# NEW CITY (CHINA) DEVELOPMENT LIMITED
# 新城市(中國)建設有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 0456)**

# Annual Report 2011

# Contents

# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors**
Mr. Han Junran (Chairman)
Mr. Fu Yiu Kwong
Mr. Luo Min
(re-designated from Non-executive Director to Executive Director on 1 March 2012)

**Independent Non-Executive Directors**
Mr. Chan Yiu Tung, Anthony
Mr. Seto Man Fai
Mr. Zheng Qing

## COMPANY SECRETARY
Ms. Cheng Yin Ling

## REGISTERED OFFICE
Scotia Centre, 4th Floor
P.O. Box 2804, George Town
Grand Cayman, Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG
11/F, Effectual Building,
16 Hennessy Road,
Wan Chai, Hong Kong

## AUDITORS
Ascenda Cachet CPA Limited
13F Neich Tower,
128 Gloucester Road,
Wanchai,
Hong Kong

## PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank

## PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE IN THE CAYMAN ISLANDS
Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P. O. Box 705
Grand Cayman KY1-1107
Cayman Islands

## SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG
Union Registrars Limited
18/F Fook Lee Commercial Centre
Town Place, 33 Lockhart Road,
Wanchai, Hong Kong

## AUTHORISED REPRESENTATIVES
Mr. Han Junran
Mr. Fu Yiu Kwong

# Financial Highlights

| | **2011 HK$'000** | 2010 HK$'000 | Change |
|---|---|---|---|
| Revenue | **8,000** | – | N/A |
| (Loss)/Profit from operations | **(3,541)** | 69,374 | (105%) |
| (Loss)/Profit for the year | **(17,557)** | 41,305 | (143%) |
| Deficiency in assets | **(116,715)** | (99,158) | 18% |
| Total assets | **3,046** | 467 | 552% |
| Total liabilities | **(119,761)** | (99,625) | 20% |
| Basic (loss)/earnings per share (HK cents) | **(8.61)** | 20.20 | (143%) |

# Chairman's Statement

As a result of the combined efforts from professional advisory companies and by the Company, the shares of the Company regained its listing status as from 23 February 2012. The Company also successfully acquired a property project situated in Guangzhou as detailed in the circular dated 23 December 2011. This project will be the Group's main business activity before other business acquisitions.

## BUSINESS AND OPERATION REVIEW

## BUSINESS REVIEW

The Group recorded a turnover of HK$8,000,000 and recorded a loss after tax of about HK$17,557,000 for the year.

**Major business arrangements**

*(a) Progress of Resumption Proposal*

During the year, the Listing Committee of the Stock Exchange decided to allow the Company to proceed with the resumption proposal subject to the resumption conditions to be completed to the satisfaction of the Listing Division by 28 February 2012. And, all conditions precedent of completing acquisition, subscription, open offer, bonus issue and resumption proposal was fulfilled on 21 February 2012 and the above mentioned transactions were completed on the same day.

*(b) Proposed acquisition*

On 24 January 2011, the Company entered into a sale and purchase agreement with two independent third parties (the "Vendors"), whereby the Vendors agreed to sell and a wholly-owned subsidiary of the Company agreed to purchase (the "Acquisition") the entire equity interest of a company which is principally engaged in property development and property investment in the PRC.

The Acquisition constitutes a very substantial acquisition of the Company and forms part of the Company's resumption proposal. On 12 January 2012, the Acquisition has been, inter alias, approved by the shareholders of the Company and fully completed on 21 February 2012.

*(c) Management agreement*

On 30 November 2010, Tong Sun Limited entered into a Management Agreement with the Company (as amended by the Supplemental Agreement dated 23 March 2011), pursuant to which, the Company will receive a yearly management fee of HK$8 million. As at the date of this report, the Company has received from Tong Sun Limited the management fee for the year ended 31 December 2011.

## RESUMPTION OF TRADING

Trading in the shares has been suspended on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 December 2003 at the request of the Company pending release of an announcement in relation to a major transaction of the Company involving China Securities Plaza. The Company was placed into the second stage of the delisting procedures on 12 January 2005 as the Stock Exchange was concerned about whether the Company is able to meet the sufficient assets and operations requirements under Rule 13.24 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). On 13 August 2010, the Stock Exchange determined that the Company had not satisfactorily demonstrated sufficiency of operation or assets as required under Rule 13.24 and decided to place the Company in the third delisting stage under Practice Note 17 to the Listing Rules. The Stock Exchange intended to cancel the listing of the Company after the six-month period (i.e. 24 February 2011) if the Company does not provide a viable resumption proposal. In addition to the submission of the resumption proposal, the Company needed to publish all outstanding financial results and to address all audit qualifications that may exist. Lastly, the Company also needed to demonstrate to the Stock Exchange that adequate and effective internal control system complying with the Listing Rules were in place. As all the resumption conditions have been fulfilled, the Company has made an application to and was approved by the Stock Exchange for the resumption of trading of the shares of the Company with effect from 9:00 a.m. on 23 February 2012.

## OUTLOOK

The Central Government of the PRC's determined policy and administrative measures for tightening property prices poses continuing difficulties for land developers. Liquidity problems caused by both shrinking markets and refinancing unavailability force helpless developers to borrow from informal moneylenders and therefore, paying colossal interest expenses. Property prices could adjust further downward if financing of this last resort is becoming financially unfeasible for their business to continue. The property market could remain unstable for a period of time.

Since the current property project of the Company earns mainly from rental income, the Company are not affected from the current unhealthy market environment. It will be the main objective of the Company to properly manage this project to ensure that projected returns are met with. Whilst the Company is still confident that the property market will remain to be a viable investment sector in the long run, the management will also look into other related investment possibilities where the profit of the Company could be maximised.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the management team and staff for their dedication and contribution to the Group.

**Han Junran**
Chairman

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Result

For the year under review, the Group reported a turnover which represented the management fee income of HK$8,000,000 (2010: Nil). The Group's net loss for the year was approximately HK$17,557,000 (2010: profit of about HK$41,305,000). The basic loss per share for the year was approximately 8.61 HK cents (2010: earnings of about 20.20 HK cents (Restated)). Administrative expenses was approximately HK$12,426,000 (2010: HK$17,274,000). Financial costs was approximately HK$14,016,000 (2010: HK$28,069,000).

### Liquidity, Financial Resources and Funding Requirements

As at 31 December 2011, the Group had obligations under hire purchase contracts of approximately HK$18,000 (2010: HK$91,000).

As at 31 December 2011, the Group's total assets was approximately HK$3,046,000 (2010: approximately HK$HK$467,000) and total liabilities were of approximately HK$119,761,000 (2010: approximately HK$99,625,000) whereas the convertible bonds was approximately HK$82,491,000 as at 31 December 2011 (2010: approximately HK$68,505,000). As at 31 December 2011, the cash and bank balances was approximately HK$393,000 (2010: approximately HK$58,000) and the current ratio (current assets/current liabilities) was 0.02 as at 31 December 2011 (2010: 0.01).

### Litigation

The Group did not have any litigation as at 31 December 2011.

### Gearing Ratio

The gearing ratio (total borrowing/total assets of the Group) was 27.08 as at 31 December 2011 (2010: 146.69).

### Capital Structure

During the year ended 31 December 2011, the Company did not change its capital structure. As detailed in note 30 to the consolidated financial statements, subsequent to the end of the reporting period, the Company has certain movements in its share capital structure.

### Exchange Risks

The majority of the Group's operations are located in the PRC and the main operational currencies are Hong Kong Dollars and Renminbi. The Company is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assess exchange risks.

**Dividends**

The directors did not recommend any dividend for the year ended 31 December 2011 (2010: Nil).

**Prospect**

Subsequent to the successful acquisition of the Guangzhou Changliu Project, the Group will benefit from a stable and healthy growth period where the Company could rejuvenate from past difficulties. Physical hardware for Changliu will be improved where necessary and good quality property management will be applied to ensure steady increase in rentals.

The value of this project is the portion of acquired land earmarked for redevelopment along the proposed greenbelt axis of modern CBD for Guangzhou not being requisitioned by the Guangzhou Government. The Company had enrolled the former management of Changliu, besides participating in the day to day administration of the rentable properties, to assist in the discussion and liaising for approval of the Reform Plan with Guangzhou Government. This arrangement will help to safeguard in realising the full inherent value to the benefit of the Company.

**Employees**

As at 31 December 2011, the Group has employed about 10 employees in Hong Kong. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

**Significant Investments and Material Acquisitions**

Except for detailed in note 30(f) to the consolidated financial statements, the Company did not have any significant investments or material acquisitions for the year ended 31 December 2011.

**Contingent Liabilities**

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

**Commitments**

Details of the commitments are set-out in note 28 to the consolidated financial statements.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") has from time to time review the corporate governance practices as to commit the maintenance of high standards of corporate governance practices and to comply with the increasingly stringent regulatory requirements. Except for the deviations disclosed in this report, during the year ended 31 December 2011, the Company has complied with the mandatory code provisions set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

## THE BOARD OF DIRECTORS

### Composition and role of the Board

The Board is responsible for the overall strategic development and business operation of the Group and also monitors the financial performance and control on business operation. The Board will from time to time review the Company's governance practices and will provide complete and sufficient information to its members as to ensure effective performance of their responsibilities. For the year ended 31 December 2011, the Board is comprised of two executive directors , one non-executive director and three independent non-executive directors. Subsequent to the end of the reporting period on 1 March 2012, Mr. Luo Min ("Mr. Luo") has been re-designated from a non-executive director to an executive director. Currently, the Board is comprised of three executive directors and three independent non-executive directors, which includes:

| | | |
|---|---|---|
| Executive Directors | : | Mr. Han Junran (Chairman)<br>Mr. Fu Yiu Kwong<br>Mr. Luo Min |
| Independent Non-Executive Directors | : | Mr. Chan Yiu Tung, Anthony<br>Mr. Seto Man Fai<br>Mr. Zheng Qing |

Biographical details of the Board members are set out in page 12 and page 13 of this annual report.

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive directors, together with the requirements of Rule 3.10(2) of the Listing Rules stipulating that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. The Board considers that each independent non-executive director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules.

The Company has received from each independent non-executive director an annual confirmation pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

During the year ended 31 December 2011, four full Board meetings were held by the Company and complies with the Code provision A.1.1. The Company has already established profound regime to ensure effective communication among the directors.

