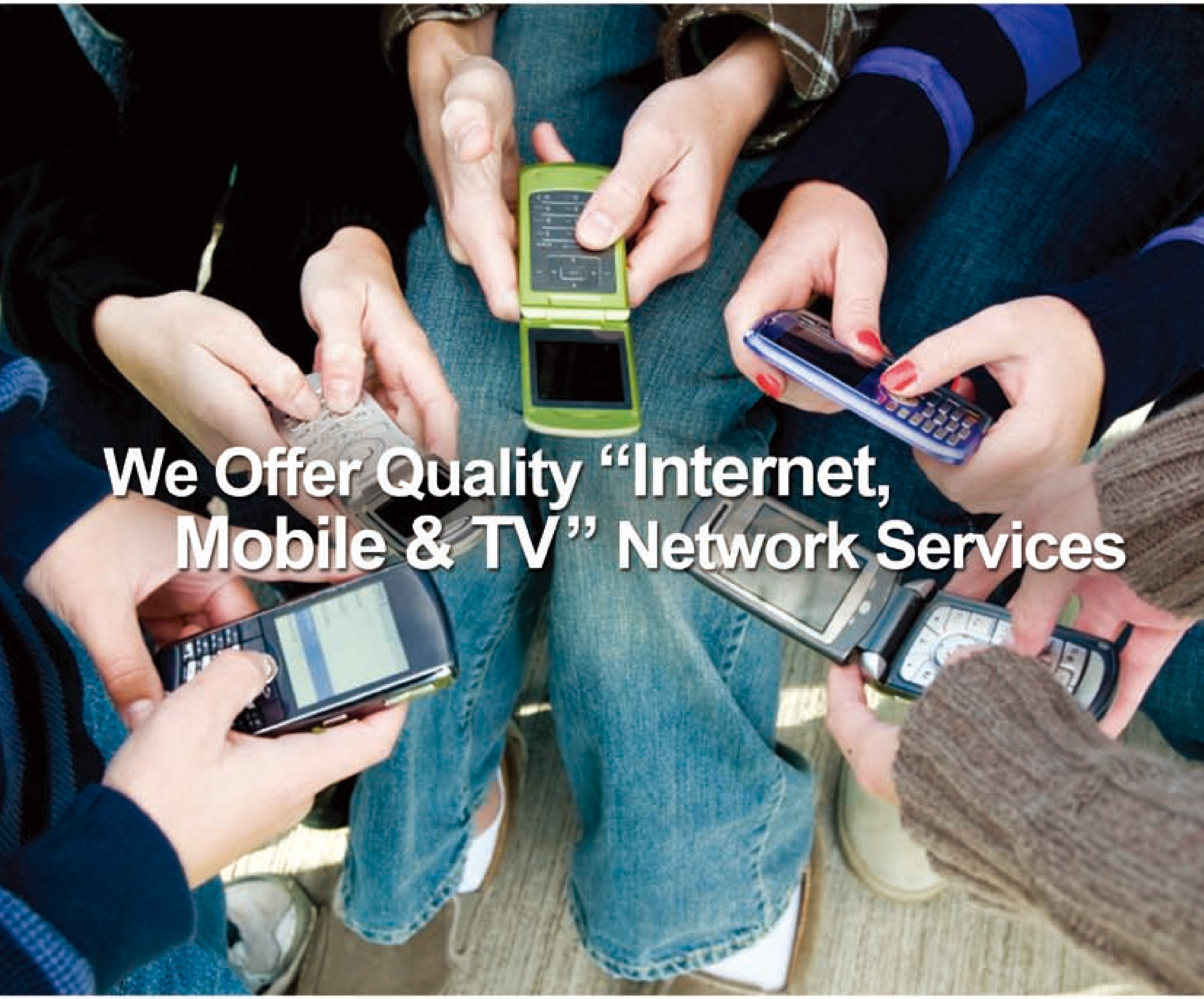
网融中国



Net2Gather (China) Holdings Limited

(Stock Code: 1049)

2011 Annual Report

Contents

Corporate Profile

CORPORATE PROFILE

Net2Gather (China) Holdings Limited ("Net2Gather", SEHK: 1049) is a Mobile Internet service provider in China. Headquartered in Shanghai, Net2Gather has more than 220 dedicated employees, including 120 research and development professionals.

Net2Gather operates its online games platform through subsidiary Moliyo, which has a database of more than 40 million subscribers for its award-winning online games. The veteran game developer has recently developed two next-generation and much-anticipated Massively Multiplayer Online Role-playing Games (MMORPGs), "Tales of Ocean Fantasy" and "Superhero". These will be launched in 2012. "Tales of Ocean Fantasy" and "Superhero" have already been named the "Most Anticipated Online Games" and "Best Self-Developed Online Game" respectively in China's prestigious Golden Plume Awards. iPhone versions of these games are also being developed.

Net2Gather's mobile game portfolio includes Oberon Media's 1,200-plus casual games, which will be localised and marketed to capture the burgeoning Mobile Internet market. Oberon Media is one of the largest global mobile and social game developers. It is invested by Goldman Sachs, Morgan Stanley and Oak Investment Partners. A support centre was set up in Suzhou to provide technical support for Oberon's games. Moreover, Net2Gather also intends to seek strategic partnerships with leading mobile content developers and publishers in North America and Japan in order to introduce quality mobile game titles into China.

By aggregating various Mobile Internet services into an integrated platform, including content (upstream), operating platforms (midstream) and distribution channels (downstream), Net2Gather aims to build a cross-value chain of activities to enable people to come 2Gather in an online community in China that combines Mobile, Internet and Television platforms in line with the national move towards convergence.

Corporate Information

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive:

KWAN Pak Hoo Bankee	(Chairman & CEO)
LAW Ping Wah Bernard	(CFO)
NG Kung Chit Raymond	(COO)

Independent Non-executive:

LEUNG Ka Kui Johnny
WONG Chuk Yan
CHAN Hak Sin

AUDIT COMMITTEE

LEUNG Ka Kui Johnny (committee chairman)
WONG Chuk Yan
CHAN Hak Sin

REMUNERATION COMMITTEE

LEUNG Ka Kui Johnny (committee chairman)
WONG Chuk Yan
KWAN Pak Hoo Bankee

COMPANY SECRETARY

LUKE Wing Sheung Suzanne, FCIS

AUTHORISED REPRESENTATIVES

KWAN Pak Hoo Bankee
LAW Ping Wah Bernard
(alternate: LUKE Wing Sheung Suzanne)

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Wing Hang Bank, Limited
Nanyang Commercial Bank, Limited
The Bank of East Asia, Limited
DBS Bank (Hong Kong) Limited

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

SOLICITORS

Sidley Austin

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

28/F Manhattan Place
23 Wang Tai Road
Kowloon Bay
Hong Kong

REGISTRARS AND TRANSFER OFFICE IN HONG KONG

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

WEBSITE

www.net2gather.com.hk

STOCK CODE ON MAIN BOARD

1049

CONTACTS

Telephone	:	(852) 2287 8888
Facsimile	:	(852) 2287 8000

Chairman's Letter

CHAIRMAN'S LETTER

Dear Fellow Shareholders,

2011 was an unsettling year, with global financial turmoil and social unrest in the spotlight. The lingering euro-zone debt, catastrophic 3–11 earthquake and tsunami in Japan, and the downfall of several Middle East and North African governments all rattled the investment community, turning the international capital market outlook to one of caution.

Despite this, our mission to develop the Mobile Internet market remained firm and our business plans continued to move forward.

According to the State Internet Information Office, China has more than 350 million Mobile Internet users by the end of 2011. Given that it has one billion mobile phone users, the potential of the Mobile Internet market in China is clear. According to iiMedia Research, total smart phone shipment in China in Q4 2011 reached 22.8 million, representing 23.3% of all mobile phones.

Such statistics support our vision in growing China's Mobile Internet market, especially the smart phone market, and we will relentlessly and diligently pursue the expansion of our business operations in this lucrative sector.

While the global financial crisis slowed growth through our merger and acquisition strategy, it also offered more opportunities to expand our network and work with prominent smart phone content developers and channel operators, both domestic and overseas.

Looking ahead, it is expected that the Three-Network Convergence will continue to widen and deepen, offering tremendous development opportunities for all value-chain activities. With faster broadband speed and an increasing number of pilot cities joining the Three-Network Convergence project, we believe that China's Mobile Internet market will soon experience exponential growth.

In this regard, Net2Gather is committed to enriching our Mobile Internet platform, by aggregating content (upstream), operating platforms (midstream) and distribution channels (downstream). Net2Gather is dedicated to building a cross-value chain of activities to enable people to come 2Gather in an online community in China that combines Mobile, Internet and Television platforms in line with the national move towards network convergence.

Developing a new business in an evolving market is a tireless endeavour. May I take this opportunity to thank all my fellow shareholders for their unceasing support of the Group's development in the exciting Mobile Internet market. I would also like to thank my board members for their encouragement and wisdom. Last but not least, my team of diligent, cohesive, creative and able staff members deserves to be commended as they are of paramount importance on our journey to success in developing the new Mobile Internet world.

Yours sincerely,

Bankee Kwan

Bankee P. Kwan
Chairman & CEO

Financial Review

FINANCIAL REVIEW

FINANCIAL PERFORMANCE

For the year ended 31 December 2011, the Group recorded a loss from continuing operations of HK$101.8 million as compared to the loss of HK$21.7 million last year. During the year under review, the activities carried out by CFSG, the Group's associate, was affected by the unprecedented financial crises and economic downturn. The Group recorded a share of loss from an associate of HK$17.1 million for the year ended 31 December 2011 as compared to a share of profit of HK$33.9 million last year. In addition, during the year under review, the Group recorded a loss on disposal of its entire 51% equity interest in Yole Wireless amounting to HK$31.6 million (including impairment loss recognised in respect of goodwill amounting to HK$28.2 million and disposal loss of HK$3.3 million). Overall, the Group reported a net loss for the year attributable to the owners of the Company of HK$127.3 million as compared to a net profit of HK$50.8 million last year.

Mobile Internet Services Business

To capture the ample business opportunities emerging from the tremendous growth in mobile data transmission and associated mobile data services in China soon after the Central Government's policy to converge the three networks, namely internet, telecom and television broadcasting, the Group has strategically adopted a multi-faceted approach to expand its business into Online Game and Mobile Internet services targeting to develop ourselves into an end-to-end mobile internet services powerhouse.

For the year ended 31 December 2011, the Mobile Internet Services business recorded revenue of HK$9.4 million as compared to HK$13.8 million last year. During the year, the Group had pursued a sustainable growth strategy to enrich its portfolio of self-developed online games in a variety of styles in order to expand its player base in both PRC and overseas markets. Amid the prolonged unstable global economic situation, the Group adopted a cost leadership and continued to implement stringent cost controls over its operations while in the meantime dedicated most of its research and development resources to developing two proprietary online games, known as "Tales of Ocean Fantasy" and "Superhero". These two online games have been scheduled to be launched in 2012. With its current short-term income being foregone in exchange for much greater long-term earnings in the coming years, the Mobile Internet Services business recorded a loss of HK$35.2 million as compared to the loss of HK$7.8 million last year. The Board is confident that these new online games will make significant contribution to the Group very soon in the days ahead. Meanwhile, the Group will continue to develop its extensive publishing network to generate scalable licensing income contribution to its Mobile Internet Services Business for the years to come.

CFSG (Associate)

Subsequent to the decrease in the Group's voting power in CFSG from 52.88% to 49.94% in October 2010, the Group ceased to consolidate the revenue and operating results of CFSG. Accordingly, the operating results of CFSG for the year ended 31 December 2011 were disclosed as share of results of an associate. The operating results of CFSG for the period from 1 January 2010 to 10 October 2010 and for the period subsequent to 10 October 2010 were, respectively, disclosed as profit (loss) for the year from discontinued operations and share of results of an associate. During the year under review, the financial services business (FSG) and retail management business (CRMG), being the activities carried out by CFSG, had been ineluctably affected by the global challenging environment and uncertainties amid the inflationary pressure in all aspects. Overall, CFSG recorded a net loss of HK$32.0 million for the year ended 31 December 2011 as compared to a net profit of HK$64.9 million last year.

Financial Services Business – FSG

The year 2011 represented a period of extreme volatility and instability in the global financial market. In China, the end of 2011 marked the 10th anniversary of China's entrance into the WTO and resembled a decade of rapid economic growth in China. However, the Central Government has imposed a series of harsh austerity measures such as tightening credit, increasing interest rate and raising deposit-reserve ratio aiming at cooling down the overheated property market and suppressing inflation. As a result, the pace of economic recovery was battered. Meanwhile, the lingering European sovereign debt crisis continued to beset the global stock markets and somewhat suspended the US and Europe's economic growth. The European countries have seen fiscal deficits ballooning to record high percentage of GDP which have casted considerable uncertainty to the recovery of the global economic recovery and seriously dampened the investment sentiment to the financial markets.

The Hong Kong financial market was inevitably beleaguered by these global crises and the local economic growth has trended downward since the second half of 2011. In view of the highly volatile financial market and gloomy economic outlook, investors became growingly skeptical. The average daily

FINANCIAL REVIEW

turnover for the year under review was still on the low side at about HK$69.7 billion as compared with HK$69.1 billion last year. The slight increase in average daily turnover was mainly due to the increase in turnover of derivative warrants and CBBCs in the extreme market volatility despite the poor market sentiment. However, market competition during the year under review remained intense and its commission earnings were inevitably affected. As a result, FSG recorded revenue of HK$261.7 million for the year ended 31 December 2011, representing a 7.5% decrease as compared to HK$283.0 million last year. Moreover, during the year under review, its operating overheads had been sharply increased which was due to the increase in rental cost upon the renewal of tenancy agreement in late 2010 and the increase in salary costs for its strategy to accelerate growth in the personal wealth management business in China. The personal wealth management business of FSG in China had already started to make a significant contribution to FSG in late 2011. Overall, FSG recorded a net loss of HK$5.8 million for the year ended 31 December 2011 as compared to a net profit of HK$32.6 million last year.

