued by the Company upon completion (the "Acquisition"). The process of the Acquisition has not been completed at the date of this report as not all the conditions precedent has been fulfilled.

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 15 March 2012.

Financial Summary

For the year ended 31 December

	For the year ended 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000 (Restated)	2010 HK$'000	**2011** **HK$'000**
RESULTS					
Turnover	411,990	422,321	126,923	336,807	**598,172**
Cost of sales	(252,187)	(312,307)	(72,194)	(74,569)	**(61,689)**
Gross profit	159,803	110,014	54,729	262,238	**536,483**
Other revenue	7,394	6,310	3,875	38,934	**48,368**
Other gains and losses	–	–	(504,351)	82,740	**(22,315)**
Distribution costs	(28,138)	(51,797)	(26,371)	(21,367)	**(40,163)**
Administrative expenses	(30,046)	(32,460)	(74,934)	(40,593)	**(56,317)**
Research and development expenses	–	–	(1,280)	(13,934)	**(51,462)**
Finance costs	–	–	(17,882)	(50,651)	**(12,346)**
Profit (loss) before income tax expense	109,013	32,067	(566,214)	257,367	**402,248**
Income tax expense	(18,268)	(8,534)	(3,931)	(12,458)	**1,972**
Profit (loss) for the year attributable to owners of the Company	90,745	23,533	(570,145)	244,909	**404,220**
Earnings (losses) per share					
Basic (HK$ cents)	20.49	5.07	(107.44)	16.44	**16.37**
Diluted (HK$ cents)	N/A	5.07	(107.44)	11.66	**15.35**

Note: The above income statements represent financial results from both continuing and discontinued operations.

	For the year ended 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000 (Restated)	2010 HK$'000	**2011** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	660,627	752,463	1,630,573	1,762,553	**2,650,270**
Total liabilities	(63,510)	(99,963)	(788,022)	(257,057)	**(74,674)**
	597,117	652,500	842,551	1,505,496	**2,575,596**
Equity attributable to owners of the Company	597,117	652,500	842,551	1,505,496	**2,573,153**
Non-controlling interests	–	–	–	–	**2,443**
	597,117	652,500	842,551	1,505,496	**2,575,596**