The attendance of each director is as follows:

| Name of director | Number of meetings attended |
|---|---|
| Mr. Han Junran | 4/4 |
| Mr. Fu Yiu Kwong | 4/4 |
| Mr. Luo Min | 4/4 |
| Mr. Chan Yiu Tung, Anthony | 4/4 |
| Mr. Seto Man Fai | 4/4 |
| Mr. Zheng Qing | 4/4 |

**Chairman and Chief Executive Officer**

According to the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As the current nature of the Group's business is not complicated, the Board believes the current management structure is sufficient for monitoring and controlling the operation of the Group. The Company will review its structure from time to time and make relevant arrangements to observe the provisions of the Listing Rules whenever necessary.

**Appointment, re-election and removal of the directors**

The non-executive directors of the Company are not appointed for specific terms, thus deviates from Code provision A.4.1. In addition, the chairman of the Board and/or the managing directors of the Company are not subject to retirement by rotation, which also deviates from Code provision A.4.2. However, in view of the fact that non-executive directors are subject to retirement by rotation in accordance with the Articles of Association of the Company, the Company considers that there are sufficient measures in place to ensure that the corporate governance of the Company are no less exacting than the Code provisions. Nevertheless, the Company will review its relevant Articles of Association and will propose any amendments to ensure observance of the provisions of the Listing Rules whenever necessary.

**Accountability and audit**

The directors are responsible for preparation of accounts for the year ended 31 December 2011, which give a true and fair view of the state of affairs of the Group and of the financial results for the year. In preparing the accounts for the year ended 31 December 2011, the Directors have:

1. selected suitable accounting policies and applied them consistently;

2. adopted appropriate Hong Kong Financial Reporting Standards; and

3. made adjustments and estimates that are prudent and reasonable and ensured that the accounts are prepared on the going concern basis.

The directors are also responsible for keeping proper accounting records so as to give a reasonable and accurate financial position of the Company at all times. In addition, the Board is responsible for the internal control of the Group and is committed to the fulfillment of effectual internal control system, which protects the interests of the shareholders of the Company.

## SECURITIES TRANSACTIONS BY DIRECTOR

The Company 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 for securities transactions by directors of the Company. All the members of the Board have confirmed, following the specific enquiry by the Company, that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2011. The Model Code also applies to other specified senior management of the Group.

## REMUNERATION COMMITTEE

The Company has not established the Remuneration Committee for the year ended 31 December 2011, which deviates from Code provision B.1 as the Company has set up policy for fixing the remuneration packages for all directors and the senior management depending on the individual's performance and responsibility, market trend and company performance. The Board will review from time to time the necessity to establish the Remuneration Committee.

## AUDIT COMMITTEE

Members of the Audit Committee comprises:
Mr. Seto Man Fai (Chairman of the Audit Committee)
Mr. Chan Yiu Tung Anthony
Mr. Zheng Qing

All of the Audit Committee members are independent non-executive directors. The Board considers that each of the Audit Committee members owns comprehensive commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee comply with the requirements under Rule 3.21 of the Listing Rules.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the accounts for the year ended 31 December 2011.

During the year ended 31 December 2011, two Audit Committee meetings were held and all the members have attended the meetings. The Board has reviewed the internal control system of the Group and confirmed that its opinion on the appointment of the auditors conforms with that of the Audit Committee.

## EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company on their reporting responsibilities for the Company's financial statements for the year ended 31 December 2011 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to the Company's external auditors in respect of audit and non-audit services for the year ended 31 December 2011 are as follows:

| Nature of services | Amount (HK$'000) |
|---|---|
| Audit services | 230 |
| Other assurance services | 755 |
| Non-assurance services | 34 |

## COMMUNICATION WITH THE SHAREHOLDERS

Communication between the Company and its shareholders are achieved through various means including the convening of general meetings, the dispatch of annual reports, interim reports and circulars. Chairman of the Board also proposes separate resolution for each substantive issue including re-election of directors.

# Directors' Profile

## EXECUTIVE DIRECTORS

**Mr. Han Junran**, aged 55, holds a law diploma from China Politics and Laws University in 1988 and a master degree in banking from China Institute of Social Science in 1998. In 2001, Mr. Han also obtained a master degree in enterprise management from Capital University of Economics and Business. Mr. Han has worked for the office of The Standing Committee of the National People's Congress of Beijing City and the office of the Beijing Municipal Government since 1988. Mr. Han joined the Group in December 1999 as the Group's general manager. Mr. Han is currently responsible for the Group's project development and management.

**Mr. Fu Yiu Kwong**, MBA, aged 54, has over 25 years of experience in the accounting profession. Mr. Fu has worked for various local listed companies. He has extensive experience in auditing, merger and acquisition, business re-engineering and company re-structuring. Mr. Fu joined the Group in March 2003 as the Group's Finance Director and is responsible for all financial matters relating to the Group.

**Mr. Luo Min**, aged 45, is an engineer and has extensive experience in property development, investments and management. Mr. Luo was appointed as non-executive director of the Company in May 2008. Subsequent to the end of the reporting period on 1 March 2012, Mr. Luo has been re-designated from Non-Executive Director to an Executive Director.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chan Yiu Tung, Anthony**, aged 53, graduated from University of Toronto in 1982. Mr. Chan has over 20 years experience in the construction and property investment field and is currently the managing director of two construction companies in Hong Kong. Mr. Chan is currently the Supervisor of KYT Excel Foundation Primary School and Manager of Building Contractor's Association School and member of various organizations including Lions Club of Hong Kong West (President during the years 1996/97 and 2001/02), The Hong Kong Construction Association Ltd (Hon. Secretary), H.K. General Building Contractors Association Ltd (President), Kwong Yuet Tong Hong Kong (Council Member), Association of Hong Kong Nanjing Fellows Ltd (Director), The Chinese General Chamber of Commerce (Shamshuipo) (Council Member), Commercial & Industrial Committee of DAB (Council Member), Guangzhou Overseas Friendship-Liaison Association (Council Member), Yan Oi Tong (Directors for the years 2005/06, 2006/07, 2007/08 and 2008/09). Mr. Chan was appointed as Independent Non-Executive Director of the Company in August 2002.

**Mr. Seto Man Fai**, aged 44, graduated from the Chinese University of Hong Kong with a bachelor's degree in accounting. He is a member of American Institute of Certified Public Accountants, a practicing accountant in New York State of the United States of America, a fellow of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also an associate of the Institute of Chartered Accountants in England and Wales. Mr. Seto has extensive experiences in accounting, auditing and corporate finance. Mr. Seto is currently the partner of an accounting firm in New York in the USA and an accounting firm in Hong Kong. Mr. Seto was appointed as a director of China Packaging Group Company Limited from September 2009 to October 2009.

**Mr. Zheng Qing**, aged 46, has extensive experience in property development and management. Mr. Zheng is a director of various companies in the fields of property development management and securities investment in PRC.

# Report of the Directors

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

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's principal activities have not changed during the year and is engaged in property development and investment in the PRC. Details of the principal activities of its subsidiaries are set out in note 15 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on page 22 to 85.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2011.

## RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 25 to the consolidated financial statements and the consolidated statement of changes in equity respectively.

## DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of share premium and contributed surplus less accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

The Company had no reserves available for distribution to shareholders as at 31 December 2011.

## PROPERTY, PLANT AND EQUIPMENT

Movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

## DIRECTORS

The directors of the Company during the year were:

**Executive directors**

Mr. Han Junran (Chairman)
Mr. Fu Yiu Kwong

**Non-executive directors**

Mr. Luo Min (on 1 March 2012, Mr. Luo has been re-designated as an Executive Director)

**Independent non-executive directors**

Mr. Chan Yiu Tung, Anthony
Mr. Seto Man Fai
Mr. Zheng Qing

In accordance with the Articles of Association, Messrs. Chan Yiu Tung, Anthony and Messrs. Seto Man Fai shall retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The Company has received annual confirmations of independence from each of the independent non-executive directors of the Company and as at the date of this report still considers them to be independent.

## DIRECTORS' SERVICE CONTRACTS

Mr. Han Junrun, the Chairman and executive Director, has entered into a service agreement with the Company commencing 16 December 2002 for a period of three years and continuing thereafter until his directorship terminated.

Mr. Fu Yiu Kwong, the executive Director, has entered into a service agreement with the Company for a period of two years commencing 13 March 2003 and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice.

Mr. Luo Min, the Non-executive Director, has been re-designated as an Executive Director on 1 March 2012. Mr. Luo has entered into a service agreement with the Company commencing 1 March 2012 for a period of 1 year and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice.

The term of each of the non- executive and independent non-executive directors is from the date they were last elected to the date of their retirement by rotation in accordance with the Company's Articles of Association.

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

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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

| Name of Director | Capacity | Nature of interests | Number of underlying shares held | Approximate % of shareholding |
|---|---|---|---|---|
| Mr. Han Junran (" Mr. Han") | Beneficial owner | Personal interest | 2,108,286,533[1] | 775.78[2] |
| | Interests in controlled corporation | – | 4,803,200,000[2] | 1,767.45 |
| Junyi Investments Limited [2] (the "Subscriber") | Beneficial owner | – | 4,803,200,000[2] | 1,767.45 |

*Note:*

(1) These are the Shares which may be issued upon full exercise of the conversion rights attaching to the 2009 Convertible Bonds with conversion price of HK$0.03 per Share and conversion period from 10 August 2009 to 10 August 2012.

(2) Upon completion of the Subscription and the Open Offer (assuming that the Subscriber takes up all the Offer Shares pursuant to its obligation under the Underwriting Agreement) the Subscriber will be interested in 4,803,200,000 Shares (before the Share Consolidation becoming effective on 13 January 2012). The Subscriber is wholly owned by Mr. Han so by virtue of the SFO, Mr. Han was deemed to be interested in the same shares held by the Subscriber.

Save as disclosed above, as at 31 December 2011, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the SEHK.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

There were no contract of significance to which the Company, its holding companies and any of its subsidiaries, was a party and in which a director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

## SHARE OPTION SCHEME

The Company adopted a share option scheme on 14 June 2002 which will remain in force for a period of 10 years from the date of adoption. As at 31 December 2011, no option has been granted since the adoption of the share option scheme.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of it subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor any of their spouse or children under the age of 18, had any rights to subscribe for the securities of the Company, or exercised any such rights.