Retail Management Business – CRMG

The Consumer Price Index (CPI) of Hong Kong rose by 5.7% in December 2011 over the same month a year earlier. The sharp increase in rental cost, newly enacted statutory minimum wage and inflationary pressure of all other aspects have increased CRMG's operating overheads and further eroded its profit margin. Furthermore, in order to cool down the overheated property market, the Hong Kong Government has proactively introduced measures aiming at reducing speculative activities, including high stamp duty on short-term sales and tightening rules on mortgage lendings on luxury properties. The Hong Kong property market has been slowing down from November 2010 onwards with a remarkable drop in the number of property transactions. As a result, CRMG was hard hit. Nevertheless, CRMG managed to achieve steady growth and recorded revenue of HK$1,072.8 million for the year ended 31 December 2011, representing a 6.1% increase as compared to HK$1,011.2 million last year. The increase in revenue was mainly attributable to CRMG's proactive approach in developing attractive joint-promotions and cross-selling programmes with various business partners, which successfully boosted its store traffic, transactions number and ticket size.

In the mainland market, China's 12th Five-Year Plan drove the growth of GDP in China and contributed to an upward momentum in consumer spending. To capture the release of urban and rural consumption potential, CRMG has opened three stores in Guangzhou during the year. The retailing business in the mainland market is still in its early investment phase. CRMG will continue to expand its retail network on the mainland, optimise its product mix and enhance its operational efficiency. It is expected that the mainland operations will gradually make profit contribution in the coming years.

During the year under review, CRMG recorded a gain on disposal of a property amounting to HK$32.4 million. Overall, CRMG recorded a net profit of HK$16.9 million for the year ended 31 December 2011 as compared to a net profit of HK$47.7 million last year.

Liquidity and Financial Resources

The Group's equity attributable to owners of the Company amounted to HK$613.2 million as at 31 December 2011 as compared to HK$512.2 million at the end of the previous year. The increase in equity was the combined result of the loss reported for the year, completion of top-up placing during the year, exercise of share options and issue of new shares due to conversion of convertible notes.

As at 31 December 2011, the Group had total interest bearing borrowings of approximately HK$141.8 million, as compared to HK$190.7 million at the end of the previous year. The decrease in the borrowings was mainly due to the partial conversion and redemption of convertible notes and the repayment of borrowings during the year. Among the above borrowings, HK$132.2 million were secured by the shares of a wholly-owned subsidiary, certain property and equipment and investment properties. The remaining borrowings were unsecured.

As at 31 December 2011, our cash and bank balances totalled HK$81.1 million as compared to HK$82.0 million at the end of the previous year. The liquidity ratio as at 31 December 2011 was healthy at 1.2 times as compared with 0.5 time on 31 December 2010.

The gearing ratio, which represents the ratio of interest bearing borrowings of the Group divided by the total equity, was 0.23 as at 31 December 2011 as compared to 0.37 as at 31 December 2010, which was kept at a conservatively low level. On the other hand, we have no material contingent liabilities at the year-end.

Foreign Exchange Risks

As at the end of the year, the Group did not have any material un-hedged foreign exchange exposure or interest rate mismatch.

Material Acquisitions and Disposals

On 11 January 2011, the Group announced a discloseable transaction relating to acquisition of a 51% equity interest in Yole Wireless at a consideration of RMB81,600,000 (equivalent to approximately HK$95,602,560). The consideration was settled as to 50% in cash and as to 50% by the issue of the Company's new shares. The acquisition was completed on 26 April 2011. The 51% equity interest in Yole Wireless has subsequently been disposed by the Group at a consideration of HK$50 million on 28 December 2011 (major transaction as announced by the Group on 9 November 2011).

On 7 June 2011, the Group announced a share transaction involving acquisition of Oberon Media Asia Pacific Pte. Ltd. and deemed disposal of Moli Mobile Digital, a subsidiary of the Group. The consideration of USD10,000,000 (equivalent to approximately HK$77,800,000) was settled as to 70% by issue of Moli Mobile Digital's consideration shares and as to 30% by issue of the Company's new shares. The transaction was completed on 17 June 2011.

Save as the above, the Group did not have any material acquisition and disposal during the year.

Capital Commitment

As at 31 December 2011, the Group did not have any material outstanding capital commitment.

Material Investments

As at 31 December 2011, the Group did not have a portfolio of listed investments and unlisted investment funds and net loss on listed investments and unlisted investment funds totally of HK$5.3 million was recorded for the year.

We did not have any future plans for material investments, nor addition of capital assets.

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Mobile Internet Business

Industry Review

Substantiated by strong economic growth and the accelerating adoption of technology, China had grown as one of the world's largest markets for Internet, telecom, and mobile businesses. At the end of 2011, Internet users in China had already exceeded 500 million for the first time.

According to the Ministry of Industry and Information Technology (MIIT), the telecom sector had shown a 15.5% growth in 2011. Mobile phone users in China had exceeded the 1 billion milestone in March 2012, with smartphone users showed the fastest growth. Total smartphone shipment in China in Q3 2011 had surpassed that in the U.S. Q3, making China the largest smartphone market globally. According to iiMedia Research, total smartphone shipment in China in Q4 2011 reached 22.8 million, representing 23.2% of all mobile phones.

The popularity of smartphones and mobile devices and the increasing abundance of mobile and wireless bandwidth had led to an explosive growth in mobile Internet usage. The 2011 China Internet Network Information Center (CNNIC) report put mobile Internet growth as a highlight of Internet market development. Since its infancy a few years back, mobile Internet user population had reached 356 million and continued to show a strong growth rate.

Internet usage had become a part of the daily lives of a large and growing population of Internet users. Among the various types of Internet usage, mobile games remained as one of the top revenue generating activity types. According to a research report released by the Game Publication Committee of the Publishers Association of China and International Data Corporation (IDC), China's online gaming market amounted to RMB42.85 billion in 2011, showing a 32.4% year-on-year increase.

A noteworthy feature of the online game market was the growing influence of domestically developed games that accounted for 63.4% of the total online gaming revenue in 2011, up 40.7% year-on-year. In addition to the games played over the Internet, the mobile gaming market had also demonstrated exciting growth momentum, increasing 86.8% year-on-year to bring in RMB1.7 billion in revenue. The trend in mobile game players was the shift from entry-level players using feature phones towards more sophisticated and affluent players with higher consumption power using smartphones.

With the consistence improvement in product quality of domestically produced games, the game publishing business for overseas markets is accelerating its importance. A total of 131 Chinese produced game titles had been launched outside of the PRC market in 2011, generating revenue of USD360 million, a 56.5% year-on-year increase. In recent years, "emerging markets" for online games, such as Latin America and Middle East regions, had become the focus of overseas business development. These markets had shown massive growth potential due to the large population size, increasing Internet penetration rate and improvements of Internet connection speed.

While the Internet and mobile Internet markets were both showing strong growth respectively, the trend for network convergence with content delivered over separate platforms had become apparent. The Ministry of Culture had formally issued a policy in 2010 ("Tentative Measures for Online Game Administration") to promote the sharing of content across the broadcasting, telecom and Internet networks. As these networks had become a major source for communication, information search, entertainment, and e-commerce activities, Network convergence had opened new business opportunities for a number of online entertainment and e-commerce services, areas that Net2Gather had built competitive edges in the past years.

Business Review

In June 2011, the Group has formally taken its current name, Net2Gather (China) Holdings Limited, which signifies our vision of bringing the three networks, namely Mobile, Internet and Television, and related cross value chain services and the people of China "2Gather". The new name reflects our strategic growth direction in the coming years as the Group is immersed with exciting opportunities in the Mobile Internet market in China.

Online Game

Headquartered in Shanghai with more than 220 dedicated employees, including nearly 120 gaming research and development (R&D) professionals, Net2Gather operates its PC online gaming business through subsidiary "Moliyo", which has a subscriber base of more than 40 million for its existing award-winning online games.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, Moliyo continued its strategy to focus on research and development of online games. The veteran game developer has recently developed two much-anticipated Massively Multiplayer Online Role-playing Games (MMORPGs), namely "Tales of Ocean Fantasy" and "Superhero". During the past months, Moliyo has completed several rounds of user acceptance tests, clearly identified user targets and collected detailed feedback to regulate and optimise the products. In view of the intense competition and high market expectation towards quality online games, Moliyo has been fine-tuning the games to cater for a broader base of user demand on the gameplay, storyline and the graphical presentation of these two game titles during the year.

"Tales of Ocean Fantasy", a 2.5D MMORPG revolving around the battle to rebuild an island wonderland, will be commercially launched in the first half of 2012. "Superhero" is a 3D console-like MMORPG using innovative next-generation game engine techniques in a stunning fantasy world. The strategy to focus on R&D of games is proven to be successful as both titles are highly anticipated, as Tales of Ocean Fantasy was named the Top 10 Most Anticipated Online Games while Superhero was awarded with the Best Self-Developed Online Games in China's prestigious Golden Plume Awards. Superhero is scheduled to launch in the second half of this year.

During the year, the Group has launched a new Chinese expansion pack "Revival of Dark Dragon" of our first self-developed MMORPG, known as "King of Pirates". Our operation team has implemented multiple tactics and offered a variety of online activities to expand the user base.

Over the years, domestic game developers have noticed the importance of the overseas publishing market. The Group had pioneered to export our self-developed games to the overseas market since early 2000s. During the year, the Group continued to leverage its publishing network and partnership to secure license deals in several countries and regions. We have also started to publish "Tales of Ocean Fantasy" in Asia by closing the license deals in Thailand, Indonesia, Hong Kong and Macau. We have completed the license deals of "King of Pirates" to explore the new emerging markets like Brazil, Portugal and Indonesia. The commercial operations of the above game titles in these countries and regions are expected to be launched in 2012.

In addition, we have provided continuous patch updates with additional items and gameplay features for our overseas license partners for "King of Pirates". To recognize our outstanding performance in the overseas publishing market, Moliyo was bestowed with the Overseas Development Award for Domestic Game Developers in the Golden Phoenix Awards at the China Game Industry Annual Conference during the year.

Mobile Social Game

Leveraged on the knowhow of Oberon (one of the largest cross-platform game distributors in USA) and their rich library of game titles, the Group has ported mobile games onto Samsung smartphone platform, localized a car racing game and distributed through China Mobile. Initial market response is encouraging. The Group will scale up its plan to port and localize more smartphone games in the coming years.

In November 2011, the Group started to develop original in-house mobile social game that is becoming very popular among smartphone users worldwide. In view of the increasing popularity of smartphones in China, the Group has strengthened its development in the respective area. According to Analysys, the trade volume of smartphones accounted for about 27% of the market share in 2011. It will grow to about 45% in 2012 and will further dominate the mobile market in China in the coming two years. The Group will continue to dedicate resources to develop products for smartphone market.

The Group will further scale up its capacity to port and localize Oberon's smartphone games on Apple App Store, Android Market and Samsung Bada platforms. The popularity of smartphone has prompted users to play casual social games among friends. Our strategy is to create a mobile social game based on our MMORPG "Tales of Ocean Fantasy"; sharing the story background but caters to players on the move with less time to spare. The concept is to develop a smartphone version of our online game, use the mobile social network "weibo" (Chinese version of twitter) to gain allies, players can share the fun among peer groups to build their own fleet of battleships to defend from pirates and settled on self designed tropical island. This mobile social game is modified to incorporate unique entertainment experience based on smartphone hardware as opposed to PC. It will be released in second half of 2012.

Outlook

Looking forward, the Group expects the growth momentum of PRC online gaming industry to continue. We believe the future success relies primarily on the core competitiveness in proprietary development capabilities. We will continue to dedicate resources in research and development and, at the same time, increase content patches of our self-developed game titles. We will also look for licensing opportunities of well-received games to our online entertainment platform. On the other hand, we strive to improve our operating efficiency and effectiveness of our gaming platform. We will continue to explore partnership opportunities to expand our player base, game portfolio and licensing business. We will also work closely with regulatory units to implement compliance measures of our online gaming operations, and fully co-operate with law enforcement units to combat the operation of pirate servers and hacking behaviour.

For overseas business development, we will leverage on our extensive publishing network to expand our footprint abroad. We will license our self-developed game titles to first-class overseas publishers and keep providing new content patches so as to generate scalable income for our award-winning games, such as "Tales of Ocean Fantasy", "Superhero" and "King of Pirates", and to raise our market share in overseas business, with particular focus on the emerging markets.

For our mobile social game business, as at the end of 2011, Apple started to charge RMB on app store. It will encourage more downloads in 2012 and beyond, as many Chinese customers do not have international credit cards. We believe the mobile social game market is wide open especially when it is connected to social network. The Group will scale up its capacity to port and localize smartphone games. At the same time, we will launch our self-developed mobile social game in 2012. We will also develop Android version of the game that serves another half of smartphone market.

From PC to mobile to tablet games, we are embarking on a move to further embrace our customers by providing social casual games through IPTV and cable TV network. We have signed up with an international supplier who specializes in providing interactive game content through digital set top boxes. We are making the preparatory work to introduce the iTV game solution through network operators in 2012.

CFSG – THE GROUP'S ASSOCIATE

Since October 2010, CFSG has become an associate of the Group. Its business results and operating outlook during the year were discussed separately as follows.

Financial Services Business

Industry Review

The 2011 global economy started with a good recovery momentum. However, the pace of recovery was interrupted by a stream of unexpected political upheavals and natural disasters, including the European sovereign debt crisis, volatile and high commodity prices, tight monetary policy in China and the traumatic earthquake in Japan.

In China, despite the RMB4 trillion stimulus projects, slowdown of economic recovery did occur under the impact of globalisation. The interest rate upcycle balked in face of the decelerating economic growth. The Shanghai Composite Index ended the year at 2,199.42, a decline of 21.6% since the beginning of the year.

Hang Seng Index dropped 20% to conclude the year at 18,434.39. In terms of market capitalisation, the index dropped 16.7% to 17,537 billion. Average daily turnover for the year was up a slight 1% at HK$69,732 million.

Business Review

Platform Development

Designed for multiple products with multi-currency functions, FSG's state-of-the-art trading platform has consistently been upgraded to ensure its safety, stability and speed. During the year, FSG pioneered to have passed the HKEx's test for AMS/3.8 and MDS/3.8 system upgrade. FSG will continue to join the tests and market rehearsals organised by the HKEx in order to stay in the forefront of the market development, which is characterised by stringent requirements in platform capability.

MANAGEMENT DISCUSSION AND ANALYSIS

Securities Broking

Impacted by the significant drop in index level and trading volume, together with the severe competition in the commission rate, FSG's commission earning in securities broking was ineluctably affected. Despite the pessimistic outlook toward the listing of new shares in the second half of the year, there noted steam in the margin financing business amid the volatile market. Till the end of the year, the gross interest income from margin financing reached HK$35.5 million, an increase of 5.6% over the previous year. In addition, in anticipation of a loose monetary policy in the US and European economies, the commodities market fluctuated, providing a lot of trading opportunities to investors. This directly drove the double digit growth in FSG's international commodities business during the year.

Wealth Management

While global investment environment remained volatile during the year under review, FSG's wealth management business managed to achieve a 58% growth in turnover as compared to the previous year. By leveraging its solid research capability, FSG received positive feedback on the model portfolios that suit its clients with different risk appetites. In 2012, FSG will continue to devote resources to developing the PRC business with a view to significantly increase client base, new business volume and asset under management.

Asset Management

In 2011, the total amount of Asset Under Management (AUM) fell around 20%, which was in line with the performance of benchmark index in 2011. With the help of improved liquidity and attractive valuation of the market, the performance of the Hong Kong stock market is expected to improve. FSG will continue to focus on the increase in its base income and earning incentive fees.

Investment Banking

FSG maintained its strategy to have a balanced focus on IPOs and other financial advisory and corporate transactions. During the year, FSG participated in a number of transactions. FSG also acted as the sponsor in the initial public offering of Grand Concord International Holdings Limited which was successfully listed on the Main Board of HKEx in the fourth quarter of 2011. 2012 is expected to be a year full of challenges for the capital market participants. FSG has secured a number of mandates for IPO sponsorship and financial advisory services in 2012.

China Development

During 2011, FSG set up new offices in Nanjing, Chengdu, and Qingdao. Together with the existing offices in Beijing, Chongqing, Shenzhen, Xian, Xiamen and the head office in Shanghai, FSG now has nine offices across the mainland. FSG will continue to expand its network by opening offices in strategic locations. Its goal is to continue to build its brand, database and network in preparation for the eventual opening up of the Mainland financial markets.

Outlook

Despite the gloomy economic forecast, FSG remains cautiously optimistic about the economic outlook in medium term. FSG endeavours to provide comprehensive financial solutions from a global prospective to its clients. FSG will continue to establish strategic alliances with business partners in the PRC and adopt an active approach in order to explore more opportunities in the Mainland market. As a leading financial services provider in Hong Kong, FSG is known for its initiative and prominence in information technology development. Looking ahead, FSG is committed to enhancing its IT infrastructure and trading platform in order to capture the valuable opportunities in the market and to meet with the versatile needs of its clients in Hong Kong and Mainland China.

With the growing sophistication of the capital market, FSG is constantly looking for educated and internationally oriented workforce. FSG is able to attract professionals from around the globe. With the dedication of its professional workflow, FSG will continue to develop its advanced and high technology trading strategies and to capture each and every opportunity present in the market.

Retail Management Business

Business Review

In-store Communication Enhancement

During the year, CRMG focused more on product communications and put extra effort in enhancing different in-store communication tools and display layout. In order to enhance the space productivity and instigate the mix-and-match concepts for its customers, CRMG has further improved its cross-selling display by placing more household products in the furniture room-setting. These provided additional product knowledge and smart living tips to customers, as well as stimulated home improvement and decorative demand.

E-commerce and Multi-Media

In early 2011, CRMG launched the Pricerite official Facebook page. This online platform established another interactive channel for it to communicate with its customers more efficiently and in a timely manner. To further develop the e-business, the Pricerite e-shop was also revamped with newly added Macau delivery service. Subsequent to the introduction of iPad version electronic catalogue in revamped stores, Pricerite also applied QR code technology to provide further product information to customers during the year. CRMG will continue this strategy to deploy advanced technology to improve customer service and shopping experience.

Product Development

In 2011, Pricerite fine-tuned its product range to better serve the changing needs of its customers. Pricerite expanded its sourcing network overseas to include Taiwan, Singapore, Japan and Thailand, etc. Pricerite has also expanded the Tailor Made Furniture (TMF) service by establishing TMF service counters in selected stores. The service has proved to be a solution to help customers in home space maximisation.

Commitment to quality

Among dozens of merchants in the category of Department Stores, Home Decorations Products & Personal Care Products, Pricerite received the Silver Award at the "2011 Outstanding Quality Tourism Services Merchant" from the Hong Kong Tourism Board (HKTB). Pricerite's continuous quality service and excellent management were being recognised once again in 2011 by a number of organisations and government segment.

New Business in China

One of the CRMG's key strategies in 2011 was to establish another retail brand 生活經艷 and to secure its market presence in China. During the year, CRMG opened three stores in Tianhe District and Yuexiu District of Guangzhou, strategically initiating its footing for business development in China. 生活經艷 is a modern home furnishing chain in China that offers a coordinated range of in-house design home furnishing products to serve the up-and-coming young, middle income families in urban cities. Its product design theme focuses on SQAP, which stands for "Style, Quality, Affordability and Practicality" and aims to enable its customers to better enjoy their home-life, by enhancing their living quality through the use of its SQAP products.

Outlook

Looking ahead, CRMG will put extra effort in innovating its value chain to customers, including optimising its product mix, bringing new product enhancement as well as enhancing its shopping environment and services. In China, CRMG will continue to expand its retail network in and beyond Guangzhou into other cities in the Guangdong province. With CRMG's strategic plan and professional management, it is prudently optimistic about the prospects in 2012.

Employee Information

EMPLOYEE INFORMATION

At 31 December 2011, the Group had 350 employees. Our employees were remunerated according to their performance, working experience and market conditions. The total amount of remuneration cost of employees of the Group for the year under review was approximately HK$77.5 million.

BENEFITS

The Company and some of its subsidiaries provide employee benefits including mandatory provident fund scheme, medical insurance scheme, discretionary share options, performance bonus and sales commission for their staff. The Company also provides its employees in the PRC with medical and other subsidies, and contributes to the retirement benefit plans.

TRAINING

The Group has implemented various training policies and organised a number of training programs aimed specifically at improving the skills of its employees and generally to increase the competitiveness, productivity and efficiency of the Group including training in areas such as product knowledge, customer service, selling techniques, team building, communication, languages, presentation, coaching, quality management and also professional regulatory training programs as required by regulatory bodies. The Group also arranges for relevant staffs, who are licensed persons under the SFO, to attend the requisite training courses to fulfill/comply with the continuous professional training as prescribed in the SFO.

The Group conducts an initial staff orientation for new employees in order to familiarise them with the Group's history and strategy, corporate culture, quality management measures, rules and regulations. This orientation aims to prepare the new employees for the positions by establishing a sense of belongingness and cooperation; by supplying necessary information that resolves an employee's concerns; and by removing any potential barriers for job effectiveness and continuous learning.

Directors and Senior Management

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS' PROFILE

Executive Directors

Bankee Pak-hoo KWAN

Chairman & CEO, MBA, BBA, FFA, MHKSI, CPM(HK), MHKIM, aged 52, joined the Board on 9 March 1998. He is responsible for the overall business strategy of the Group. Mr Kwan has extensive experience in corporate management, strategic planning, marketing management, financial advisory and banking. He graduated from the Murdoch University of Perth, Australia with a Master Degree in Business Administration, and from The Chinese University of Hong Kong with a Bachelor Degree in Business Administration. Mr Kwan is a fellow of the Institute of Financial Accountants of the United Kingdom and a member of the Hong Kong Securities Institute. Mr Kwan is also a Certified Professional Marketer (Hong Kong) of Hong Kong Institute of Marketing and a member of Hong Kong Institute of Marketing.

Mr Kwan is a firm believer in youth education and development. He is a John Harvard fellow of the Harvard University, US; a member of the Harvard University Asia Center Advisory Committee; an honorary university fellow of The Open University of Hong Kong, a trustee of New Asia College of The Chinese University of Hong Kong; an advisory professor and an honorary member of the Board of Trustees of Nanjing University. Mr Kwan is also an honorary advisor of several higher education institutions, including the Graduate School of Business, The Hong Kong Polytechnic University; the LiPACE of The Open University of Hong Kong; and the Academy of Oriental Studies of Peking University. Furthermore, Mr Kwan is appointed as an honorary advisor of the Fong Yun Wah Foundation and the China Charity Federation.

In addition to education, Mr Kwan is also active in serving to requite the community. He is a member of the Chinese People's Political Consultative Conference, Shanghai Committee, and an advisor of the Executive Committee of Virtual Community Management of Shanghai Municipal of Bureau of Public Security. Mr Kwan is a member of the Election Committee for the Fourth Term of the Chief Executive Election of the HKSAR. Mr Kwan has also been a member of the Central Policy Unit of the Government of the HKSAR. After being the chairman of the Hong Kong Retail Management Association ("Association") for two consecutive terms, Mr Kwan continues to serve the Association as their honorary advisor. Currently, he is also a member of The Employees Retraining Board, Retail Industry Consultative Networks; and an honorary advisor of the CEPA Business Opportunities Development Alliance. Mr Kwan is a member of the Corporate Advisory Council of Hong Kong Securities Institute, the SME Development Fund Vetting Committee of the Trade and Industry Department, the Consumer Council and the Consultation Panel of the West Kowloon Cultural District Authority. In December 2009, Mr Kwan was named "Entrepreneur of the Year 2009" in the Asia Pacific Entrepreneurship Awards organised by Enterprise Asia, which recognised his outstanding entrepreneurial success and significant contributions to economic life and society.

Mr Kwan is a substantial Shareholder and the chairman of CFSG. Mr Kwan is a member of the Remuneration Committee, as well as a member of the remuneration committee of CFSG.

Bernard Ping-wah LAW

CFO, MBA, FCCA, FCPA, MHKSI, aged 53, joined the Board on 9 March 1998. He is in charge of the Group's overall financial and accounting management. Mr Law has extensive experience in financial management and accountancy. Mr Law graduated from the University of Warwick, United Kingdom with a Master Degree of Business Administration. He is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, and a member of Hong Kong Securities Institute. Mr Law is also an executive director and chief financial officer of CFSG.

Raymond Kung-chit NG

COO, M Mgmt, B Comm, aged 43, joined the Board on 11 December 2009. He is in charge of the Group's day-to-day operation. He has extensive management experience in corporate administration and operation. Mr Ng graduated from Macquarie University, Australia with a Master Degree in Management and from the University of Toronto, Canada with a Bachelor Degree in Commerce.

Independent non-executive Directors

Johnny Ka-kui LEUNG

INED, LL.B, aged 54, joined the Board on 25 October 2000. Mr Leung has extensive experience in the legal field and is the managing partner of a legal firm in Hong Kong. Mr Leung graduated from the University of London with a Bachelor of Laws. Mr Leung is the chairman of the Audit Committee and the Remuneration Committee.

DIRECTORS AND SENIOR MANAGEMENT

Chuk-yan WONG

INED, MSc (Business Administration), BBA, CFA, CGA, aged 50, joined the Board on 3 June 1998. Mr Wong has extensive investment management experience in the global financial markets and is a portfolio manager of a large renowned investment counsel in Toronto, Canada and is responsible for the company's equity investments in the Asia Pacific region. Mr Wong graduated from the University of British Columbia, Canada with a Master of Science degree in Business Administration and from The Chinese University of Hong Kong with a Bachelor Degree of Business Administration. Mr Wong is also a Chartered Financial Analyst (CFA) charterholder and a Certified General Accountant of Canada. Mr Wong is also a member of the Audit Committee and the Remuneration Committee.

Hak-sin CHAN

INED, PhD, MBA, BBA, aged 50, joined the Board on 25 October 2000. Dr Chan has extensive experience in the academia in the US as professor, researcher and consultant in the fields of corporate finance and international marketing. He is an associate professor in the Department of Marketing and Management at Hang Seng Management College as well as an adjunct associate professor in the Department of Marketing at The Chinese University of Hong Kong. Dr Chan graduated from the University of Wisconsin-Madison, US with a Doctor of Philosophy degree in Business and a Master Degree in Business Administration and from The Chinese University of Hong Kong with a Bachelor Degree in Business Administration. Dr Chan is also a member of the Audit Committee.

Senior Management

Bob Yau-ching CHAN

Chief Executive Officer, Moliyo, aged 49, received a Doctorate Degree in Business from Purdue University, US and a Master Degree of Business Administration from the University of Wisconsin-Madison, US. He is a member of Chartered Financial Analyst Institution, Hong Kong Securities Institute and the Hong Kong Society of Financial Analysts. Dr Chan joined the Group in September 2000 and has extensive experience in communicating with investors and fund-raising activities. He specialises in corporate strategy and positioning, restructuring and management of high corporate growth companies. He is responsible for the overall product development and operation of the Group's online game business and overseeing the Group's investment activities. Dr Chan is also the chief economist of CFSG for providing global macroeconomic viewpoints to clients of CFSG.

Harry RUMJAHN

Chief Executive Officer, Moli Mobile, aged 55, received a Bachelor Degree in Commerce from McGill University, Canada. Mr Rumjahn joined the Group in March 2011 and has extensive experience in the fields of telecommunications and internet. He is in charge of the strategic planning and execution of the Group's mobile internet business.

Benson Chi-ming CHAN

Executive Director and Chief Executive Officer of CFSG, aged 45, is a holder of Master Degree of Business Administration from The Hong Kong University of Science and Technology and a holder of Bachelor of Arts (Hons.) Degree in Accountancy from The Hong Kong Polytechnic University. He is a fellow member of The Association of Chartered Certified Accountants, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. Mr Chan joined the Group in June 1998 and has extensive experience in the field of investment banking, corporate finance, auditing and accounting. Mr Chan is in charge of the CFSG Group's overall business development and management. Mr Chan is also the managing director and a responsible officer of Celestial Capital (the investment banking group of the CFSG Group).

Derek Hin-sing NG

Chief Executive Officer, Pricerite, aged 43, received a Master Degree of Business Administration from Southern Illinois University Carbondale in USA and a Bachelor Degree of Business Administration from Ottawa University in USA, and is a CERTIFIED FINANCIAL PLANNER^CM professional. Mr Ng joined the Group in January 1997 and has extensive experience in the field of corporate development and retail business. He is in charge of the overall strategic development and operation of the CFSG Group's retail business.

Jack Tsz-cheung HO

Deputy COO, Moliyo, aged 30, received a Bachelor Degree of Business Administration from The Chinese University of Hong Kong. Mr Ho joined the Group in September 2003 and has extensive experience in the fields of business development, operations and management. He is in charge of business development and strategic planning of the Group's online game business.

Truman Cho-man TANG

General manager of Products Research & Development Centre, Moliyo, aged 44, received a Degree of Bachelor of Science in Mathematics from Jinan University in China. Mr Tang joined the Group in June 2009 and has extensive experience in management of online game operations, R&D and project control. He is in charge of the overall product development of the Group's online game business.