## MANAGEMENT CONTRACTS

On 30 November 2010, Tong Sun Limited entered into a management agreement with the Company (as amended by a supplemental agreement dated 23 March, 2011), pursuant to which the Company will provide property management services for Tong Sun Limited and in return receive a management fee of HK$8 million per annum for three years commencing from 1 January 2011. Tong Sun Limited will pay the management fee quarterly.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTEREST IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executive of the Company, as at 31 December 2011, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the SEHK:

**Long position in the shares of the Company**

| Name | Capacity | Number of Shares held | Approximate % of shareholding |
|---|---|---|---|
| Hong Kong Huamao International Investment Group Co., Ltd | Beneficial owner | 67,939,500[(1)] | 25.00 |
| Xie You Guo | Interest of controlled corporations | 67,939,500[(1)] | 25.00 |
| Beijing Chengda Shunyi Shangmao Company Limited[(2)] | Beneficial owner | 794,400,000[(2)] | 292.32 |
| Xu Tao[(2)] | Interest of controlled corporation | 794,400,000[(2)] | 292.32 |
| Zhong Hui Yin[(2)] | Interest of controlled corporation | 794,400,000[(2)] | 292.32 |
| Kayuan Enterprise Investment Co., Ltd.[(3)] | Beneficial owner | 1,986,000,000[(3)] | 730.72 |
| Zheng Bao Hua[(3)] | Interest of controlled corporations | 1,986,000,000[(3)] | 730.72 |
| Zhou Xi Quan[(3)] | Interest of controlled corporations | 1,986,000,000[(3)] | 730.72 |
| Veda Capital Limited[(4)] | Beneficial owner | 39,999,996[(4)] | 14.72 |
| Wong Hin Shek[(4)] | Interest of controlled corporations | 39,999,996[(4)] | 14.72 |
| President Securities (Hong Kong) Limited[(5)] | Beneficial owner | 1,740,278,000[(5)] | 640.38 |

*Note:*

(1) The two references to 67,939,500 Shares relate to the same block of Shares directly held by Hong Kong Huamao International Investment Group Co., Ltd. Xie You Guo held 100% of the issued share capital of Hong Kong Huamao International Investment Group Co., Ltd. By virtue of the SFO, Xie You Guo was deemed to be interested in the same 67,939,500 Shares held by Hong Kong Huamao International Investment Group Co., Ltd as at 31 December 2011.

(2) Upon completion of the Acquisition, Beijing Chengda Shunyi Shangmao Company Limited will be interested in 794,400,000 Shares (before the Share Consolidation becoming effective on 13 January 2012). Beijing Chengda Shunyi Shangmao Company Limited is owned as to 70% by Xu Tao and 30% by Zhong Hui Yin respectively. By virtue of the SFO, Xu Tao and Zhong Hui Yin were deemed to be interested in the same Shares held by Beijing Chengda Shunyi Shangmao Company Limited as at 31 December 2011.

(3) Upon completion of the Acquisition, Kayuan Enterprise Investment Co., Ltd. will be interested in 1,986,000,000 Shares (before the Share Consolidation becoming effective on 13 January 2012). Kayuan Enterprise Investment Co., Ltd. is owned evenly by Zheng Bao Hua and Zhou Xi Quan. By virtue of the SFO, Zheng Bao Hua and Zhou Xi Quan were deemed to be interested in the same Shares held by Kayuan Enterprise Investment Co., Ltd as at 31 December 2011.

(4) 39,999,996 Shares (before the Share Consolidation becoming effective on 13 January 2012) are the aggregate amount of the Remuneration Shares and the Shares upon full conversion of the Remuneration Warrants for Veda Capital Limited. Veda Capital Limited is wholly-owned by Wong Hin Shek. By virtue of the SFO, Wong Hin Shek was deemed to be interested in the same Shares held by Veda Capital Limited as at 31 December 2011.

(5) 1,740,278,000 Shares (before the Share Consolidation becoming effective on 13 January 2012) are the aggregate amount of the Remuneration Shares and the Shares upon full conversion of the Remuneration Warrants for President Securities (Hong Kong) Limited and the Offer Shares under the Underwriting Agreement as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the SEHK.

## SUFFICIENCY OF PUBLIC FLOAT

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

## CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from 4 May 2012 to 9 May 2012 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited at 18/F Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:30 pm on 3 May 2012.

## MAJOR SUPPLIERS

There is no property development project during the year and therefore no purchase payment was paid or payable to suppliers by the Group during the year ended 31 December 2011.

## AUDITORS

The consolidated financial statements for the year ended 31 December 2008 was audited by Parker Randall CF (H.K.) CPA Limited.

The consolidated financial statements for the years ended 31 December 2009, 2010 and 2011 have been audited by Ascenda Cachet CPA Limited, who retire and a resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Ascenda Cachet CPA Limited

On behalf of the Board

**Han Junran**
*Chairman*

21 March 2012, Hong Kong

# Independent Auditors' Report

Ascenda CACHET
天健德揚

13F Neich Tower
128 Gloucester Road
Wanchai Hong Kong

**To the shareholders of New City (China) Development Limited**
*(Incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of New City (China) Development Limited (the "Company"), and its subsidiaries (together, the "Group") set out on pages 22 to 85, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the the disclosure requirements of Hong Kong Companies Ordinance.

## FUNDAMENTAL UNCERTAINTY – GOING CONCERN

Without qualifying our opinion, we draw attention to note 2.1 to the consolidated financial statements which indicates that the Group had net current liabilities and deficiency in assets of approximately HK$117,005,000 and HK$116,715,000, respectively, as at 31 December 2011. The consolidated financial statements have been prepared on a going concern basis. As further detailed in notes 2.1 and 30 to the consolidated financial statements, we consider that the adoption of the going concern basis is appropriate as (i) the Company has completed the acquisition of a company which is principally engaged in property development and investment with profitable operation and positive cash flows subsequent to the end of the reporting period; and (ii) the Company has successfully raised through rights issue and subscription of shares in aggregate a net proceed of approximately HK$194 million (the "Proceeds") subsequent to the end of the reporting period on 21 February 2012. Certain of the Proceeds in the amount of HK$116 million were applied to the settlement of two outstanding convertible bonds and an outstanding loan granted by a director of the Company and the remaining of approximately HK$78 million was applied as working capital of the Group. We consider that the fundamental uncertainty has been properly disclosed in the consolidated financial statements. Our report is not qualified in respect of the fundamental uncertainty relating to the going concern basis.

**Ascenda Cachet CPA Limited**
Certified Public Accountants

**Chan Chi Yuen**
Practising Certificate Number P02671

Hong Kong
21 March 2012

# Consolidated Income Statement

*Year ended 31 December 2011*

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **REVENUE** | *5* | **8,000** | – |
| Other income and gains | *5, 26* | **885** | 86,648 |
| Administrative and other operating expenses | | **(12,426)** | (17,274) |
| Finance costs | *7* | **(14,016)** | (28,069) |
| **(LOSS)/PROFIT BEFORE TAX** | *6* | **(17,557)** | 41,305 |
| Income tax expense | *10* | **–** | – |
| **(LOSS)/PROFIT FOR THE YEAR** | | **(17,557)** | 41,305 |
| Attributable to: | | | |
| Owners of the Company | *11* | **(17,557)** | 41,305 |
| **(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | *12* | | |
| Basic (Restated) | | **(8.61) cents** | 20.20 cents |
| Diluted (Restated) | | **(8.61) cents** | 2.38 cents |

# Consolidated Statement of Comprehensive Income

*Year ended 31 December 2011*

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| **(LOSS)/PROFIT FOR THE YEAR** | **(17,557)** | 41,305 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Exchange differences on translation of foreign operations | **–** | – |
| Less: Income tax effect | **–** | – |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | **–** | – |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **(17,557)** | 41,305 |
| Attributable to: | | |
| Owners of the Company | **(17,557)** | 41,305 |

# Consolidated Statement of Financial Position

*31 December 2011*

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *14* | **290** | 38 |
| **CURRENT ASSETS** | | | |
| Trade receivable | *16* | **2,000** | – |
| Prepayments, deposits and other receivables | *17* | **363** | 371 |
| Cash and bank balances | *18* | **393** | 58 |
| Total current assets | | **2,756** | 429 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | *19* | **7,613** | 6,024 |
| Finance lease payable | *20* | **18** | 73 |
| Due to directors | *21* | **29,639** | 25,005 |
| Liability component of convertible bonds | *22* | **82,491** | – |
| Total current liabilities | | **119,761** | 31,102 |
| **NET CURRENT LIABILITIES** | | **(117,005)** | (30,673) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **(116,715)** | (30,635) |
| **NON-CURRENT LIABILITIES** | | | |
| Finance lease payable | *20* | **–** | 18 |
| Liability component of convertible bonds | *22* | **–** | 68,505 |
| Total non-current liabilities | | **–** | 68,523 |
| Net liabilities | | **(116,715)** | (99,158) |
| **DEFICIENCY IN ASSETS** | | | |
| Equity attributable to owners of the Company | | | |
| Issued capital | *23* | **272** | 272 |
| Reserves | *25(a)* | **(116,987)** | (99,430) |
| Deficiency in assets | | **(116,715)** | (99,158) |

**Han Junran**
*Director*

**Fu Yiu Kwong**
*Director*

# Consolidated Statement of Changes in Equity

*Year ended 31 December 2011*

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Issued capital** HK$'000 | **Share premium account** HK$'000 | **Contributed surplus** HK$'000 | **Translation reserve** HK$'000 | **Equity component of convertible bonds** HK$'000 | **Accumulated losses** HK$'000 | **Total equity** HK$'000 |
| At 1 January 2010 | 272 | 20,773 | 4,755 | 22,315 | 25,027 | (191,290) | (118,148) |
| Total comprehensive income for the year | – | – | – | – | – | 41,305 | 41,305 |
| Exchange fluctuation reserve realised upon disposal of subsidiaries *(note 26)* | – | – | – | (22,315) | – | – | (22,315) |
| At 31 December 2010 and at 1 January 2011 | **272** | **20,773** | **4,755** | **–** | **25,027** | **(149,985)** | **(99,158)** |
| Total comprehensive income for the year | **–** | **–** | **–** | **–** | **–** | **(17,557)** | **(17,557)** |
| At 31 December 2011 | **272** | **20,773** | **4,755** | **–** | **25,027** | **(167,542)** | **(116,715)** |