Ben Man-pan CHENG

Executive Director of CFSG, aged 42, graduated from The City University of Hong Kong with a Bachelor Degree in Accountancy. He is a fellow member of The Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr Cheng joined the Group in March 1998 and has extensive experience in auditing, accounting, financial controlling and project management. Mr Cheng is the managing director of China business development of CFSG. He is a responsible officer of Celestial Securities, Celestial Commodities and CASH Asset Management respectively.

Majone Pui-lai CHENG

Executive Director and COO of CFSG, aged 39, received a Master Degree of Science in Financial Management from the University of London, United Kingdom and a Bachelor Degree in Economics from The University of Hong Kong. Ms Cheng joined the Group in March 1998 and has extensive relevant experiences in the financial services industry. She is in charge of the overall operations of the CFSG Group.

James Siu-pong LEUNG

Deputy Chief Executive Officer, Pricerite, aged 49, received a Master Degree of Business Administration from Heriot-Watt University in UK and a Bachelor Degree of Social Sciences from The University of Hong Kong. Mr Leung joined the Group in October 2001 and has extensive experience in the field of retail management business. He is in charge of the retail operation management of the CFSG Group's retail business.

Raymond Pak-lau YUEN

Deputy CFO, aged 48, graduated from The City University of Hong Kong with a Bachelor of Arts in Accountancy. He is a fellow member of The Association of Chartered Certified Accountants, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and an associate of The Institute of Chartered Accountants in England and Wales. Mr Yuen joined the Group in November 2000 and has extensive experience in internal audit, credit risk management and operations control. Mr Yuen is responsible for overseeing Group's finance, treasury, accounting and financial management.

Hon-wo SHUM

Legal Counsel, aged 39, is a qualified solicitor of the HKSAR. He is a Master Degree holder in Laws from The City University of Hong Kong, Master Degree holder in Laws from Renmin University of China and Bachelor Degree holder in Laws from The University of Hong Kong. Mr Shum joined the Group in August 2005 and has extensive experience in legal field. He is the Group's legal counsel and is responsible for all legal issues of the Group.

Suzanne Wing-sheung LUKE

Company Secretary, aged 43, is a fellow of the Institute of Chartered Secretaries and Administrators. Ms Luke joined the Group in May 2000 and has extensive listed company secretarial experience. In addition to taking the role as company secretary of the Company, she is also the company secretary of CFSG.

Corporate Governance Report

This CG Report presents the corporate governance matters during the year ended 31 December 2011 required to be disclosed under the Listing Rules.

ADOPTION OF PRINCIPLES IN THE CG CODE

The Board has adopted the Principles which aligns with the requirements set out in the CG Code. During the year under review, the Principles had been duly complied with except for the deviations summarised as follows:

CG Code	Deviation and reason
A.2.1 The roles of Chairman and CEO should be separate and should not be performed by the same individual	Mr Kwan Pak Hoo Bankee, Chairman of the Board, also assumes the role of CEO of the Company. The dual role of Mr Kwan provides a strong and consistent leadership to the Board and is critical for efficient business planning and decisions of the Group. The balance of power and authorities is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals.

Save for the above, the Company has been in compliance with the CG Code throughout the year under review.

Directors' Securities Transactions

The Company has also adopted the Model Code. Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code during the year under review.

BOARD OF DIRECTORS

The Board, led by the Chairman, is responsible for formulating the strategies and policies of the business development of the Group, while the management is delegated with the powers and authorities for overseeing the day-to-day operations of the Group under the leadership of the Board.

During the year under review, the Board had held the following number of physical meetings of the Directors:

- 3 meetings of the full Board
- 10 meetings of the EDs

All of the 3 full Board meetings were held to discuss and/or approve the annual/interim financial performance/results and/or review the quarterly business operation of the Group. The ED meetings were held to report, discuss and/or resolve for the ordinary business and operation matters.

During the year under review, the composition of the Board, and the respective attendances of the Directors at the above Directors' meetings are presented as follows:

		Attendance	
Director	**Board capacity**	**Full Board meetings**	**ED meetings**
Mr Kwan Pak Hoo Bankee	ED, Chairman & CEO	2/3	10/10
Mr Law Ping Wah Bernard	ED & CFO	3/3	10/10
Mr Ng Kung Chit Raymond	ED & COO	3/3	10/10
Mr Leung Ka Kui Johnny	INED	3/3	N/A
Mr Wong Chuk Yan	INED	3/3	N/A
Dr Chan Hak Sin	INED	2/3	N/A

During the year under review, none of the Directors above had or maintained any financial, business, family or other material/relevant relationship with any of the other Directors.

The terms of the appointments of the EDs and the INEDs were governed by the respective employment or service contracts while the appointments of the directorship were subject to, as to EDs, retirement, rotation and re-election at least once every 3 financial years and, as to INEDs, retirement and re-election every year, all at annual general meetings of the Company.

Corporate Governance Report

REMUNERATION COMMITTEE

Throughout the year under review, the Company had maintained a Remuneration Committee. The role and function of the Remuneration Committee includes:

- recommendation to the Board on the remuneration policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- determination of the specific remuneration packages of all EDs and senior management based on delegated responsibility, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and recommendations to the Board of the remuneration of NEDs;
- review and approve of performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- review and approve of the compensation payable to EDs and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
- review and approve of compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and
- ensure that no Director or any of his associates is involved in deciding his own remuneration.

Terms of reference of the Remuneration Committee had been compiled since the establishment of the Remuneration Committee and each version was endorsed and adopted by the Remuneration Committee, and has been posted onto the corporate website of the Company.

During the year under review, the Remuneration Committee had held 1 physical meeting for the purpose of considering the remuneration of the Directors.

The composition of the Remuneration Committee, and the respective attendances of the committee members are presented as follows:

Member	Board capacity	Attendance
Mr Leung Ka Kui Johnny	INED	1/1
Mr Wong Chuk Yan	INED	1/1
Mr Kwan Pak Hoo Bankee	Chairman of the Board	1/1

The chairman of the Remuneration Committee since its establishment has been Mr Leung Ka Kui Johnny.

The summary of the work performed by the Remuneration Committee for the year under review included:

- endorsement to the remuneration policy and structure for the Directors and senior management;
- review and approval of the specific remuneration package of each Director and senior management including benefits in kind, pension rights and compensation payments.

Corporate Governance Report

REMUNERATION POLICY FOR DIRECTORS

The Company adopted a remuneration policy providing guideline for Directors' remuneration.

Under the remuneration policy, Directors' remuneration should be based on internal equity factors and external market conditions and will be reviewed from time to time.

The remuneration of EDs generally consists of:

- fixed monthly salary/allowance – which is set in accordance with the Director's duties, responsibilities, skills, experiences and market influences;
- pension – which is based on the local Mandatory Provident Fund Contribution Scheme;
- short term variable incentive – which may include discretionary cash bonus depending on the achievement of short-term corporate objectives and/or personal targets; and
- long term variable incentive – which may include share options designed to encourage long-term commitment.

The remuneration of INEDs will be a lump sum of Directors' remuneration made annually.

Directors' Remuneration

The remuneration paid to and/or entitled by each of the Directors for the year under review is set out in note 12 to the consolidated financial statements in the annual report.

The share options granted to and/or entitled by the Directors during the year under review are set out in the section headed "Directors' Interests in Securities" of the Directors' Report of this annual report.

NOMINATION OF DIRECTORS

The Board shall be composed of members with mixed skills and experience with appropriate weights necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. Each member of the Board shall possess, be recognised for and be able to exhibit high and professional standard of a set of core criteria of competence.

The Company had adopted a nomination policy for the criteria, procedures, and process of the appointment and removal of Directors.

Under the nomination policy, the Board of EDs has been delegated the full power to the administration of the nomination policy and the appointment and the termination of Directors, where the full Board remains to have the full and overriding power and absolute right thereover.

Since there is no appointment and resignation of Director during the year under review, no meeting was held by the EDs for resolving such issues.

Corporate Governance Report

AUDIT COMMITTEE

Throughout the year under review, the Company had maintained an Audit Committee. The major role and function of the Audit Committee include:

- monitoring the integrity of the financial statements, annual report and half-yearly report of the Group;
- providing independent review and supervision of the effectiveness of the financial controls, internal control and risk management systems of the Group;
- reviewing the adequacy of the external audits;
- reviewing the compliance issues with the Listing Rules and other compliance requirements in relation to financial reporting;
- providing independent views on connected transactions and transactions involving materially conflicted interest; and
- considering and reviewing the appointment, reappointment and removal of the auditor, the audit fee and terms of engagement of the auditor.

Terms of reference of the Audit Committee had been compiled since the establishment of the Audit Committee and each version was endorsed and adopted by the Audit Committee, and has been posted onto the corporate website of the Company.

During the year under review, the Audit Committee had held 3 physical meetings for discussing and/or approving the periodic financial results and/or reviewing the quarterly business operation of the Group.

The composition of the Audit Committee, and the respective attendances of the committee members are presented as follows:

Member	**Board capacity**	**Attendance**
Mr Leung Ka Kui Johnny	INED	3/3
Mr Wong Chuk Yan	INED	3/3
Dr Chan Hak Sin	INED	2/3

The chairman of the Audit Committee has been Mr Leung Ka Kui Johnny during the year under review.

The report of the work performed by the Audit Committee for the year under review is set out in the section headed "Audit Committee Report" of this annual report.

AUDITOR'S REMUNERATION

The analysis of the auditor's remuneration for the financial period under review is presented as follows:

	Fee amount
	HK$
Audit services (for 2011 annual accounts of the Group)	1,200,000
Non-audit services	265,000
Total	1,465,000

The audit services include the audit for the annual accounts of the Group for the year ended 31 December 2011. The non-audit services included the reporting accountant required under the Listing Rules for corporate transactions of the Group which took place during the year under review and review of preliminary results announcement.

Corporate Governance Report

ACKNOWLEDGEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the accounts of the Group. In preparing the accounts for the year under review, the Directors have:

- based on a going concern basis;
- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were prudent, fair and reasonable.

REVIEW OF INTERNAL CONTROL

During the year under review, the Directors had arranged to conduct a review over the effectiveness of the internal control system of the Group including functions of financial, operation, compliance and risk management, and also over the adequacy of resources, qualifications and experience of employees who are responsible for the accounting and financial reporting functions of the Group, and their training programmes and budget. These reviews showed a satisfactory control system. The review had been reported to the Audit Committee. The Directors had also initiated necessary improvement and reinforcement to the internal control system during the year under review.

On behalf of the Board
Bankee P. Kwan
Chairman & CEO

Hong Kong, 26 March 2012

Audit Committee Report

The Audit Committee of the Company was established on 28 June 1999. Its composition shall be a minimum of 3 members of NEDs with a majority being INEDs. For the year under review, the Audit Committee comprised all the INEDs of the Company at all times.

For the year under review, the Audit Committee had performed the following duties:

- reviewed and commented on the financial reports for the six months ended 30 June 2011 and for the year ended 31 December 2011, and reviewed and commented on the business operation and development of the Group for the quarters ended 31 March 2011 and 30 September 2011;

- endorsed the policy on the engagement of external auditor for non-audit services;

- met with the auditor to discuss the financial matters of the Group that arose during the course of the audit process, and reviewed the findings, recommendations and representations of the auditor;

- considered and approved the remuneration and the terms of engagement of the auditor for both audit service and non-audit services for the year under review;

- reviewed the Company's financial controls, internal control and risk management systems; and

- reviewed the Company's statement on internal control systems including adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Audit Committee Members:
LEUNG Ka Kui Johnny *(committee chairman)*
WONG Chuk Yan
CHAN Hak Sin

Hong Kong, 26 March 2012

Directors' Report

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group during the year consisted of (a) provision of mobile internet (to include content, operations and distribution activities) services and online game (sales of online game auxiliary products and licensing) services; (b) the business activities carried out via CFSG (stock code: 510): (i) financial services including online and traditional brokerage of securities, options, futures, and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products, margin financing, money lending and corporate finance, and (ii) sales of furniture and household items and electrical appliances; and (c) investment holding.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on pages 39 to 40 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: HK 0.2 cent per Share).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the audited results and the assets and liabilities of the Group for the last five financial years ended 31 December 2011 is set out on page 118 of this annual report.

PROPERTY AND EQUIPMENT

Details of movements during the year in the property and equipment of the Group are set out in note 18 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 43 to the consolidated financial statements.

SHARE CAPITAL

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

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group during the year are set out in the "Consolidated Statement of Changes in Equity" of the consolidated financial statements on pages 43 to 44 of this annual report.

As at 31 December 2011, the reserves of the Company available for distribution to Shareholders were approximately HK$363,043,000, comprising contributed surplus of HK$149,719,000 and retained profit of HK$213,324,000. And the Company's share premium available for distribution in the form of fully paid bonus shares was HK$473,504,000.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

Directors' Report

RELATED PARTIES TRANSACTIONS

The Group entered into certain related parties transactions as disclosed in note 42 which were not regarded as connected transactions or connected transactions as approved by independent Shareholders. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in relation to the related party transactions of the Group during the year.

RAISING OF FUNDS AND USE OF PROCEEDS

Pursuant to a placing and top up agreement dated 1 April 2011 entered into among the Company, Cash Guardian and Celestial Securities (the placing agent), a total of 100,000,000 new Shares were issued at HK$0.50 per Share on 15 April 2011. The closing price of each Share on 1 April 2011 (the trading day on fixing of the terms of the placing and top up agreement) was HK$0.56 per Share. The gross and net proceeds of the issue were HK$50.0 million and HK$48.5 million respectively, representing a net price of HK$0.48 per Share. The fund was applied for general working capital of the Group, including the development of the Group's online game business and its newly developed cross-platform mobile internet business in the PRC. Details of the transactions were disclosed in the Company's announcement dated 1 April 2011.

Pursuant to a placing and top up agreement dated 7 June 2011 entered into among the Company, Cash Guardian, Mr Law Ping Wah Bernard (Director of the Company) and Celestial Securities (the placing agent), a total of 208,000,000 new Shares were issued at HK$0.51 per Share on 13 June 2011. The closing price of each Share on 7 June 2011 (the trading day on fixing of the terms of the placing and top up agreement) was HK$0.55 per Share. The gross and net proceeds of the issue were HK$106.1 million and HK$102.9 million respectively, representing a net price of HK$0.49 per Share. The fund was applied for general working capital of the Group and to further develop the integrated end-to-end mobile internet platform of the Group's online game business in the PRC. Details of the transactions were disclosed in the Company's announcement dated 7 June 2011.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the Group's turnover attributable to the five largest customers accounted for less than 30% of the Group's total turnover.

In the year under review, the Group's purchases attributable to the five largest suppliers accounted for less than 30% of the Group's total purchases.

DIRECTORS

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

Executive Directors:

Kwan Pak Hoo Bankee
Law Ping Wah Bernard
Ng Kung Chit Raymond

Independent Non-executive Directors:

Leung Ka Kui Johnny
Wong Chuk Yan
Chan Hak Sin

Mr Leung Ka Kui Johnny, Mr Wong Chuk Yan and Dr Chan Hak Sin, all being INEDs, shall retire at the annual general meeting of the Company in each year in accordance with their terms of office of directorship and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

No Director was materially interested, either directly or indirectly, in any contract of significance of the Group subsisting during or at the end of the financial year under review.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 41 to the consolidated financial statements.

DIRECTORS' INTERESTS IN SECURITIES

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 SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were recorded in the register required to be kept under section 352 of the SFO, or (c) were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

A. The Company

1. Long positions in the Shares

Name	Capacity	Number of Shares			Shareholding
		Personal	Family interest	Corporate interest	(%)
Kwan Pak Hoo Bankee	Beneficial owner and interested in a controlled corporation	3,600,000	–	1,178,701,378*	32.00
Law Ping Wah Bernard	Beneficial owner	107,408,720	–	–	2.91
Ng Kung Chit Raymond	Beneficial owner and family interest	3,399,600	345,600	–	0.10
		114,408,320	345,600	1,178,701,378	35.01

* The Shares were held by Cash Guardian. Mr Kwan Pak Hoo Bankee was deemed to be interested in all these Shares as a result of his interests in Cash Guardian as disclosed in the "Substantial Shareholders" below.

2. Long positions in the underlying Shares

(a) Options under share option scheme

Name	Date of grant	Option period	Exercise price per Share (HK$)	Notes	Number of options: outstanding as at 1 January 2011	granted during the year (Notes (4) & (5))	exercised during the year (Note (6))	lapsed during the year (Note (7))	outstanding as at 31 December 2011	Percentage to issued Shares as at 31 December 2011 (%)
Kwan Pak Hoo Bankee	13/3/2009	13/3/2009 – 31/3/2011	0.0942	(1)	3,600,000	–	(3,600,000)	–	–	–
	3/6/2010	3/6/2010 – 31/5/2012	0.1667	(1) & (2)	24,000,000	–	–	–	24,000,000	0.65
	25/3/2011	25/3/2011 – 24/3/2013	0.5920	(1) & (3)	–	60,000,000	–	(60,000,000)	–	–
Law Ping Wah Bernard	13/3/2009	13/3/2009 – 31/3/2011	0.0942		3,600,000	–	(3,600,000)	–	–	–
	3/6/2010	3/6/2010 – 31/5/2012	0.1667	(2)	24,000,000	–	–	–	24,000,000	0.65
Ng Kung Chit Raymond	3/6/2010	3/6/2010 – 31/5/2012	0.1667	(2)	12,000,000	–	–	–	12,000,000	0.32
					67,200,000	60,000,000	(7,200,000)	(60,000,000)	60,000,000	1.62

Notes:

(1) Mr Kwan Pak Hoo Bankee is also the substantial Shareholder of the Company.

(2) The options are vested in 2 tranches as to (i) 50% exercisable from 1 January 2011 up to 31 May 2012; and (ii) 50% exercisable from 1 January 2012 up to 31 May 2012. All options will vest until the grantee having been the members of the Group for 18 months from the date of grant.

(3) The vesting of the options is subject to individual performance and/or corporate performance to be achieved on or before 31 August 2011.

(4) The closing price of the Share immediately before the date of grant of options on 25 March 2011 was HK$0.6100.

(5) The value of the options granted during the year ended 31 December 2011 was zero as the performance targets set for the options had not been achieved by the end of the year under review.

(6) The options were exercised at an exercise price of HK$0.0942 each by the Directors on 28 March 2011. The weighted average closing price of the Shares of the Company immediately before the date of exercise was HK$0.6800 per Share.

(7) The lapsed options were due to unaccomplishment of performance targets set for the options.

(8) No option was cancelled during the year.

(9) The options are held by the Directors in the capacity of beneficial owners.

(b) Convertible note

Name of noteholder (Note (1))	Date of issue	Conversion period	Conversion price per Share (HK$)	Outstanding as at 1 January 2011 (HK$)	Partial conversion during the year (Note (2)) (HK$)	Redemption during the year (Note (3)) (HK$)	Outstanding as at 31 December 2011 (HK$)	Number of underlying Shares	Percentage to issued Shares as at 31 December 2011 (%)
Cash Guardian	17/2/2009	17/8/2009 – 31/12/2011	0.0833	28,243,000	(13,000,000)	(15,243,000)	–	–	–

Notes:

(1) The convertible note was held by Cash Guardian. Mr Kwan Pak Hoo Bankee was deemed to be interested in all these shares as a result of his interests in Cash Guardian as disclosed in the heading of "Substantial Shareholders" in this section below.

(2) The noteholder has exercised it right for partial conversion of the convertible note in the principal amount of HK$13,000,000, and a total number of 156,062,423 new Shares have been issued during the year ended 31 December 2011.

(3) The convertible note in the outstanding principal amount of HK$15,243,000 has been early redeemed on 7 October 2011.

B. Associated corporations (within the meaning of SFO)

CFSG

(i) Long positions in the ordinary shares of HK$0.02 each

Name	Capacity	Number of shares: Personal	Family interest	Corporate interest	Shareholding (%)
Kwan Pak Hoo Bankee	Beneficial owner and interest in a controlled corporation	–	–	1,725,160,589*	44.02
Law Ping Wah Bernard	Beneficial owner	27,506,160	–	–	0.70
Ng Kung Chit Raymond	Beneficial owner and family interest	5,577,000	99,000	–	0.14
		33,083,160	99,000	1,725,160,589	44.86

* The shares were held as to 1,657,801,069 shares by CIGL, a wholly-owned subsidiary of Praise Joy Limited (which was 100% beneficially owned by the Company), and as to 67,359,520 shares by Cash Guardian. The Company was beneficially owned as to approximately 32.00% by Mr Kwan Pak Hoo Bankee, and Cash Guardian was 100% beneficially owned by Mr Kwan Pak Hoo Bankee, details of which were disclosed in the "Substantial Shareholders" below. Pursuant to the SFO, Mr Kwan Pak Hoo Bankee was deemed to be interested in all the shares held by CIGL and Cash Guardian in CFSG.

Out of the above 1,725,160,589 shares held by CIGL and Cash Guardian in CFSG in aggregate, a total of 1,707,220,589 shares were under two share charges dated 14 July 2011 in favour of Wah Sun Finance Limited (which was owned (1) as to 50% by Hyper Chain Limited (which was 100% controlled by Estate of Kung, Nina (see below definition)); and (2) as to 50% by Joseph Lo Kin Ching and Lai Kar Yan also known as Derek Lai Kar Yan solely as Joint and Several Administrators pendente lite of the Estate of Kung, Nina ("Estate of Kung, Nina")). According to the SFO, the Estate of Kung, Nina was deemed to be interested in such 1,707,220,589 shares, representing 43.56% of issued shares of CFSG.

(ii) Long positions in the underlying shares – options under share option scheme

Name	Date of grant	Option period	Exercise price per share (HK$) (Note (9))	Notes	Number of options: outstanding as at 1 January 2011	exercised during the year (Note (6))	granted during the year (Notes (7) & (8))	adjusted on 17 May 2011 (Note (9))	lapsed during the year (Note (10))	outstanding as at 31 December 2011	Percentage to issued shares as at 31 December 2011 (%)
Kwan Pak Hoo Bankee	15/6/2009	15/6/2009 – 30/6/2013	0.1468	(1) & (2)	25,000,000	(25,000,000)	–	–	–	–	–
	15/10/2010	15/10/2010 – 31/10/2012	0.2764	(1), (3) & (4)	20,000,000	–	–	2,000,000	–	22,000,000	0.56
	23/3/2011	23/3/2011 – 22/3/2013	0.4173	(1) & (5)	–	–	70,000,000	7,000,000	(77,000,000)	–	–
Law Ping Wah Bernard	15/6/2009	15/6/2009 – 30/6/2013	0.1468	(2)	25,000,000	(25,000,000)	–	–	–	–	–
	15/10/2010	15/10/2010 – 31/10/2012	0.2764	(3) & (4)	30,000,000	–	–	3,000,000	–	33,000,000	0.84
Ng Kung Chit Raymond	15/10/2010	15/10/2010 – 31/10/2012	0.2764	(3) & (4)	5,000,000	–	–	500,000	–	5,500,000	0.14
					105,000,000	(50,000,000)	70,000,000	12,500,000	(77,000,000)	60,500,000	1.54

Notes:

(1) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.

(2) The options were vested in 2 tranches as to (i) 50% exercisable from 15 December 2009 up to 30 June 2013; and (ii) 50% exercisable from 15 June 2010 up to 30 June 2013.

(3) The options are vested in 2 tranches as to (i) 50% exercisable from 1 January 2011 up to 31 October 2012; and (ii) 50% exercisable from 1 January 2012 up to 31 October 2012.

(4) The vesting of the options is subject to the grantee having been with members of the Group for 14 months from the date of grant.

(5) The vesting of the options is subject to individual performance and/or corporate performance to be achieved on or before 31 August 2011.

(6) The options were exercised at an exercise price of HK$0.1468 each by the Directors on 15 March 2011. The weighted average closing price of CFSG's shares immediately before the date of exercise was HK$0.5000 per share.

(7) The closing price of CFSG's share immediately before the date of grant of options on 23 March 2011 was HK$0.4500.

(8) The value of the options granted during the year ended 31 December 2011 was zero as the performance targets set for the options had not been achieved by the end of the year under review.

(9) The number and the exercise price of share options which remained outstanding on 17 May 2011 have been adjusted due to the bonus issue of CFSG on the basis of 1 share for every 10 shares held on the record date with effect from 17 May 2011. The exercise prices of share options were adjusted as follow:

Date of grant	Exercise price (before adjustment) HK$	Exercise price (after adjustment) HK$
15/10/2010	0.3040	0.2764
23/3/2011	0.4590	0.4173

(10) The lapsed options were due to unaccomplishment of performance targets set for the options.

Save as disclosed above, as at 31 December 2011, none of the Directors, chief executives or their associates had any interests and short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were recorded in the register required to be kept under section 352 of the SFO, or (c) were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

SHARE OPTION SCHEMES

(A) The Company

The Share Option Scheme was adopted pursuant to an ordinary resolution passed at the special general meeting of the Company held on 19 February 2002. Particulars of the terms of the Share Option Scheme and the details of movements in the share options to subscribe for Shares granted under the Share Option Scheme during the year are set out in note 40(A) to the consolidated financial statements.

(B) The subsidiary

Netfield

The share option scheme of Netfield was adopted on 6 June 2008. Particulars of the terms of the share option scheme of Netfield are set out in note 40(B) to the consolidated financial statements. No option has been granted under the share option scheme of Netfield since the adoption of the scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, so far as is known to the Directors and chief executives of the Company, the persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the Shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Capacity	Number of Shares	Shareholding (%)
Hobart Assets Limited (Note (1))	Interest in a controlled corporation	1,178,701,378	31.91
Cash Guardian (Note (1))	Interest in a controlled corporation	1,178,701,378	31.91

Notes:

(1) This refers to the same number of Shares held by Cash Guardian, a wholly-owned subsidiary of Hobart Assets Limited, which in turn was 100% beneficially owned by Mr Kwan Pak Hoo Bankee. Pursuant to the SFO, Mr Kwan Pak Hoo Bankee and Hobart Assets Limited were deemed to be interested in the Shares held by Cash Guardian.

(2) Mr Kwan Pak Hoo Bankee (a Director whose interests is not shown in the above table) was interested and/or deemed be interested in a total of 1,182,301,378 Shares (32.00%), which were held as to 1,178,701,378 Shares by Cash Guardian and as to 3,600,000 Shares in his personal name. Detail of his interest is set out in the section "Directors Interests in Securities" above.

Save as disclosed above, as at 31 December 2011, so far as is known to the Directors and chief executives of the Company, no other parties (other than a Director or chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Directors' Report

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2011, the Company purchased a total of 16,968,000 Shares of HK$0.01 each in its own issued share capital on the Stock Exchange and such Shares were then subsequently cancelled. The Directors believe that such purchases would help enhancing the assets and earnings per share of the Company and would benefit the Company and the Shareholders as a whole. Details of the repurchase of shares are summarised as follows:

Month/Year	**Number of Shares repurchased**	**Repurchase price per Share**		**Approximate aggregate consideration paid (excluding expenses)**
		Highest	**Lowest**	
		HK$	HK$	HK$'000
July 2011	10,338,000	0.210	0.196	2,092
September 2011	6,630,000	0.119	0.084	728
Total	16,968,000			2,820

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year under review.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float of not less than 25% of its Shares in the hands of the public in accordance with the Listing Rules as at the latest practicable date prior to the issue of this annual report.

CONFIRMATION OF INDEPENDENCE

The Company has received a written confirmation in respect of independence from each of the INEDs in compliance with rule 3.13 of the Listing Rules, and the Company still considers that each of them to be independent.

AUDITOR

On 2 November 2009, the auditor of the Company was changed from Messrs. Deloitte Touche Tohmatsu to Grant Thornton. On 21 September 2010, Grant Thornton resigned as auditor of the Company and Messrs. Deloitte Touche Tohmatsu was appointed by the Board as auditor of the Company to fill the casual vacancy. Save as disclosed herein, there have been no other changes of auditor in the preceding three years.