# Consolidated Statement of Cash Flows

*Year ended 31 December 2011*

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| (Loss)/profit before tax | | **(17,557)** | 41,305 |
| Adjustments for: | | | |
| Finance costs | *7* | **14,016** | 28,069 |
| Depreciation of property, plant and equipment | | **76** | 313 |
| Write-back of other payables and accruals | *5* | **(885)** | – |
| Gain on disposal of subsidiaries and waiver of loans | *5, 26* | **–** | (86,648) |
| | | **(4,350)** | (16,961) |
| Increase in trade receivables | | **(2,000)** | – |
| Decrease in prepayments, deposits and other receivables | | **8** | 492 |
| Increase in trade payables | | **–** | 3,118 |
| Increase in other payables and accruals | | **2,464** | 9,765 |
| Decrease in provisions | | **–** | (5,136) |
| Cash used in operations | | **(3,878)** | (8,722) |
| Profits tax paid | | **–** | – |
| Net cash flows used in operating activities | | **(3,878)** | (8,722) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| New outflow of cash and cash equivalents in disposal of subsidiaries | *26* | **–** | (57) |
| Purchases of items of property, plant and equipment | | **(328)** | – |
| Net cash flows used in investing activities | | **(328)** | (57) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Increase in amounts due to directors | | **4,634** | – |
| New other borrowings obtained | | **–** | 3,367 |
| Advance from a related company | | **–** | 5,413 |
| Interest paid | | **(20)** | (20) |
| Capital element of finance lease rental payments | | **(73)** | (73) |
| Net cash flows from financing activities | | **4,541** | 8,687 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **335** | (92) |
| Cash and cash equivalents at beginning of year | | **58** | 150 |
| Effect of foreign exchange rate changes, net | | **–** | – |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **393** | 58 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **393** | 58 |

# Statement of Financial Position

*31 December 2011*

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment in subsidiaries | *15* | **49,093** | 49,093 |
| **CURRENT ASSETS** | | | |
| Trade receivable | *16* | **2,000** | – |
| Prepayments, deposits and other receivables | *17* | **197** | 231 |
| Due from subsidiaries | *15* | **40,800** | 19,289 |
| Cash and bank balances | *18* | **4** | 4 |
| Total current assets | | **43,001** | 19,524 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | *19* | **5,072** | 5,259 |
| Due to subsidiaries | *15* | **118,898** | 120,296 |
| Due to directors | *21* | **13,384** | 8,491 |
| Liability component of convertible bonds | *22* | **82,491** | – |
| Total current liabilities | | **219,845** | 134,046 |
| **NET CURRENT LIABILITIES** | | **(176,844)** | (114,522) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **(127,751)** | (65,429) |
| **NON-CURRENT LIABILITIES** | | | |
| Liability component of convertible bonds | *22* | **–** | (68,505) |
| Total non-current liabilities | | **–** | (68,505) |
| Net liabilities | | **(127,751)** | (133,934) |
| **DEFICIENCY IN ASSETS** | | | |
| Issued capital | *23* | **272** | 272 |
| Reserves | *25(b)* | **(128,023)** | (134,206) |
| Deficiency in assets | | **(127,751)** | (133,934) |

| **Han Junran** | **Fu Yiu Kwong** |
|---|---|
| *Director* | *Director* |

## 1. CORPORATE INFORMATION

New City (China) Development Limited (the "Company") is a limited liability company incorporated in Cayman Islands on 10 August 1998. The registered office of the Company is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands and its principal place of business in Hong Kong is situated at 11th Floor, Effectual Building, 16 Hennessy Road, Wanchai, Hong Kong.

The Company is an investment holding company. The Group's principal activity has not changed during the year and consists of the property development and investment in the PRC.

The shares of the Company have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 24 May 2000 and its shares have been suspended for trading since 30 December 2003. As further detailed in note 30 to the consolidated financial statements, the Group has undergone a capital restructuring during the year and the trading of its shares has been resumed subsequent to the end of the reporting period on 23 February 2012.

## 2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Despite the fact that the Group had net current liabilities and deficiency in assets of approximately HK$117,005,000 and HK$116,715,000, respectively, as at 31 December 2011, these consolidated financial statements have been prepared on the basis that the Group and the Company will continue to operate as a going concern.

The directors are of the opinion that the Group and the Company are able to continue as a going concern and to meet in full their financial obligations. In view of the liquidity problems faced by the Group, the directors of the Company have adopted the following measures to improve the Group's overall financial and cash flow position and to maintain the Group's existence on a going concern basis:

## 2.1 BASIS OF PREPARATION (CONTINUED)

### (a) Attainment of profitable and positive cash flow operations

As detailed in note 30(f) to the consolidated financial statements, the Company has completed the acquisition of a company, which is engaged in property development and investment with profitable operation and positive cash flows subsequent to the end of the reporting period on 21 February 2012. The directors believe that the Group's operation will be substantially improved upon the completion of this acquisition.

### (b) Obtaining of additional fundings

(i) As detailed in note 30(g) to the consolidated financial statements, the Company has completed an open offer (the "Open Offer") on the basis of twenty three offer shares for every three consolidated shares subsequent to the end of the reporting period on 21 February 2012 with a net proceed of approximately HK$60,941,000.

(ii) As further detailed in note 30(d) to the consolidated financial statements, on 15 November 2011, the Company entered into a subscription agreement with Mr. Han and Junyi Investments Limited (collectively, the "Subscribers"), pursuant to which, the Subscribers will subscribe for (the "Subscription") 1,112,500,000 consolidated shares (the "Subscription Shares") at a subscription price of HK$0.12 each amounting to approximately HK$133,500,000. The Subscription was completed subsequent to the end of the reporting period on 21 February 2012.

### (c) Settlement of convertible bonds and loan from a director

Certain of the net proceeds from the Open Offer and the Subscription has been applied for the settlement (the "Settlement") of the convertible bonds in full and a loan granted by Mr. Han. The directors are of the opinion that the Group has no outstanding loans and borrowings further to the Settlement.

In the opinion of the directors, in light of all the measures adopted and arrangements implemented, the Group and the Company will have sufficient cash resources to satisfy its future working capital and other financial requirements and it is reasonable to expect the Group and the Company to remain a commercially viable concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis, notwithstanding the Group and the Company's financial and liquidity position as at 31 December 2011.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

## 2.1 BASIS OF PREPARATION (CONTINUED)

**Basis of consolidation (Continued)**

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

| | |
|---|---|
| HKFRS 1 Amendment | Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters |
| HKAS 24 (Revised) | Related Party Disclosures |
| HKAS 32 Amendment | Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Right Issues |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement |
| HK(IFRIC)-Int 19 | Extinguishing Financial Liabilities with Equity Instruments |
| Improvements to HKFRSs 2010 | Amendments to a number of HKFRSs issued in May 2010 |

Other than as further explained below regarding the impact of HKAS 24 (Revised), the adoption of these new and revised HKFRSs has had no significant financial effect on these consolidated financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 29 to the consolidated financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

**Subsidiaries**

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

**Impairment of non-financial assets**

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of impaired asset.

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

**Related parties**

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

(a) the party is a person or a close member of that person's family and that person, (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

**Related parties (Continued)**

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

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

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

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

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

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

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

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

**Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. An annual transfer from the assets revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

**Property, plant and equipment and depreciation (Continued)**

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

| | |
|---|---|
| Furniture, fixtures and equipment | 20%-35% |
| Motor vehicles | 15%-25% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at lease at each financial year end.

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

**Leases**

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance lease, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

**Investments and other financial assets**

*Initial recognition and measurement*

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade receivables and deposits and other receivables.

*Subsequent measurement*

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

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in finance income or finance costs in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

**Investments and other financial assets (Continued)**

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

*Loans and receivables*

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

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investment and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

**Investments and other financial assets (Continued)**

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

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

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

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

**Derecognition of financial assets**

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

**Derecognition of financial assets (Continued)**

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

**Impairment of financial assets**

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

*Financial assets carried at amortised cost*

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

**Impairment of financial assets (Continued)**

*Financial assets carried at amortised cost (Continued)*

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

*Assets carried at cost*

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

*Available-for-sale financial investments*

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

**Impairment of financial assets (Continued)**

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

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

**Financial liabilities**

*Initial recognition and measurement*

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

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

The Group's financial liabilities include other payables and accruals and amount due to directors.

*Subsequent measurement*

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

*Financial liabilities at fair value through profit or loss*

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

**Financial liabilities (Continued)**

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

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

*Loans and borrowings*

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

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

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

**Financial liabilities (Continued)**

*Convertible bonds*

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

(Where the convertible bonds contain only liability and derivative components) If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

**Derecognition of financial liabilities**

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

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

**Offsetting of financial instruments**

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

**Fair value of financial instruments**

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

**Cash and cash equivalents**

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

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

**Provisions**

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

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

**Income tax**

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Income tax (Continued)**

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

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

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

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

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

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Revenue recognition**

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

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

(b) from the provision of management services, when the services are rendered; and

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

**Employee benefits**

*Share-based payment transactions*

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes Option Pricing Model, further details of which are given in note 30 to the consolidated financial statements.

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Employee benefits (Continued)**

*Share-based payment transactions (Continued)*

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

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

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

*Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

**Foreign currencies**

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Foreign currencies (Continued)**

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

**Judgements**

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

*Going concern basis*

As mentioned in note 2.1 to the consolidated financial statements, the directors of the Company are of the opinion that the Group is able to continue as a going concern. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

If the going concern basis is not appropriate, adjustments would have to be made to reclassify non-current assets and liabilities as current assets and liabilities respectively, to reduce the values of assets to their immediate recoverable amounts and to provide for any further liabilities which might arise. Such adjustments may have a significant consequential effect on the loss for the year and net liabilities of the Group.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

**Estimation uncertainty**

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

*Useful lives of property, plant and equipment*

The management of the Group 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 the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

*Provision for impairment of receivables*

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including these current creditworthiness and the past collection history of each customer.

*Fair value of convertible bonds*

The fair values of the convertible bonds were calculated using the closing price of the Company and the Trinomial Tree Pricing Model. The models involve assumptions on the Company's stock price, expiration, risk-free rate and volatility. Should these assumptions change, there would be material changes to the valuation.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's primary operating segment is property development and investment in the PRC. Since this is the only operating segment of the Group, no further analysis thereof is presented.

**Geographical information**

The Group operates principally in the PRC. Over 90% of the Group's assets are located in the PRC and over 90% of the revenue are generated in the PRC. Accordingly, no further geographical information of total asset and revenue was disclosed.

**Information about a major customer**

The sole customer of the Group during the year ended 31 December 2011 was Tong Sun Limited ("Tong Sun"), a subsidiary disposed by the Group during the year ended 31 December 2010. The Group managed and operated a property for Tong Sun in the PRC at an annual management fee (the "Property Management Fee Income") of HK$8,000,000 for a term of 3 years commencing from January 2011.

The Group did not have any customers during the year ended 31 December 2010 and no revenue was generated from its principal activity.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents income received and receivable from property management services rendered during the year.