The consolidated financial statements of the Company for the year were audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
Bankee P. Kwan
Chairman & CEO

Hong Kong, 26 March 2012

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF NET2GATHER (CHINA) HOLDINGS LIMITED
(FORMERLY KNOWN AS CELESTIAL ASIA SECURITIES HOLDINGS LIMITED)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Net2Gather (China) Holdings Limited (formerly known as Celestial Asia Securities Holdings Limited) ("Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 116, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Continuing operations			
Revenue	7	**9,418**	13,823
Other income, gains and losses		**235**	4,518
Cost of sales and services for online game business		**(4,673)**	(6,892)
Salaries, allowances and commission	9	**(9,753)**	(20,746)
Other operating, administrative and selling expenses		**(47,126)**	(30,046)
Depreciation of property and equipment		**(9,528)**	(7,809)
Amortisation of intangible assets		**(4,457)**	(8)
Finance costs	10	**(9,998)**	(12,764)
Net loss on financial assets at fair value through profit or loss	11	**(5,307)**	(2,095)
Fair value gain on investment properties		**3,722**	19,074
Share of results of an associate	22	**(17,138)**	33,888
Loss on dilution of shareholding in an associate	22	**–**	(9,507)
Loss on early redemption of convertible notes		**(7,108)**	–
Loss before taxation		**(101,713)**	(18,564)
Income tax expense	13	**(90)**	(3,152)
Loss for the year from continuing operations	14	**(101,803)**	(21,716)
Discontinued operations			
(Loss) profit for the year from discontinued operations	15	**(30,147)**	64,953
(Loss) profit for the year		**(131,950)**	43,237
Other comprehensive income for the year, net of income tax			
Exchange difference on translation of foreign operations		**1,277**	95
Reclassification adjustment – transfer translation reserve to profit or loss upon losing control of subsidiaries		**–**	(5,435)
Loss on revaluation of leasehold land and buildings		**–**	(1,639)
Deferred taxation arising on revaluation of leasehold land and buildings		**–**	270
Share of properties revaluation surplus of the associate		**–**	1,919
Share of translation reserve of the associate		**2,450**	–
Total other comprehensive income (expense) for the year		**3,727**	(4,790)
Total comprehensive (expense) income for the year		**(128,223)**	38,447

Consolidated Statement of Comprehensive Income (continued)

For the year ended 31 December 2011

	Note	**2011** **HK$'000**	2010 HK$'000
(Loss) profit for the year attributable to owners of the Company:			
– from continuing operations		**(96,514)**	(21,716)
– from discontinued operations		**(30,810)**	72,508
(Loss) profit for the year attributable to owners of the Company		**(127,324)**	50,792
(Loss) profit for the year attributable to non-controlling interests:			
– from continuing operations		**(5,289)**	–
– from discontinued operations		**663**	(7,555)
Loss for the year attributable to non-controlling interests		**(4,626)**	(7,555)
		(131,950)	43,237
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(123,597)**	46,709
Non-controlling interests		**(4,626)**	(8,262)
		(128,223)	38,447
(Loss) earnings per share	16		
From continuing and discontinued operations:			
Basic and diluted (HK cents)		**(3.658)**	1.968
From continuing operations:			
Basic and diluted (HK cents)		**(2.773)**	(0.841)

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property and equipment	18	**17,134**	19,986
Investment properties	19	**99,532**	95,810
Goodwill	21	**83,361**	83,361
Interest in an associate	22	**391,933**	410,922
Intangible assets	23	**92,976**	25,460
Rental deposits		**3,233**	–
		688,169	635,539
Current assets			
Inventories	24	**186**	–
Accounts receivable	25	**744**	632
Prepayments, deposits and other receivables	25	**22,093**	10,578
Held for trading investments	26	**–**	1,875
Bank balances and cash	27	**81,109**	81,951
		104,132	95,036
Current liabilities			
Accounts payable	28	**523**	32
Deferred revenue		**1,628**	2,482
Accrued liabilities and other payables		**21,125**	17,924
Taxation payable		**15**	29
Obligations under finance leases	29	**617**	–
Borrowings – amount due within one year	30	**61,608**	153,681
Convertible notes	32	**–**	18,733
		85,516	192,881
Net current assets (liabilities)		**18,616**	(97,845)
Total assets less current liabilities		**706,785**	537,694

Consolidated Statement of Financial Position (continued)

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	31	**36,943**	30,902
Reserves		**595,012**	481,270
Equity attributable to owners of the Company		**631,955**	512,172
Non-controlling interests	37	**(18,716)**	–
Total equity		**613,239**	512,172
Non-current liabilities			
Deferred tax liabilities	13	**13,961**	7,222
Borrowings – amount due after one year	30	**78,892**	18,300
Obligations under finance leases	29	**693**	–
		93,546	25,522
		706,785	537,694

The consolidated financial statements on pages 39 to 116 were approved and authorised for issue by the Board of Directors on 26 March 2012 and are signed on its behalf by:

KWAN PAK HOO BANKEE
DIRECTOR

LAW PING WAH BERNARD
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Notes	Share capital HK$'000	Share premium HK$'000 (Note (a))	Contributed surplus HK$'000 (Notes (b)&(c))	General reserve HK$'000	Other reserve HK$'000 (Note (d))	Translation reserve HK$'000 (Note 36)	Convertible notes equity reserve HK$'000	Share option reserve HK$'000	Properties revaluation reserve HK$'000 (Note 36)	Revaluation reserve HK$'000 (Note (h))	(Accumulated losses) retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000 (Note 37)	Total HK$'000
		Attributable to owners of the Company													
At 1 January 2010		20,551	364,575	138,926	1,160	12,314	4,571	10,540	506	18,907	15,564	(227,025)	360,589	294,322	654,911
Profit for the year		–	–	–	–	–	–	–	–	–	–	50,792	50,792	(7,555)	43,237
Other comprehensive (expense) income for the year		–	–	–	–	–	(5,340)	–	–	1,257	–	–	(4,083)	(707)	(4,790)
Total comprehensive (expense) income for the year		–	–	–	–	–	(5,340)	–	–	1,257	–	50,792	46,709	(8,262)	38,447
2011 dividend paid by a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	(6,378)	(6,378)
Share-based payments of the Company		–	–	–	–	–	–	–	4,422	–	–	–	4,422	–	4,422
Share-based payments of CFSG's share options		–	–	–	–	–	–	–	–	–	–	–	–	4,240	4,240
Amount transferred from share premium to contributed surplus	(e)	–	(200,000)	200,000	–	–	–	–	–	–	–	–	–	–	–
Amount transferred to set off accumulated losses	(f)	–	–	(250,000)	–	–	–	–	–	–	–	250,000	–	–	–
Transfer upon exercise of share options		–	1,438	–	–	–	–	–	(1,438)	–	–	–	–	–	–
Transfer upon losing control of subsidiaries	(g)	–	–	–	–	(12,314)	–	–	–	(18,245)	(15,564)	46,123	–	(283,922)	(283,922)
Issue of new shares		2,000	48,000	–	–	–	–	–	–	–	–	–	50,000	–	50,000
Shares issued upon conversion of convertible notes		1,670	16,986	–	–	–	–	(3,656)	–	–	–	–	15,000	–	15,000
Exercise of share options		2,021	40,643	–	–	–	–	–	–	–	–	–	42,664	–	42,664
Issue of shares upon bonus issue		4,660	(4,660)	–	–	–	–	–	–	–	–	–	–	–	–
Transaction costs attributable to issue of new shares		–	(2,552)	–	–	–	–	–	–	–	–	–	(2,552)	–	(2,552)
Dividends paid		–	–	–	–	–	–	–	–	–	–	(4,660)	(4,660)	–	(4,660)
At 31 December 2010		30,902	264,430	88,926	1,160	–	(769)	6,884	3,490	1,919	–	115,230	512,172	–	512,172
Loss for the year		–	–	–	–	–	–	–	–	–	–	(127,324)	(127,324)	(4,626)	(131,950)
Other comprehensive income for the year		–	–	–	–	–	3,727	–	–	–	–	–	3,727	–	3,727
Total comprehensive income (expense) for the year		–	–	–	–	–	3,727	–	–	–	–	(127,324)	(123,597)	(4,626)	(128,223)
Share-based payments of the Company		–	–	–	–	–	–	–	6,980	–	–	–	6,980	–	6,980
Transfer upon exercise of share options		–	506	–	–	–	–	–	(506)	–	–	–	–	–	–
Issue of new shares		3,080	153,000	–	–	–	–	–	–	–	–	–	156,080	–	156,080
Issue of new shares upon acquisition of subsidiaries		958	49,191	–	–	–	–	–	–	–	–	–	50,149	–	50,149
Shares issued upon conversion of convertible notes		1,561	11,439	–	–	–	–	(3,597)	–	–	–	–	9,403	–	9,403
Lapsed upon early redemption of convertible notes		–	–	–	–	–	–	(3,287)	–	–	–	3,287	–	–	–
Exercise of share options		612	5,153	–	–	–	–	–	–	–	–	–	5,765	–	5,765
Repurchase of shares		(170)	(2,650)	–	–	–	–	–	–	–	–	–	(2,820)	–	(2,820)
Transaction costs attributable to issue of new shares		–	(5,197)	–	–	–	–	–	–	–	–	–	(5,197)	–	(5,197)
Transfer upon disposal of properties by an associate		–	–	–	–	–	–	–	–	(1,919)	–	1,919	–	–	–
Dividends paid		–	–	–	–	–	–	–	–	–	–	(6,846)	(6,846)	–	(6,846)
Acquisition of subsidiaries (Note 34(i) and (ii))		–	–	–	–	–	–	–	–	–	–	–	–	54,089	54,089
Disposal of partial interest in a subsidiary	(d)	–	–	–	–	29,866	–	–	–	–	–	–	29,866	(16,946)	12,920
Disposal of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	(51,233)	(51,233)
At 31 December 2011		**36,943**	**475,872**	**88,926**	**1,160**	**29,866**	**2,958**	**–**	**9,964**	**–**	**–**	**(13,734)**	**631,955**	**(18,716)**	**613,239**

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2011

Notes:

(a) Under the Companies Act 1981 of Bermuda, the share premium of the Company can be used in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.

(b) Under the Companies Act 1981 of Bermuda, contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contribution surplus, if:

  (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

  (ii) the realisable value of the company's assets would thereby less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(c) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation in 1994 and the nominal value of the issued share capital of the Company issued in exchange thereof, and the net amount arising from the reduction of share premium account, capital reduction and the amounts transferred to set-off accumulated losses.

(d) The other reserve of the Group as at 1 January 2010 represents the reserve arising from the distribution of shares of CASH Financial Services Group Limited ("CFSG") (formerly known as CASH on-line Limited) in year 2000. Upon the losing control of CFSG during the year ended 31 December 2010, the other reserve of HK$12,314,000 was transferred to retained earnings of the Group.

In 2011, an amount of HK$29,866,000, representing the difference between fair value of consideration paid and the carrying amount of non-controlling interests relating to the disposal of partial interest in a subsidiary is credited to other reserve. Details are disclosed in note 34 (ii).

(e) Pursuant to a resolution of a board of directors' meeting held on 24 September 2010, an amount of HK$200,000,000 was transferred from the share premium account to contributed surplus account where it may be utilised in accordance with the bye-laws of the Company and all the applicable laws.

(f) Pursuant to a resolution of a board of directors' meeting held on 27 September 2010, an amount of HK$250,000,000 was transferred from contributed surplus to set off against the accumulated losses of the Company.

(g) Properties revaluation reserve of HK$18,245,000 was transferred to retained earnings of the Group upon the losing control of CFSG during the year ended 31 December 2010.

(h) The balance of revaluation reserve represents fair value adjustment attributable to the Group's interest in an associate before the acquisition of additional interests in that associate (which became a subsidiary after the acquisition of additional interest). Upon the losing control of CFSG during the year ended 31 December 2010, the revaluation reserve of HK$15,564,000 was transferred to retained earnings of the Group.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Operating activities		
(Loss) profit before taxation		
– Continuing operations	**(101,713)**	(18,564)
– Discontinued operations	**(30,104)**	71,953
Adjustments for:		
Reversal of bad and doubtful debts	**–**	920
Amortisation of intangible assets	**16,195**	8
Depreciation of property and equipment	**10,075**	43,025
Share-based payments	**6,980**	8,662
Write-down on inventories	**–**	640
Dividends from held for trading investments	**(216)**	(798)
Gain on losing control of subsidiaries	**–**	(80,745)
Loss on dilution of shareholding in an associate	**–**	9,507
Loss on disposal of subsidiaries	**3,323**	–
Impairment loss recognised in respect of goodwill	**28,231**	–
Fair value change on investment property	**(3,722)**	(19,074)
Interest income	**(62)**	(38)
Interest expense	**10,000**	24,174
(Gain) loss on disposal of property and equipment	**(410)**	120
Share of results of an associate	**17,138**	(37,475)
Reversal of impairment of intangible assets	**–**	(2,730)
Loss on early redemption on convertible notes	**7,107**	–
Operating cashflow before movements in working capital	**(37,178)**	(415)
Increase in other deposits	**–**	(7,763)
(Increase) decrease in inventories	**(186)**	1,086
Increase in accounts receivable	**(2,012)**	(1,697,893)
Increase in loan receivables	**–**	(15,695)
Decrease in prepayments, deposits and other receivables	**350**	490
Decrease in listed investments held for trading	**1,875**	16,946
Decrease in bank balances – trust and segregated accounts	**–**	37,470
Increase in accounts payable	**856**	74,099
(Decrease) increase in deferred revenue	**(805)**	1,559
Increase in accrued liabilities and other payables	**4,024**	23,277
Net cash used in operations	**(33,076)**	(1,566,839)
Income taxes paid	**(1,979)**	(5,111)
Dividends received	**216**	798
Net cash used in operating activities	**(34,839)**	(1,571,152)

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Investing activities			
Interest received		**62**	38
Dividend received from an associate		**6,047**	–
Losing control of subsidiaries	33	**–**	(205,849)
Acquisition of subsidiaries	34	**(31,152)**	–
Disposal of subsidiaries	35	**13,324**	–
Decrease in bank deposits under conditions		**–**	3,681
Proceeds from disposal of property and equipment		**410**	208
Purchase of property and equipment		**(5,907)**	(26,431)
Purchase of investment properties		**–**	(1,636)
Statutory and other deposits paid		**–**	(4,317)
Acquisition of investment in an associate		**(1,746)**	–
Development costs paid		**(36,174)**	(19,365)
Net cash used in investing activities		**(55,136)**	(253,671)
Financing activities			
Repayment of borrowings		**(120,010)**	(520,694)
New borrowing raised		**88,529**	2,088,164
Repayments of obligations under finance leases		**(427)**	(239)
Proceeds on issue of shares		**161,845**	92,664
Payment on repurchase of shares		**(2,820)**	–
Dividends paid to non-controlling interests of CFSG		**–**	(6,378)
Dividends paid by the Company		**(6,846)**	(4,660)
Interest paid on obligations under finance leases		**(50)**	(17)
Share issue expenses		**(5,197)**	(2,552)
Interest paid on borrowings and convertible notes		**(7,986)**	(18,596)
Redemption of convertible notes		**(18,401)**	–
Net cash from financing activities		**88,637**	1,627,692
Net decrease in cash and cash equivalents		**(1,338)**	(197,131)
Cash and cash equivalents at beginning of year		**81,951**	278,987
Effect of foreign exchange rate changes		**496**	95
Cash and cash equivalents at end of year		**81,109**	81,951
Being:			
Bank balances and cash		**81,109**	81,951

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the Corporate Information of this annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 43.