No revenue was recorded for the year ended 31 December 2010 as the Group did not generate any revenue from its principal activity.

An analysis of revenue, other income and gains is as follows:

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Property Management Fee Income | **8,000** | – |
| **Other income and gains** | | |
| Write-back of other payables and accruals | **885** | – |
| Gain on disposal of subsidiaries and wavier of loans *(note 26)* | **–** | 86,648 |
| | **885** | 86,648 |
| Total revenue, other income and gains | **8,885** | 86,648 |

## 6. (LOSS)/PROFIT BEFORE TAX

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

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Cost of sales | **–** | – |
| Auditors' remuneration | **230** | 250 |
| Depreciation | | |
| – owned assets | **59** | 213 |
| – leased assets | **17** | 100 |
| | **76** | 313 |

## 6. (LOSS)/PROFIT BEFORE TAX (CONTINUED)

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Employee benefits expenses (including directors' remuneration *(note 8)*): | | |
| Wages and salaries | **4,301** | 7,231 |
| Pension scheme contributions | **44** | 41 |
| | **4,345** | 7,272 |
| Minimum lease payments under operating leases on land and buildings* | **676** | 632 |
| Write-back of other payables and accruals | **(885)** | – |
| Gain on disposal of subsidiaries and wavier of loans *(note 26)* | **–** | (86,648) |

* Minimum lease payments under operating leases on land and buildings included rental for a director quarter of HK$253,000 (2010: HK$256,350).

## 7. FINANCE COSTS

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank borrowings wholly repayable within five years | **–** | 16,470 |
| Convertible bonds *(note 22)* | **13,986** | 11,551 |
| Finance leases | **20** | 20 |
| Other payables | **10** | 28 |
| | **14,016** | 28,069 |

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Fees | **360** | 360 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **3,243** | 3,246 |
| Pension scheme contributions | **12** | 12 |
| | **3,255** | 3,258 |
| | **3,615** | 3,618 |

| | **Fees HK$'000** | **Salaries, allowances and benefits in kind HK$'000** | **Pension scheme contributions HK$'000** | **Total remuneration HK$'000** |
|---|---|---|---|---|
| **2011** | | | | |
| **Executive directors** | | | | |
| Mr. Han Junran | – | **2,203** | – | **2,203** |
| Mr. Fu Yiu Kwong | – | **1,040** | **12** | **1,052** |
| | – | **3,243** | **12** | **3,255** |
| **Non-executive directors** | | | | |
| Mr. Luo Min | – | – | – | – |
| | – | – | – | – |
| **Independent non-executive directors** | | | | |
| Mr. Chan Yiu Tung, Anthony | **120** | – | – | **120** |
| Mr. Zheng Qing | **120** | – | – | **120** |
| Mr. Seto Man Fai | **120** | – | – | **120** |
| | **360** | – | – | **360** |
| | **360** | **3,243** | **12** | **3,615** |

## 8. DIRECTORS' REMUNERATION (CONTINUED)

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|
| **2010** | | | | |
| **Executive directors** | | | | |
| Mr. Han Junran | – | 2,206 | – | 2,206 |
| Mr. Fu Yiu Kwong | – | 1,040 | 12 | 1,052 |
| | – | 3,246 | 12 | 3,258 |
| **Non-executive directors** | | | | |
| Mr. Luo Min | – | – | – | – |
| | – | – | – | – |
| **Independent non-executive directors** | | | | |
| Mr. Chan Yiu Tung, Anthony | 120 | – | – | 120 |
| Mr. Zheng Qing | 120 | – | – | 120 |
| Mr. Seto Man Fai | 120 | – | – | 120 |
| | 360 | – | – | 360 |
| | 360 | 3,246 | 12 | 3,618 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

During the year, no emoluments have been paid to the directors as an inducement to join or upon joining the Group; or as compensation for loss of office (2010: Nil).

## 8. DIRECTORS' REMUNERATION (CONTINUED)

The number of directors, whose remuneration fell within the following bands is as follows:

| | Number of directors | |
|---|---|---|
| | **2011** | 2010 |
| Nil to HK$1,000,000 | **4** | 4 |
| HK$1,000,001 to HK$2,000,000 | **2** | 2 |
| | **6** | 6 |

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2010: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2010: three) non-directors, highest paid employees for the year are as follows:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **572** | 629 |
| Pension scheme contributions | **24** | 12 |
| | **596** | 641 |

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Nil to HK$1,000,000 | **3** | 3 |

## 10. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: Nil).

Taxes on profits in respect of the Group companies operating elsewhere have been calculated at the rates of tax prevailing in the respective tax countries/jurisdictions in which they operate based on existing legislation, interpretations and practices in respect thereof.

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current tax: | | |
| Hong Kong | **–** | – |
| Elsewhere | **–** | – |
| | **–** | – |
| Deferred tax | **–** | – |
| Total tax charge for the year | **–** | – |

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **HK$'000** | **%** | HK$'000 | % |
| (Loss)/Profit before tax | **(17,557)** | | 41,305 | |
| Tax at the statutory tax rate | **(2,897)** | **16.5** | 4,414 | 10.7 |
| Income not subject to tax | **(1,466)** | **8.3** | (14,296) | (34.6) |
| Expenses not deductible for tax | **4,360** | **(24.8)** | 9,881 | 23.9 |
| Tax benefit not recognised | **3** | **–** | 1 | – |
| Tax charge at effective tax rate | **–** | **–** | – | – |

The Group had no significant unprovided deferred taxation as at 31 December 2010 and 2011.

## 11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2011 includes a profit of HK$6,183,000 (2010: loss of HK$42,732,000) which has been dealt with in the financial statements of the Company (note 25(b)).

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

The calculation of basic (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year as adjusted to reflect the effect of share consolidation and bonus issue subsequent to the end of the reporting period.

The calculations of basic (loss)/earnings per share are based on:

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| **(Loss)/Earnings** | | |
| (Loss)/Profit for the year attributable to ordinary equity holders of the Company, used in the basic (loss)/earnings per share calculation | **(17,557)** | 41,305 |

| | **Number of shares** | |
|---|---|---|
| | **2011** | 2010<br>(Restated) |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in basic (loss)/earnings per share calculation | **271,758,000** | 271,758,000 |
| – Effect on share consolidation subsequent to the end of the reporting period | **(203,818,500)** | (203,818,500) |
| – Effect on bonus issue subsequent to the end of the reporting period | **135,879,000** | 135,879,000 |
| | **203,818,500** | 203,818,500 |

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company as adjusted to reflect the interest on convertible bonds and the weighted average number of ordinary shares used in the basic earnings per share calculation, as adjusted for the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

Diluted loss per share for the year ended 31 December 2011 have not been prepared, as the convertible bonds outstanding during the year had an anti-dilutive effect on the basic loss per share.

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on:

| | 2010<br>HK$'000<br>(Restated) |
|---|---|
| **Earnings** | |
| Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation | 41,305 |
| Interest on convertible bonds | 11,551 |
| Less: Tax effect (16.5%) | (1,906) |
| Profit attributable to ordinary equity holders of the parent before interest on convertible bonds | 50,950 |

| | Number of shares<br>2010<br>(Restated) |
|---|---|
| **Shares** | |
| Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation | 203,818,500 |
| Effect on dilution – weighted average number of ordinary shares in issue assumed the convertible bonds have been converted into the share capital of the Company at the beginning of the year | 1,935,843,124 |
| | 2,139,661,624 |

## 13. DIVIDENDS

The Directors did not recommend any dividend for the year ended 31 December 2011 (2010: Nil).

## 14. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|
| **31 December 2011** | | | |
| 1 January 2011: | | | |
| Cost | 284 | 478 | 762 |
| Accumulated depreciation | (263) | (461) | (724) |
| Net carrying amount | 21 | 17 | 38 |
| At 1 January 2011, net of accumulated depreciation | 21 | 17 | 38 |
| Additions | 328 | – | 328 |
| Write-off | – | – | – |
| Depreciation provided during the year | (59) | (17) | (76) |
| At 31 December 2011, net of accumulated depreciation | 290 | – | 290 |
| At 31 December 2011: | | | |
| Cost | 612 | 478 | 1,090 |
| Accumulated depreciation | (322) | (478) | (800) |
| Net carrying amount | 290 | – | 290 |

## 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

**Group**

| | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|
| **31 December 2010** | | | |
| 1 January 2010 | | | |
| Cost | 2,604 | 7,008 | 9,612 |
| Accumulated depreciation | (2,274) | (6,451) | (8,725) |
| Net carrying amount | 330 | 557 | 887 |
| At 1 January 2010, net of accumulated depreciation | 330 | 557 | 887 |
| Disposal of a subsidiary *(note 26)* | (211) | (325) | (536) |
| Write-off | – | – | – |
| Depreciation provided during the year | (98) | (215) | (313) |
| At 31 December 2010, net of accumulated depreciation | 21 | 17 | 38 |
| At 31 December 2010: | | | |
| Cost | 284 | 478 | 762 |
| Accumulated depreciation | (263) | (461) | (724) |
| Net carrying amount | 21 | 17 | 38 |

The carrying amount of the Group's motor vehicles held under finance leases (note 20) included in the total amount of motor vehicles at 31 December 2011 amounted to HK$nil (2010: HK$16,595).

## 15. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **306,695** | 306,695 |
| Less: Impairment | **(257,602)** | (257,602) |
| | **49,093** | 49,093 |
| Due from subsidiaries | **44,639** | 44,639 |
| Less: Impairment | **(3,839)** | (25,350) |
| | **40,800** | 19,289 |
| Due to subsidiaries | **(118,898)** | (120,296) |

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

In the opinion of the directors of the Company, the carrying amounts of these amounts due from/(to) subsidiaries approximate to their fair values.

## 15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal of subsidiaries are as follows:

| Name | Class of share held | Place of incorporation/ registration | Place of operation | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|---|---|
| **Direct subsidiaries** | | | | | | | |
| NR (BVI) Holdings Limited* | Ordinary | British Virgin Islands ("BVI") | Hong Kong | US$47,001 | 100 | – | Investment holding |
| Polywell Finance Corporation* | Ordinary | BVI | Hong Kong | US$1 | 100 | – | Inactive |
| **Indirect subsidiaries** | | | | | | | |
| New Rank Services Limited | Ordinary | Hong Kong | Hong Kong | HK$2 | – | 100 | General management |
| New Rank (BVI 2) Limited* | Ordinary | BVI | | US$36,000 | – | 100 | Investment holding |
| Precise Assets Limited* | Ordinary | BVI | | US$1 | – | 100 | Inactive |
| Team Success Management Limited* | Ordinary | BVI | | US$1 | – | 100 | Investment holding |
| Very Best Investment Limited* | Ordinary | BVI | | US$1 | – | 100 | Inactive |

* Not audited by Ascenda Cachet CPA Limited

## 16. TRADE RECEIVABLE

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Trade receivable | **2,000** | – |
| Impairment | **–** | – |
| | **2,000** | – |

The trade receivable represented the Property Management Fee Income receivable from Tong Sun. The Group's services terms with Tong Sun are mainly on credit of 14 days.

An aged analysis of the trade receivable as at the end of the reporting period, based on the date of invoice, is as follows:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Within 1 month | **2,000** | – |

The aged analysis of the trade receivable that are not considered to be impaired is as follows:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Neither past due nor impaired | **2,000** | – |

Trade receivable represented an amount due from a single customer and the Group has a high concentration of credit risk accordingly. The trade receivable is non-interest bearing.

## 17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Prepayments | **192** | 189 | **183** | 183 |
| Deposits | **144** | 167 | **14** | 48 |
| Other receivables | **27** | 15 | **–** | – |
| | **363** | 371 | **197** | 231 |

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables of which no recent history of default was noted.

## 18. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | **393** | 58 | **4** | 4 |
| Time deposits | **–** | – | **–** | – |
| | **393** | 58 | **4** | 4 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with credit worthy banks with no recent history of default. The carrying amounts of the bank balances and cash approximate their fair values.

## 19. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Accrued expenses | **7,613** | 6,024 | **5,072** | 5,259 |

## 20. FINANCE LEASE PAYABLE

The Group leases a motor vehicle (note 14) for its business operation. The lease is classified as finance lease and has remaining lease terms of 3 months as at 31 December 2011.

At 31 December 2011, the total future minimum lease payments under finance lease and their present values were as follows:

| Group | Minimum lease payments 2011 HK$'000 | Minimum lease payments 2010 HK$'000 | Present value of minimum lease payments 2011 HK$'000 | Present value of minimum lease payments 2010 HK$'000 |
|---|---|---|---|---|
| Amounts payable: | | | | |
| Within one year | **23** | 93 | **18** | 73 |
| In the second year | **–** | 23 | **–** | 18 |
| In the third to fifth years, inclusive | **–** | – | **–** | – |
| Total minimum finance lease payments | **23** | 116 | **18** | 91 |
| Future finance charges | **(5)** | (25) | | |
| Total net finance lease payable | **18** | 91 | | |
| Portion classified as current liabilities | **(18)** | (73) | | |
| Non-current portion | **–** | 18 | | |

The finance lease payable bears an effective interest rate of 5.5% per annum and is secured by the leased motor vehicle with a carrying value of HK$nil (2010: HK$16,595) (note 14) as at 31 December 2011. The directors consider that the carrying amount of the finance lease payable approximates to its fair value as at the end of the reporting period.

## 21. DUE TO DIRECTORS

On 12 January 2011, the Company entered into a loan facility agreement (the "Loan Facility Agreement") with Mr Han, a director of the Company, pursuant to which, Mr Han agreed to provide a loan facility (the "Loan Facility") up to an aggregate principal amount not exceeding HK$30,000,000, to the Company as working capital. The Loan Facility in an aggregate amount of approximately HK$27,212,000 (the "Loan") has been utilised by the Company at the end of the reporting period. The Loan Facility is unsecured, interest-free and has no fixed terms of repayment. As detailed in note 30(h) to the consolidated financial statements, the Loan was fully settled subsequent to the end of the reporting period on 21 February 2012.

The remaining balance of amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

## 22. CONVERTIBLE BONDS

The convertible bonds recognised in the statement of financial position are calculated as follows:

| | **2011<br>HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Liability component at 1 January | **68,505** | 56,954 |
| Interest expenses *(note 7)* | **13,986** | 11,551 |
| Interest paid | **–** | – |
| Liability component at 31 December | **82,491** | 68,505 |

The fair value of the convertible bonds was estimated at the issuance date by using the closing share price of the Company and the Trinomial Tree Pricing Model by Asset Appraisal Limited, an independent valuer. The inputs into the model were as follows:

| | **Convertible Bond A 5 May 2009 (issuance date)** | **Convertible Bond B 10 August 2009 (issuance date)** |
|---|---|---|
| Stock price | HK$0.03 | HK$0.03 |
| Expiration | 2 years 10 months | 3 years |
| Risk-free-rate | 0.920% | 1.264% |
| Volatility | 68.285% | 69.077% |

The fair value of the liability component at the issuance date was approximately HK$52,407,000 and was classified as "Liability component of convertible bonds" in the non-current liabilities. Accordingly the remaining balance of approximately HK$25,027,000 was classified as "Equity component of convertible bonds" in the consolidated statement of change in equity.

## 22. CONVERTIBLE BONDS (CONTINUED)

The face value of the convertible bonds as at the end of the reporting period is as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Convertible Bond A *(notes (i))* | **14,185** | 14,185 |
| Convertible Bond B *(notes (ii))* | **63,249** | 63,249 |
| | **77,434** | 77,434 |

*Note:*

(i) On 28 February 2009, the Company and a convertible bond holder entered into an agreement for the issuance of a new convertible bond in a principal amount of HK$14,185,129 (the "Convertible Bond A") for the settlement of certain outstanding bonds in an aggregate principal amount of HK$12,804,817 together with accrued interest of HK$1,380,312. The Convertible Bond A bears interest at Prime Rate plus 2% per annum, matures on 28 February 2012 and is convertible into the ordinary shares of the Company at a conversion price of HK$0.03 per share. The Convertible Bond A was approved by the shareholders on 5 May 2009.

(ii) On 18 March 2009, the Company entered into a deed of novation (the "Deed of Novation") with another convertible bond holder (the "Bond Holder") and Mr. Han. Pursuant to the Deed of Novation, the parties agreed that the total outstanding principal amount together with all interest thereon owing by the Company to the Bond Holder be novated from the Company to Mr. Han and the Company be fully released and discharged from all liabilities and obligations, past or future, and any security created.

On the same day, the Company entered into a new loan agreement and subscription agreement (the "New Agreement") with Mr. Han, pursuant to which, the Company is deemed to have drawn down a debt amounting to HK$63,248,596, being the principal amount owed by the Company to the Bond Holder of HK$56,458,150 plus accrued interest of HK$6,790,446 up to the date of execution of the Deed of Novation and the Company has issued a new convertible bond (the "Convertible Bond B") therefrom. The Convertible Bond B bears interest at Prime Rate, matures on 17 March 2012 and is convertible into the ordinary shares of the Company at a conversion price of HK$0.03 per share. The Convertible Bond B was approved by the shareholders on 10 August 2009.

## 23. SHARE CAPITAL

### (a) Shares

| | Group and Company | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Authorised: | | |
| 10,000,000,000 ordinary shares of HK$0.001 each | **10,000** | 10,000 |
| Issued and fully paid: | | |
| 271,758,000 ordinary shares of HK$0.001 each | **272** | 272 |

As detailed in note 30 to the consolidated financial statements, subsequent to the end of the reporting period, the Company has certain movements in its share capital.

### (b) Share options

Details of the Company's share option scheme are included in note 24 to the consolidated financial statements.

## 24. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was approved and adopted by the shareholders on 14 June 2002. The scheme is valid and effective for a period of 10 years after the date of adoption. The purpose of the scheme is to attract, retain and motivate the Group's full-time employees and directors (including non-executive directors and independent non-executive directors), part time employees with weekly working hours of 10 hours and above and advisors, consultants, providers of goods and/or services and other persons who have contributed to the Group or their trustee (the "Participants") to perform their best in achieving the goals of the Group and at the same time allow them to enjoy the results of the Group attained through their effort and contributions. Under the Share Option Scheme, the board of directors of the Company may grant options to the Participants to subscribe for shares of the Company.

Subject to the terms of the Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the scheme should not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of such limit. Notwithstanding the above, the maximum number of shares in respect of which option may be granted under the scheme and of the Company must not exceed 30% (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on the Stock Exchange) of the total number of shares in issue from time to time. The number of shares in respect of which option may be granted to each participant in aggregate in any 12-month period shall not exceed 1% of the total number of shares in issue, any further grant to that particular participant shall be subject to approval of shareholders of the Company in general meeting with such participant and his or her associates abstaining from voting.

Options granted pursuant to the Share Option Scheme must be accepted within 28 days of the date of option offered, upon payment of HK$1 by way of consideration. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors of the Company but in any event not exceeding 10 years. The exercise price per share will be determined by the board of directors of the Company, but in any event shall not be less than the highest of (i) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the option offered, (ii) the closing price of the shares as quoted in the Stock Exchange's daily quotations sheet on the date of the option offered, and (iii) the nominal value of the shares.

No option has been granted to any directors or employees under the Share Option Scheme since its adoption.

## 25. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity on page 25 of the consolidated financial statements.

### (b) Company

| | Share premium account HK$'000 | Special reserve HK$'000 *(notes)* | Equity component of convertible bonds HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2010 | 20,773 | 306,450 | 25,027 | (443,724) | (91,474) |
| Total comprehensive income for the year | – | – | – | (42,732) | (42,732) |
| At 31 December 2010 and at 1 January 2011 | 20,773 | 306,450 | 25,027 | (486,456) | (134,206) |
| Total comprehensive income for the year | – | – | – | 6,183 | 6,183 |
| At 31 December 2011 | 20,773 | 306,450 | 25,027 | (480,273) | (128,023) |

*Notes:*

i. The special reserve of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of the reorganisation, and the nominal amount of the Company's share capital issued as consideration for the acquisition.

ii. Under section 34 of the Companies Law of the Cayman Islands, the special reserve and share premium account is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the special reserve and share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

## 26. GAIN ON DISPOSAL OF SUBSIDIARIES AND WAIVER OF LOANS

On 16 December 2010, the Company and Tong Sun Limited ("Tong Sun") received demand letters from Starry Joy Properties Investment Limited ("Starry Joy") for settlement of a loan of HK$45,000,000 from Starry Joy to the Company (the "New City China Loan") and a loan of HK$165,000,000 from Starry Joy to Beijing Zhong Zheng Real Estate Development Company Limited ("BJZZ") (the "New Rank Loan").

On 17 December 2010, the Company, for itself and on behalf of New Rank (BVI 2) Limited ("New Rank (BVI)") and Tong Sun, irrevocably and unconditionally informed and confirmed that they were unable to repay the New City China Loan and the New Rank Loan.

On 29 December 2010, the security constituted by the New City China Share Charge and the New Rank Share Charge were enforced by Starry Joy. Following the enforcement, Tong Sun and its subsidiary, BJZZ, ceased to be the subsidiaries of the Company.

Upon the foreclosure of the New City China Share Charge and the New Rank Share Charge, pursuant to a reply letter (the "Reply Letter") from Starry Joy dated 31 December 2010, Starry Joy undertook, among others, that (a) Starry Joy permanently withdraws/discontinues the proceedings against the Company; and (b) Starry Joy and Sure Yield Investment Limited waives all its claims whatsoever against the Company, New Rank (BVI) and Tong Sun in relation to (i) the New City China Loan and the New Rank Loan; (ii) intercompany indebtedness between the Group and Tong Sun together with its subsidiary (collectively, the "Tong Sun Group"), and (iii) no claims or compensation in any kind for any possible losses, recorded or contingent, would be seek by the Tong Sun Group against the Group.

## 26. GAIN ON DISPOSAL OF SUBSIDIARIES AND WAIVER OF LOANS (CONTINUED)

The major assets and liabilities of Tong Sun Group included in the consolidated statement of financial position of the Group were as follows:

| | 29 December 2010 HK$'000 |
|---|---|
| Property, plant and equipment | 536 |
| Cash and bank balances | 57 |
| Trade receivable | 75,079 |
| Prepayments, deposits and other receivables | 749 |
| Investment properties classified as non-current assets held for sales | 777,778 |
| Due from group companies | 105,506 |
| Trade payables | (150,605) |
| Other payables and accruals | (175,978) |
| Due to related companies | (10,994) |
| Interest-bearing bank borrowings, secured | (99,989) |
| Other borrowings | (168,553) |
| Tax payable | (190,621) |
| Preferred dividend payable | (94,600) |
| Provision | (14,378) |
| Due to group companies | (513) |
| Due to ultimate holding company | (76,261) |
| Net liabilities of Tong Sun Group | (22,767) |
| Less: Due from group companies | (105,506) |
| Due to group companies | 513 |
| Due to ultimate holding company | 76,261 |
| Net liabilities disposed | (51,499) |
| Exchange fluctuation reserve realised upon disposal of subsidiaries | (22,315) |
| | (73,814) |
| Less: Sales proceeds | – |
| Gain on disposal of Tong Sun Group | (73,814) |
| Waiver of New City China Loan and accrued interests | (12,834) |
| Gain on disposal of subsidiaries and wavier of loans (note 5) | (86,648) |

## 26. GAIN ON DISPOSAL OF SUBSIDIARIES AND WAIVER OF LOANS (CONTINUED)

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

| | 2010<br>HK$'000 |
|---|---|
| Cash consideration | – |
| Cash and bank balances disposed of | (57) |
| Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary | (57) |

## 27. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years.

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **Group** | |
|---|---|---|
| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
| Within one year | **108** | 257 |

## 28. COMMITMENTS

As detailed in note 30(f) to the consolidated financial statements, the Company entered into a sale and purchase agreement with two independent third parties on 24 January 2011, which was supplemented by two supplemental agreements dated 23 August 2011 and 15 November 2011, respectively (collectively, the "S&P Agreements"). Pursuant to which, the Company will acquire a 100% equity interest in Guangdong Changliu Investment Company Limited at a consideration of RMB299,696,000. The S&P Agreements was completed subsequent to the end of the reporting period on 21 February 2012.

## 29. RELATED PARTIES TRANSACTIONS

(i) Save as these disclosed elsewhere in these consolidated financial statements, the Group had the following material transactions with related party during the year:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Management Fee Income received from Tong Sun | **3,333** | – |
| Convertible bond B interest paid to a director *(note 22)* | **10,293** | 8,687 |

The related party transactions were conducted on terms negotiated between the Company and the related parties.

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Short term employee benefits | **3,927** | 3,926 |
| Post-employment benefits | **–** | – |
| Equity-settled share option expenses | **–** | – |
| Total compensation paid to key management personnel | **3,927** | 3,926 |

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

## 30. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group and the Company have the following events:

**a) Share Consolidation and Change of Board Lot Size**

On 13 January 2012, every four issued and unissued shares of HK$0.001 each in the share capital of the Company was consolidated into one consolidated share (the "Consolidated Share") of HK$0.004. The board lot size for trading was changed to 20,000 Consolidated Shares upon the share consolidation becoming effective.

**b) Increment of Authorised Capital**

The authorised share capital of the Company was HK$10,000,000 divided into 10,000,000,000 shares of HK$0.001 each with 271,758,000 shares in issue prior to the share consolidation becoming effective. Upon the share consolidation becoming effective, the authorised share capital of the Company was HK$10,000,000 divided into 2,500,000,000 Consolidated Shares of HK$0.004 each with 67,939,500 Consolidated Shares in issue.

## 30. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

### b) Authorised Capital Increase (Continued)

In order to accommodate the issue of the consideration shares, the bonus shares, the offer shares, the subscription shares, the remuneration shares and the warrant shares, upon the share consolidation becoming effective, pursuant to an ordinary resolution passed by the shareholders of the Company on 12 January 2012, the Company increased its authorised share capital from HK$10,000,000 divided into 2,500,000,000 Consolidated Shares of HK$0.004 each to HK$40,000,000 divided into 10,000,000,000 Consolidated Shares of HK$0.004 each by the creation of additional 7,500,000,000 Consolidated Shares.

### c) Issue of Remuneration Shares and Remuneration Warrants

Pursuant to an engagement letter entered into between the Company and the joint financial advisers for resumption of trading of the shares of the Company, it was agreed between the Company and the joint financial advisers that the professional fees charged by the joint financial advisers may be settled by (i) the issue of remuneration shares in an aggregate amount of HK$1,000,000 (i.e. 8,333,333 Consolidated Shares); (ii) the issue of remuneration warrants in an aggregate amount of HK$500,000; and (iii) the settlement of the balance of HK$1,000,000 in cash. The Company has issued such remuneration shares and remuneration warrants to the joint financial advisers on 21 February 2012. As at the date of this report, the joint financial advisers have exercised 833,333 remuneration warrants for the subscription of 833,333 Consolidation Shares at a subscription price of HK$0.12 per Consolidated Share. There are 3,333,333 remuneration warrants remain outstanding which is exercisable within a 36-month period after issue.

### d) Subscription of shares

Pursuant to an subscription agreement entered into among the Company, Mr. Han and Junyi Investments Limited (the "Subscribers") dated 15 November 2011, the Subscribers agreed to subscribe for the shares of the Company in the amount of HK$133.5 million of which, (i) as to approximately HK$71 million being set off against the redemption of the outstanding convertible bonds of the Company (including all interest accrued thereon) held by Mr. Han Junran ("Mr. Han"); and (ii) as to approximately HK$27.5 million being set off against the repayment of the working capital loan drawn down by the Company as at the date of completion of the Subscription. The Subscription was completed and a total of 1,112,500,000 subscription shares was issued to the Subscribers on 21 February 2012.

### e) Issue of Bonus Shares

The Company has issued 135,879,000 bonus shares to the existing shareholders of the Company whose names appear on the register of members of the Company on the record date on the basis of two bonus shares for every existing Consolidated Share held by the shareholders on 21 February 2012.

## 30. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

### f) Completion of Acquisition

On 24 January 2011, the Company entered into a sale and purchase agreement with two independent third parties 北京誠達順逸商貿有限公司 (Beijing Chengda Shunyi Shangmao Company Limited) ("Vendor A") and Kayuan Enterprise Investment Co., Limited ("Vendor B", together with Vendor A, collectively the "Vendors"), which was supplemented by two supplemental agreements dated 23 August 2011 and 15 November 2011, respectively (collectively, the "S&P Agreements"), pursuant to which, the Vendors agreed to sell and a wholly-owned subsidiary (the "Subsidiary") of the Company agreed to purchase (the "Resumption Acquisition") a 100% equity interest of French Land Limited and Fudi International Holding Co., Limited and 75% equity interest in Guangdong Changliu Investment Company Limited ("Changliu") from Vendor A and (ii) 25% equity interest of Changliu from Vendor B at an aggregate consideration of RMB299,696,000 (equivalent to approximately HK$357.1 million) (the "Consideration"), Changliu is principally engaged in property development and property investment in the PRC.

The Resumption Acquisition was completed on 21 February 2012 and the Consideration was settled as follows:

1. as to RMB30,000,000 by cash;

2. as to RMB20,000,000 by the issuance of 198,000,000 Consolidated Shares to the person designated by Vendor A;

3. as to RMB50,000,000 by the issuance of 496,500,000 Consolidated Shares to the person designated by Vendor B.

4. as to RMB124,640,000 by procuring Changliu to settle in cash to Vendor A on or before the completion date; and

5. as to RMB75,056,000 by procuring Changliu to deliver a deed of assignment of its receivables in favour of Vendor A on or before completion date at nil consideration. Provided that, if the total amount of Changliu receivables as at the date of completion is less than RMB75,056,000, Changliu has to pay the shortfall in cash to Vendor A.

* *English translation is for identification purpose only*

## 30. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

### g) Open Offer

On 20 January 2012, the Company made an open offer (the "Open Offer") on the basis of twenty three offer shares for every three Consolidated Shares held on the record date. On 21 February 2012, 26,895,441 Offer Shares were subscribed through the Open Offer. The remaining 88,300,000 and 405,674,059 Offer Shares were taken up by the Subscribers and the placing agent in accordance with their obligation under an underwriting agreement dated 15 November 2011.

### h) Repayment of Convertible Bonds and Loan from a Director

The Company has fully repaid the outstanding principal amounts and all interests accrued thereon of the convertible bonds (note 22), and the outstanding loan from a director (note 21) in an aggregate amount of approximately HK$116 million on 21 February 2012.

### i) Resumption of Trading in Shares

At the request of the Company, trading in the shares on the Stock Exchange has been suspended since 30 December 2003. As all the resumption conditions have been fulfilled, the Stock Exchange approved the resumption of trading of the shares of the Company with effect from 9:00 a.m. on 23 February 2012.

### j) Re-designation of Director

Mr. Luo Min has been re-designated from a non-executive director to an executive director on 1 March 2012.

## 31. FINANCIAL INSTRUMENTS BY CATEGORY

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

**31 December 2011**

**Group**

**Financial assets**

| | Financial assets at fair value through profit or loss – designated as such upon initial recognition HK$'000 | Financial assets at fair value through profit or loss – held for trading HK$'000 | Held-to-maturity investments HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Trade receivable | – | – | – | 2,000 | – | 2,000 |
| Financial assets included in prepayments, deposits and other receivables | – | – | – | 171 | – | 171 |
| Cash and bank balances | – | – | – | 393 | – | 393 |
| | – | – | – | 2,564 | – | 2,564 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss – designated as such upon initial recognition HK$'000 | Financial liabilities at fair value through profit or loss – held for trading HK$'000 | Financial liabilities at amortised cost HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Financial liabilities included in other payables and accruals | – | – | 7,613 | 7,613 |
| Due to directors | – | – | 29,639 | 29,639 |
| Finance lease payables | – | – | 18 | 18 |
| Liabilities component of convertible bonds | – | – | 82,491 | 82,491 |
| | – | – | 119,761 | 119,761 |

## 31. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

**31 December 2010**

**Group**

**Financial assets**

| | Financial assets at fair value through profit or loss – designated as such upon initial recognition HK$'000 | Financial assets at fair value through profit or loss – held for trading HK$'000 | Held-to-maturity investments HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Financial assets included in prepayments, deposits and other receivables | – | – | – | 182 | – | 182 |
| Cash and bank balances | – | – | – | 58 | – | 58 |
| | – | – | – | 240 | – | 240 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss – designated as such upon initial recognition HK$'000 | Financial liabilities at fair value through profit or loss – held for trading HK$'000 | Financial liabilities at amortised cost HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Financial liabilities included in other payables and accruals | – | – | 6,024 | 6,024 |
| Due to directors | – | – | 25,005 | 25,005 |
| Finance lease payables | – | – | 91 | 91 |
| Liability component of convertible bonds | – | – | 68,505 | 68,505 |
| | – | – | 99,625 | 99,625 |

## 31. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

**31 December 2011**

**Company**

**Financial assets**

| | Financial assets at fair value through profit or loss | | | | | |
|---|---|---|---|---|---|---|
| | – designated as such upon initial recognition HK$'000 | – held for trading HK$'000 | Held-to-maturity investments HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
| Trade receivable | – | – | – | 2,000 | – | 2,000 |
| Financial assets included in prepayments, deposits and other receivables | – | – | – | 14 | – | 14 |
| Due from subsidiaries | – | – | – | 40,800 | – | 40,800 |
| Cash and bank balances | – | – | – | 4 | – | 4 |
| | – | – | – | 42,818 | – | 42,818 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss | | | |
|---|---|---|---|---|
| | – designated as such upon initial recognition HK$'000 | – held for trading HK$'000 | Financial liabilities at amortised cost HK$'000 | Total HK$'000 |
| Financial liabilities included in other payables and accruals | – | – | 5,072 | 5,072 |
| Due to subsidiaries | – | – | 118,898 | 118,898 |
| Due to directors | – | – | 13,384 | 13,384 |
| Liability component of convertible bonds | – | – | 82,491 | 82,491 |
| | – | – | 219,845 | 219,845 |

## 31. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

**31 December 2010**

**Company**

**Financial assets**

| | Financial assets at fair value through profit or loss – designated as such upon initial recognition HK$'000 | – held for trading HK$'000 | Held-to-maturity investments HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Financial assets included in prepayments, deposits and other receivables | – | – | – | 48 | – | 48 |
| Due from subsidiaries | – | – | – | 19,289 | – | 19,289 |
| Cash and bank balances | – | – | – | 4 | – | 4 |
| | – | – | – | 19,341 | – | 19,341 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss – designated as such upon initial recognition HK$'000 | – held for trading HK$'000 | Financial liabilities at amortised cost HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Financial liabilities included in other payables and accruals | – | – | 5,259 | 5,259 |
| Due to subsidiaries | – | – | 120,296 | 120,296 |
| Due to directors | – | – | 8,491 | 8,491 |
| Liability component of convertible bonds | – | – | 68,505 | 68,505 |
| | – | – | 202,551 | 202,551 |

## 32. FAIR VALUE HIERARCHY

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

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

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

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

As at 31 December 2010 and 2011, the Group did not have any financial instruments which were measured at fair value.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise other payables and accruals, finance lease payables and convertible bonds. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets such as trade receivables which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates related primarily to the Group's other payables and convertible bonds, with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variable held constant, of the Group's (loss)/profit before tax.

| | Increase/ (decrease) in basic points | Increase/ (decrease) in profit before tax HK$'000 | Increase/ (decrease) in equity* HK$'000 |
|---|---|---|---|
| **31 December 2011** | | | |
| **Hong Kong dollars** | **1%** | **(825)** | **–** |
| | **(1%)** | **825** | **–** |
| 31 December 2010 | | | |
| Hong Kong dollars | 1% | (685) | – |
| | (1%) | 695 | – |

* Excluding retained profits/accumulated losses.

### Foreign currency risk

The directors are of the opinion that almost all of the transactions of the Group and recognised financial assets and liabilities are denominated either in HKD or Renminbi ("RMB") and accordingly the Group's foreign currency risk is not material as the exchange rate of HKD against RMB is quite stable. The Group currently does not have a foreign currency hedging policy. However, the management will monitor the foreign exchange exposure should the need arises.

### Credit risk

The Group's credit risk is primarily attributable to trade receivables, prepayments, deposits and other receivables and cash and bank balance. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The allowance for impairment has been made to reduce the exposure to the credit risk in relation to the receivables. Other than this there are no significant concentrations of credit risk within the Group in relation to other financial assets.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Liquidity risk

The Group had net current liabilities and deficiency in assets of approximately HK$117,005,000 and HK$116,715,000 respectively, as at 31 December 2011.

In view of the liquidity problems faced by the Group, the directors of the Company have adopted various measures with a view to improve the Group's overall financial and cash flow position and to maintain the Group's existence on a going concern basis, details of which have been set out in note 2.1 to the consolidated financial statements.

The maturity of the financial liabilities of the Group at the end of each of the reporting period is as follows:

**Group**

**31 December 2011**

| | On demand or no fixed terms of repayment HK$'000 | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Financial liabilities included in other payables and accruals | 7,613 | – | – | – | – | 7,613 |
| Finance lease payables | – | 18 | – | – | – | 18 |
| Due to directors | 29,639 | – | – | – | – | 29,639 |
| Convertibles bonds | – | 82,491 | – | – | – | 82,491 |
| | 37,252 | 82,509 | – | – | – | 119,761 |

**31 December 2010**

| | On demand or no fixed terms of repayment HK$'000 | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Financial liabilities included in other payables and accruals | 6,024 | – | – | – | – | 6,024 |
| Finance lease payables | – | 18 | 55 | 18 | – | 91 |
| Due to directors | 25,005 | – | – | – | – | 25,005 |
| Convertibles bonds | – | – | – | 68,505 | – | 68,505 |
| | 31,029 | 18 | 55 | 68,523 | – | 99,625 |

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Liquidity risk (Continued)

**Company**

**31 December 2011**

| | On demand or no fixed terms of repayment HK$'000 | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Financial liabilities included in other payables and accruals | 5,072 | – | – | – | – | 5,072 |
| Due to subsidiaries | 118,898 | – | – | – | – | 118,898 |
| Due to directors | 13,384 | – | – | – | – | 13,384 |
| Convertibles bonds | – | 82,491 | – | – | – | 82,491 |
| | 137,354 | 82,491 | – | – | – | 219,845 |

**31 December 2010**

| | On demand or no fixed terms of repayment HK$'000 | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Financial liabilities included in other payables and accruals | 5,259 | – | – | – | – | 5,259 |
| Due to subsidiaries | 120,296 | – | – | – | – | 120,296 |
| Due to directors | 8,491 | – | – | – | – | 8,491 |
| Convertibles bonds | – | – | – | 68,505 | – | 68,505 |
| | 134,046 | – | – | 68,505 | – | 202,551 |

### Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. At the end of the reporting period, the Group has not significant equity price risk.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Capital management**

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes other payables and accruals, amounts due to directors, finance lease payables and liability component of convertible bonds, less cash and bank balances. Capital includes equity attributable to equity holders of the Company. The gearing ratios as at the end of reporting periods were as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Other payables and accruals | **7,613** | 6,024 |
| Due to directors | **29,639** | 25,005 |
| Finance lease payables | **18** | 91 |
| Liability component of convertible bonds | **82,491** | 68,505 |
| Less: Cash and bank balances | **(393)** | (58) |
| Net debt | **119,368** | 99,567 |
| Total capital: | | |
| Equity attributable to equity holders | **(116,715)** | (99,158) |
| Capital and net debt | **2,653** | 409 |
| Gearing ratio | **44.99** | 243.44 |

## 34. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

## 35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 21 March 2012.

# Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated/reclassified as appropriate, is set out below. The consolidated financial statements for the years ended 31 December 2008 had been qualified by the auditors of the Company and the consolidated financial statements for the year ended 31 December 2009 and 2010 had been disclaimed by the auditors of the Company. Details of the qualified and disclaimer opinions of the auditors has were set out in the annual reports for the year 2007, 2008, 2009, 2010 and 2011 of the Company, respectively.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **RESULTS** | | | | | |
| REVENUE | **8,000** | – | – | – | 2,160,427 |
| Cost of sales | **–** | – | – | – | (1,870,713) |
| Gross profit | **8,000** | – | – | – | 289,714 |
| Other income and gains | **885** | 86,648 | 9,439 | 16,286 | 261,908 |
| Administrative and other operating expenses | **(12,426)** | (17,274) | (16,724) | (46,176) | (100,083) |
| Finance costs | **(14,016)** | (28,069) | (22,818) | (39,931) | (78,593) |
| PROFIT/(LOSS) BEFORE TAX | **(17,557)** | 41,305 | (30,103) | (69,821) | 372,946 |
| Tax | **–** | – | – | – | (141,226) |
| PROFIT/(LOSS) FOR THE YEAR | **(17,557)** | 41,305 | (30,103) | (69,821) | 231,720 |
| Attributable to: | | | | | |
| Owners of the Company | **(17,557)** | 41,305 | (30,103) | (69,821) | 231,720 |
| Non-controlling interests | – | – | – | – | – |
| | **(17,557)** | 41,305 | (30,103) | (69,821) | 231,720 |

**ASSETS AND LIABILITIES**

| | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TOTAL ASSETS | **3,046** | 467 | 855,506 | 869,537 | 864,380 |
| TOTAL LIABILITIES | **(119,761)** | (99,625) | (973,654) | (982,609) | (917,250) |
| NON-CONTROLLING INTERESTS | **–** | – | – | – | – |
| | **(116,715)** | (99,158) | (118,148) | (113,072) | (52,870) |