Pursuant to a special resolution passed by the shareholders, at a special general meeting of the Company held on 3 June 2011, the name of the Company was changed from Celestial Asia Securities Holdings Limited (時富投資集團有限公司) to Net2Gather (China) Holdings Limited 網融(中國)控股有限公司. The change of the name became effective on 3 June 2011.

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

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

Amendments to HKFRSs	Improvement to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendments to HKAS 32	Classification of rights issues
Amendments to HK(IFRIC) – INT 14	Prepayments of a minimum funding requirement
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments

The adoption of these new and revised HKFRSs in the current year has had no material effect on the consolidated financial statements disclosure.

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

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

HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting financial assets and financial liabilities[2]
HKFRS 9	Financial instruments[3]
HKFRS 9 & HKFRS 7 (Amendments)	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
HKAS 1 (Amendments)	Presentation of items of other comprehensive income[5]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[4]
HKAS 19 (as revised in 2011)	Employee benefits[2]
HKAS 27 (as revised in 2011)	Separate financial statements[2]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities[6]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[2]

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

New and revised Standards on consolidation, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK(SIC) – INT 12 "Consolidation – Special Purpose Entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

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

The directors anticipate that these standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these standards may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group's investment in associate may become a Group's subsidiary based on the new definition of control and the related guidance in HKFRS 10). However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

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

HKFRS 13 Fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may not affect the amounts reported in the consolidated financial statements but will result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group for annual period beginning on 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to HKAS 12 Deferred tax – Recovery of underlying assets

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. If the presumption is not rebutted, the directors anticipate that the application of the amendments to HKAS 12 in future accounting periods will result in adjustments to the amounts of deferred tax liabilities recognised in prior years regarding the Group's investment properties located in Hong Kong of approximately HK$8,047,000 as at 31 December 2011, of which the carrying amounts are presumed to be recovered through sale.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for leasehold land and buildings and financial instruments, which are measured at revalued amount or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange of assets.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the proportionate share of net assets attributable to the non-controlling interests and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate are initially recognised in the consolidated statement of financial position at cost or fair value of the investment retained in the former subsidiary at the date when control is lost, and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

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

Revenue from the sale of goods arising from retailing business is recognised when the goods are delivered and title has passed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue arising from financial services are recognised on the following basis:

- The net increase or decrease in fair value of trading investments are recognised directly in net profit or loss;
- Commission income for broking business is recorded as income on a trade date basis;
- Underwriting commission income, sub-underwriting income, placing commission and sub-placing commission are recognised as income in accordance with the terms of the underlying agreement or deal mandate when relevant significant act has been completed;
- Advisory and other fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered; and
- Interest income from clients are recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Revenue arising from the online game services is recognised on the following basis:

- Online game subscription income is recognised when the in-game premium features is consumed or points for in-game premium features is expired. Payments received from the sales of points for in-game premium features, that have not been consumed, are recorded as deferred revenue;
- Sales of online game auxiliary products are recognised when products are delivered and title has passed; and
- Licensing fee income is recognised on a straight-line basis over the licensing period.

Revenue arising from the mobile digital business is recognised when products are delivered to customers through tele-transmission.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

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

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

To the extent the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment except for those that are classified and accounted for as investment properties under the fair value model.

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve.

On the disposal of a foreign operation (i.e. a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In relation to a partial disposal of an associate that do not result in the Group losing significant influence, the proportionate share of the accumulated exchange differences is reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs

Payments to state-managed benefit scheme and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Property and equipment

Leasehold land and buildings (classified as finance lease), included in property and equipment, held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at fair value, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Any revaluation increase arising on revaluation of leasehold land and buildings is recognised in other comprehensive income and accumulated in properties revaluation reserve, except to the extent that if reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising in revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits/accumulated losses.

Other property and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs is calculated using the first-in-first-out method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Non-current assets held for sale

Non-current assets (or disposal group) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sales within one year from the date of classification.

Before classification as held for sale, the non-current assets (or disposal group) are measured in accordance with applicable HKFRSs. Upon reclassification, the non-current assets are measured at the lower of their previous carrying amount and fair value less costs to sell. Impairment loss is recognised in profit or loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell.

Financial instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent those held for trading.

A financial asset is classified as held for trading if:

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

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL or loans and receivables.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts receivable, loan receivables, deposits and other receivables, bank deposits and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate.

Impairment of financial assets

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

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

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

For certain categories of financial assets, such as accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

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

Financial liabilities

Financial liabilities (including accounts payable, accrued liabilities and other payables and borrowings) are subsequently measured at amortised cost using the effective interest method.

Convertible notes contains liability and equity components

Convertible notes issued by the Group that contain both the liability, early redemption option and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. The early redemption option represent the redemption at the option of the bond holders before maturity date.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Convertible notes contains liability and equity components (continued)

Transaction costs that relate to the issue of the convertible notes are allocated to the liability, early redemption option component and equity component in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the early redemption option component is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity-settled share-based payment transactions

Share option granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses/retained profits.

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Income taxes

No deferred tax asset has been recognised on the tax losses of HK$452,328,000 (2010: HK$392,402,000) due to the unpredictability of future profit streams of the relevant subsidiaries. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment of goodwill and intangible assets

Determining whether goodwill and online game related intangible assets allocated to online game services cash generating unit ("CGU") are impaired requires an estimation of the value in use of the online game services CGU. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU, a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. As at 31 December 2011, the carrying amounts of goodwill and online game related intangible assets are approximately HK$83,361,000 (2010: HK$83,361,000) and HK$51,678,000 (2010: HK$20,000,000), respectively. Details of the recoverable amount calculation are disclosed in note 21.

Determining whether gaming licenses allocated to mobile game services CGU is impaired requires an estimation of the value in use of the mobile game services CGU. The value in use calculation requires the Group to estimate the future cash flows expected to arise from this CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. As at 31 December 2011, the carrying amounts of gaming licenses is approximately HK$35,838,000 (2010: nil). Details of the recoverable amount calculation are disclosed in note 23.

Determining whether intangible asset relating to domain name is impaired requires an estimation of the fair value less costs to sell. The fair value less costs to sell is arrived at by market approach, which is to determine the desirability of the domain name through recent sales or offering of similar domain name currently on the market in order to arrive at an indication of the most probable selling price for the domain name. As at 31 December 2011, the carrying amount of the domain name is approximately HK$5,460,000 (2010: HK$5,460,000). Details of the recoverable amount calculation are disclosed in note 23.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debts, which include the borrowings disclosed in note 30, Convertible Notes disclosed in note 32 and equity attributable to owners of the Company, comprising issued share capital disclosed in note 31, reserves and retained earnings/accumulated losses as disclosed in consolidated statement of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011	2010
	HK$'000	HK$'000
Financial assets		
Held for trading investment	**–**	1,875
Loans and receivables (including cash and cash equivalents)	**103,039**	86,904
Financial liabilities		
Amortised cost	**162,148**	208,670

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable and payable, deposits and other receivables, available-for-sale investments, bank balances, accrued liabilities and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Equity price risk

The Group's exposure to equity price risk is significantly reduced after losing control of CFSG during the year ended 31 December 2010. At 31 December 2010, the Group was exposed to equity price risk mainly through its investment in listed equity securities. The management managed this exposure by maintaining a portfolio of investments with different risk.

Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risk at 31 December 2010. The analysis is prepared assuming the financial instruments outstanding as at 31 December 2010 were outstanding for the whole year. A 15 percent change is used and represents management's assessment of the reasonably possible change in equity price.

As at 31 December 2010, if the market bid prices of the Group's listed equity investments had been 15 percent higher/lower, the Group's post-tax profit would increase/decrease by approximately HK$281,000. This is mainly attributable to the changes in fair values of the listed investments held for trading.

In management's opinion, the sensitivity analysis was unrepresentative of the inherent equity price risk as the year end exposure did not reflect the exposure in 2010.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank balances and fixed-rate obligation under finance leases. The Group currently does not have a fair value hedging policy.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and bank balances. The Group currently does not have a cash flow interest rate hedging policy. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. A 50 basis points (2010: 50 basis points) change is used and represents management's assessment of the reasonably possible change in interest rates.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate and Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's variable interest rate instruments.

The sensitivity analysis is prepared assuming the variable-rate financial instruments outstanding at the end of the reporting period were outstanding for the whole year. Bank balances are excluded from sensitivity analysis as it is subject to minimal interest rate fluctuation for both years. As at 31 December 2011, if the interest rate had been 50 basis points (2010: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss would increase/decrease by HK$703,000 (2010: the Group's post-tax profit would decrease/increase by HK$860,000). This is mainly attributable to the Group exposure to the interest rates on variable-rate borrowings.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rate relating to foreign currency denominated accounts receivable with foreign brokers and bank balances. The management monitors foreign exchange exposure and will consider hedging significant foreign exposure should the need arises.

The Group's exposure to foreign currency risk is significantly reduced after losing control of CFSG during the year ended 31 December 2010. As at 31 December 2011 and 2010, more than 90% of financial assets and financial liabilities of the Group are denominated in United States Dollar ("US$") or Hong Kong Dollars ("HK$"). As HK$ is pegged to US$, the Group does not expect any significant movements in the US$/HK$ exchange rates. No foreign currency sensitivity is disclosed as in the opinion of Directors of the Company, the foreign currency sensitivity does not give additional value in view of insignificant movement in the US$/HK$ exchange rates and insignificant exposure of other foreign currencies as at the end of the reporting period.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has delegated a team responsible for determination of credit limits and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, as the exposure spread over a number of counterparties and customers.

Bank balances and deposits are placed in various authorised institutions and the Directors of the Company consider the credit risk of such authorised institutions is low.

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with all the loan covenants.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates.

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

	Weighted average effective interest rate	Within 1 year or repayable on demand	Between 1 to 2 years	Between 2 to 5 years	Total undiscounted cash flows	Carrying amount at the end of the reporting period
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2011						
Accounts payable	N/A	523	–	–	523	523
Accrued liabilities and other payables	N/A	21,125	–	–	21,125	21,125
Borrowings	Note (1)	67,511	81,606	–	149,117	140,500
Obligations under finance leases	3.35	652	652	54	1,358	1,310
		89,811	82,258	54	172,123	163,458
At 31 December 2010						
Accounts payable	N/A	32	–	–	32	32
Accrued liabilities and other payables	N/A	17,924	–	–	17,924	17,924
Borrowings	Note (1)	157,898	19,765	–	177,663	171,981
Convertible Notes (Note (2))	25	28,808	–	–	28,808	18,733
		204,662	19,765	–	224,427	208,670

Notes:

(1) Variable-rate borrowings carry interest at HIBOR plus a spread or Hong Kong Prime Rate. The prevailing market rate at the end of the reporting period is used in the maturity analysis.

(2) It is assumed that Convertible Notes will not be early redeemed by the Company before the maturity date.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Loans with a repayment on demand clause are included in the "within 1 year or repayment on demand" time band in the above maturity analysis. The aggregate undiscounted principal amounts of these loans amounted to approximately HK$39,910,000 as at 31 December 2011 (2010: HK$31,238,000). Taking into account the Group's financial position, the Directors of the Company do not believe that it is probable that the conterparties will exercise their discretionary rights to demand immediate payment. The Directors of the Company believe that such loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. The aggregate principal and interest cash outflows amount to approximately HK$49,078,000 as at 31 December 2011 (2010: HK$40,516,000), as follows:

	2011 **HK$'000**	2010 HK$'000
Within one year	**3,201**	2,440
More than 1 year but not exceeding 2 years	**12,686**	2,430
More than 2 years but not exceeding 5 years	**7,063**	7,143
More than five years	**26,128**	28,503
	49,078	40,516

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

Fair values

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

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Fair values (continued)

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

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

	Level 1	
	2011	2010
	HK$'000	HK$'000
Financial assets at FVTPL		
Investments held for trading		
Equity securities listed in Hong Kong	**–**	1,875

There were no transfers between Levels 1 and 2 in the current and prior years.

7. REVENUE

	2011	2010
	HK$'000	HK$'000
An analysis of the Group's revenue for the year from continuing operations is as follows:		
Online game subscription income	**8,386**	12,301
Licensing income	**1,032**	1,522
	9,418	13,823

8. SEGMENT INFORMATION

Segment information

Information reported to the Executive Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. During the year, the Group is newly engaged in mobile digital services through acquisition of Yole Wireless and became a new operating and reportable segment in current year.

Specifically, the Group's operating and reportable segments during the year ended 31 December 2011 are as follows:

Online game services	Provision of online game services, sales of online game auxiliary products and licensing services
Mobile digital services	Provision of mobile digital entertainment services

Mobile digital services operation, which was involved in provision of mobile digital entertainment services was discontinued during the year ended 31 December 2011 upon the disposal of Yole Wireless and two operations (financial services and retailing) were discontinued during the year ended 31 December 2010 upon losing control of CFSG. The segment information reported below does not include any amounts for these discontinued operations, which are described in more detail in note 15.

Segment revenue and results

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

	2011	2010
	HK$'000	HK$'000
Continuing operations		
Online game services revenue	**9,418**	13,823
Online game services segment loss	**(35,195)**	(7,845)
Other income, gains and losses	**536**	562
Corporate expenses	**(36,532)**	(41,972)
Fair value gain on investment properties	**3,722**	19,074
Share of results of an associate	**(17,138)**	33,888
Loss on dilution of shareholding in an associate	**–**	(9,507)
Loss on early redemption of convertible notes	**(7,108)**	–
Finance costs	**(9,998)**	(12,764)
Loss before taxation (continuing operations)	**(101,713)**	(18,564)

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the loss incurred by online game services segment without allocation of certain other income, gains and losses, corporate expenses, finance costs, fair value gain on investment properties, share of results of an associate, loss on dilution of shareholding in an associate and loss on early redemption of convertible notes. This is the measure reported to the Executive Directors for the purposes of resource allocation and performance assessment.

8. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	2011 HK$'000	2010 HK$'000
Segment assets		
Online game services segment assets	**204,161**	123,331
Reconciliation of segment total to group level:		
Investment properties	**99,532**	95,810
Unallocated property and equipment	**9,332**	8,823
Interest in an associate	**391,933**	410,922
Unallocated prepayments, deposits and other receivables	**6,234**	7,863
Held for trading investments	**–**	1,875
Unallocated bank balances and cash	**81,109**	81,951
Total assets	**792,301**	730,575
Segment liabilities		
Online game services segment liabilities	**10,770**	6,318
Reconciliation of segment total to group level:		
Unallocated accrued liabilities and other payables	**12,506**	14,120
Taxation payable	**15**	29
Borrowings	**140,500**	171,981
Convertible notes	**–**	18,733
Deferred tax liabilities	**13,961**	7,222
Obligations under finance leases	**1,310**	–
Total liabilities	**179,062**	218,403

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

- all assets are allocated to operating segment other than investment properties, certain property and equipment, interest in an associate, certain prepayments, deposits and other receivables, held for trading investments and bank balances and cash; and

- all liabilities are allocated to operating segment other than certain accrued liabilities and other payables, taxation payable, borrowings, convertible notes, obligations under finance leases and deferred tax liabilities.

8. SEGMENT INFORMATION (continued)

Other segment information

Continuing operations

For the year ended 31 December 2011

	Online game services HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:			
Additions of property and equipment	**1,755**	**4,217**	**5,972**
Additions of intangible assets	**71,973**	**–**	**71,973**
Depreciation of property and equipment	**5,818**	**3,710**	**9,528**
Amortisation of intangible assets	**4,457**	**–**	**4,457**

For the year ended 31 December 2010

	Online game services HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:			
Additions of property and equipment	1,002	1,107	2,109
Additions of intangible assets	20,000	–	20,000
Depreciation of property and equipment	5,731	2,078	7,809
Amortisation of intangible assets	8	–	8
Reversal of impairment on intangible assets	2,730	–	2,730
Reversal of bad and doubtful debts	920	–	920

Geographical information

The Group's continuing operations are located in the PRC.

The Group's non-current assets by geographical location of the assets are detailed below:

	2011 HK$'000	2010 HK$'000
Hong Kong	**484,498**	494,735
PRC	**203,671**	140,804
	688,169	635,539

No customer contributed over 10% of revenue from online games services during both years.

9. SALARIES, ALLOWANCES AND COMMISSION

	2011	2010
	HK$'000	HK$'000
Continuing operations		
Salaries, allowances and commission represent the amounts paid and payable to the Directors of the Company and employees and comprises of:		
Salaries, allowances and commission	**27,680**	27,077
Contributions to retirement benefits schemes	**1,982**	2,238
Share-based payments	**6,980**	4,422
Less: Amount capitalisation as online game development costs	**(26,889)**	(12,991)
	9,753	20,746

10. FINANCE COSTS

	2011	2010
	HK$'000	HK$'000
Continuing operations		
Interest on:		
Bank overdrafts, bank loans and other borrowings:		
– wholly repayable within five years	**6,924**	5,765
– wholly repayable more than five years	**739**	644
Finance lease wholly repayable within five years	**50**	–
Effective interest expense on convertible notes (defined in note 32)	**2,285**	6,355
	9,998	12,764

11. NET LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
	HK$'000	HK$'000
Continuing operations		
Held for trading investments		
– Equity securities listed in Hong Kong	**(5,307)**	(2,095)

12. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors' remuneration

The remuneration paid or payable to each of the six (2010: six) Directors was as follows:

	Kwan Pak Hoo Bankee HK$'000	**Law Ping Wah Bernard HK$'000**	**Ng Kung Chit Raymond HK$'000**	**Leung Ka Kui Johnny HK$'000**	**Chan Hak Sin HK$'000**	**Wong Chuk Yan HK$'000**	**Total HK$'000**
2011							
Fees:							
Executive directors	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Independent non-executive directors	**–**	**–**	**–**	**150**	**150**	**–**	**300**
Other remuneration paid to executive directors:							
Salaries, allowances and benefits in kind	**120**	**120**	**750**	**–**	**–**	**–**	**990**
Contributions to retirement benefit scheme	**6**	**6**	**38**	**–**	**–**	**–**	**50**
Total remuneration	**126**	**126**	**788**	**150**	**150**	**–**	**1,340**

	Kwan Pak Hoo Bankee HK$'000	Law Ping Wah Bernard HK$'000	Ng Kung Chit Raymond HK$'000	Leung Ka Kui Johnny HK$'000	Chan Hak Sin HK$'000	Wong Chuk Yan HK$'000	Total HK$'000
2010							
Fees:							
Executive directors	–	–	–	–	–	–	–
Independent non-executive directors	–	–	–	150	150	–	300
Other remuneration paid to executive directors:							
Salaries, allowances and benefits in kind	3,306	779	642	–	–	–	4,727
Share-based payments	537	537	268	–	–	–	1,342
Contributions to retirement benefit scheme	80	55	32	–	–	–	167
Total remuneration	3,923	1,371	942	150	150	–	6,536

During the year ended 31 December 2010, the directors' emolument disclosed above included directors' emoluments of CFSG before losing control of CFSG.

During both years, no remuneration was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any remuneration during both years.

12. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

Employees' remuneration

Of the five individuals with the highest emoluments in the Group, one (2010: one) was a director of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining four (2010: four) individuals were as follows:

	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,814**	6,338
Contributions to retirement benefit scheme	**215**	328
Performance related incentive payments	**498**	11,795
	4,527	18,461

Note: The incentive payments are based on the performance of individuals and market trends.

Their remuneration were within the following band:

	Number of Employees	
	2011	2010
HK$nil to HK$1,000,000	**2**	–
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	1
HK$13,500,001 to HK$14,000,000	**–**	1

13. INCOME TAX EXPENSE

	2011	2010
	HK$'000	HK$'000
Continuing operations		
Deferred taxation	**90**	3,152

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

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

13. INCOME TAX EXPENSE (continued)

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

	2011 **HK$'000**	2010 HK$'000
Loss before taxation	**(101,713)**	(18,564)
Tax at domestic income tax rate of 25% (2010: 25%)	**(25,428)**	(4,641)
Tax effect of share of results of an associate	**4,285**	(8,473)
Tax effect of expenses not deductible for tax purpose	**8,733**	11,730
Tax effect of income not taxable for tax purpose	**(2,437)**	(3,967)
Tax effect of tax losses not recognised	**14,999**	10,211
Tax effect of utilisation of estimated tax losses previously not recognised	**(17)**	(85)
Effect of different tax rates of subsidiaries operating in Hong Kong	**(45)**	(1,623)
Income tax expense (relating to continuing operations)	**90**	3,152

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

	Accelerated tax depreciation HK$'000	**Revaluation of properties** HK$'000	**Revaluation of investment properties** HK$'000	**Fair value adjustment on intangible assets under business combination** HK$'000	**Total** HK$'000
At 1 January 2010	(342)	(4,070)	(10,143)	(6,649)	(21,204)
Charge to profit or loss for the year	–	–	(3,152)	–	(3,152)
Credit to other comprehensive income for the year	–	270	–	–	270
Losing control of subsidiaries	342	3,800	6,073	6,649	16,864
At 31 December 2010	–	–	(7,222)	–	(7,222)
Credit to profit or loss for the year	–	–	(825)	2,657	1,832
Acquisition of subsidiaries	–	–	–	(21,067)	(21,067)
Disposal	–	–	–	12,496	12,496
At 31 December 2011	–	–	(8,047)	(5,914)	(13,961)

At the end of the reporting period, the Group has unused tax losses of approximately HK$452,328,000 (2010: HK$392,402,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams of those subsidiaries.

For certain subsidiaries operating in the PRC, unrecognised tax losses of HK$86,513,000 (2010: HK$32,770,000) will expire in various dates up to 2015. The remaining unrecognised tax losses can be carried forward indefinitely.

14. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

	2011 HK$'000	2010 HK$'000
Loss for the year from continuing operations has been arrived at after charging:		
Auditor's remuneration	**1,350**	1,300
Operating lease rentals in respect of land and buildings	**16,537**	10,377
Less: Amount capitalised in online game development costs	**(3,540)**	(4,218)
	12,997	6,159
and after crediting to other income, gains and losses:		
Net foreign exchange loss (gain)	**980**	(176)
Reversal of bad and doubtful debts	**–**	(920)
Dividend income from held for trading investments	**(216)**	(262)
Interest income	**(48)**	(38)
Reversal of impairment on intangible assets	**–**	(2,730)
(Gain) loss on disposal of property and equipment	**(410)**	97

15. DISCONTINUED OPERATIONS

(a) Discontinued operations of mobile digital business in year 2011

On 9 November 2011, the Group entered into a sale and purchase agreement with an independent third party to dispose of a subsidiary, Yole Wireless, which carried out all of the Group's mobile digital business for feature phones in the PRC. The disposal was effected as the expected synergy between mobile digital business and online game business would not be as significant as originally expected. Also, management considered the demand of mobile digital entertainment content would be transferring from feature phone market to smartphone market in the PRC and there would be a significant capital investment in technology enhancement and system re-deployment for the conversion into the smartphone market. The disposal was completed on 28 December 2011, on which date control of Yole Wireless was passed to the acquirer.

The loss for the year from the discontinued operation is analysed as follows:

	26.4.2011 to 28.12.2011 HK$'000
Profit of mobile digital business for the period	**1,407**
Impairment loss recognised in respect of goodwill	**(28,231)**
Loss on disposal of Yole Wireless (see note 35)	**(3,323)**
Loss for the period from discontinued operations	**(30,147)**
Loss for the period attributable to:	
Owners of the Company	**(30,810)**
Non-controlling interests	**663**
	(30,147)

Details of goodwill impairment assessment are set out in note 21.

15. DISCONTINUED OPERATIONS (continued)

(a) Discontinued operations of mobile digital business in year 2011 (continued)

Yole Wireless was acquired by the Group on 26 April 2011 (see note 34 for the details of acquisition), therefore, the results of the mobile digital business operation for the period from 26 April 2011 to 28 December 2011, which have been included in the consolidated statement of comprehensive income, were as follows:

	26.4.2011 to 28.12.2011 HK$'000
Revenue	32,432
Cost of sales	(9,626)
Other income	353
Salaries, allowances and commission	(4,855)
Other operating, administrative and selling expenses	(4,567)
Amortisation of intangible assets	(11,738)
Depreciation of property and equipment	(547)
Finance cost	(2)
Profit before taxation	1,450
Income tax expense	(43)
Profit for the period	1,407
Profit for the period attributable to:	
Owners of the Company	744
Non-controlling interest	663
	1,407

Loss for the period from discontinued operations includes the following:

	26.4.2011 to 28.12.2011 HK$'000
Operating lease rentals in respect of land and buildings	994
Interest income	14
Contribution to retirement benefit scheme (including in salaries, allowances and commission)	371

During the year ended 31 December 2011, Yole Wireless contributed HK$10,623,000 to the Group's net operating cash flows, paid HK$6,168,000 in respect of investing activities and with nil contribution in respect of financing activities.

The carrying amounts of the assets and liabilities of Yole Wireless at the date of disposal are disclosed in note 35.

15. DISCONTINUED OPERATIONS (continued)

(b) Discontinued operations of financial services and retailing business in year 2010

Before 11 October 2010, the Group held 48.32% equity interests in CFSG through Celestial Investment Group Limited ("CIGL") and Cash Guardian Limited ("Cash Guardian"), a related party of the Company (see details in note 42), held 2.75% equity interest in CFSG. In addition, Mr Kwan Pak Hoo Bankee and Mr Ng Kung Chit Raymond, Directors of the Company, had 1.32% and 0.49% equity interests and voting power respectively in CFSG. Cash Guardian, Mr Kwan Pak Ho Bankee and Mr Ng Kung Chit Raymond had agreed that they would cast all votes at all shareholders' meeting of CFSG, in accordance with the voting decision of the Company at all times. Therefore, the Company was able to control the voting power at all the general meetings of CFSG. Accordingly, CFSG was accounted for as a subsidiary of the Company.

On 11 October 2010, Cash Guardian, Mr Kwan Pak Hoo Bankee and Mr Ng Kung Chit Raymond disposed of an aggregate of 2.94% equity interest in CFSG ("Directors' Disposals") in the open market. Immediately after the Directors' Disposals, the voting power of the Company on CFSG dropped from 52.88% to 49.94%, so CFSG has ceased as a subsidiary of the Company with effect from 11 October 2010.

As result, the Group's financial services and retailing operations which are carried out by CFSG were considered as discontinued during the year ended 31 December 2010.

The profit for the period from the discontinued operations is analysed as follows:

	1.1.2010 to 10.10.2010 HK$'000
Loss of financial services operation for the period	(18,937)
Profit of retailing operation for the period	3,145
Gain on losing control of subsidiaries	80,745
Profit for the period from discontinued operations	64,953
Profit for the period attributable to:	
Owners of the Company	72,508
Non-controlling interests	(7,555)
	64,953

15. DISCONTINUED OPERATIONS (continued)

(b) Discontinued operations of financial services and retailing business in year 2010 (continued)

The results of the financial services and retailing operations for the period from 1 January 2010 to 10 October 2010, which have been included in the consolidated statement of comprehensive income, were as follows:

	1.1.2010 to 10.10.2010 HK$'000
Revenue	940,556
Other income	4,478
Cost of sales for retailing business	(445,325)
Salaries, commission and related benefits	(208,357)
Depreciation of property and equipment	(35,216)
Finance costs	(11,410)
Other operating and administrative expenses	(290,488)
Fair value gain on financial assets at fair value through profit or loss	33,406
Loss on disposal of property and equipment	(23)
Share of results of associates	3,587
Loss before tax	(8,792)
Income tax expense	(7,000)
Loss for the period	(15,792)
Loss for the period attributable to:	
Owners of the Company	(8,237)
Non-controlling interests	(7,555)
	(15,792)

15. DISCONTINUED OPERATIONS (continued)

(b) Discontinued operations of financial services and retailing business in year 2010 (continued)

		1.1.2010 to 10.10.2010 HK$'000
Loss for the period from discontinued operations include the following:		
Write-down on inventories		640
Auditor's remuneration		1,264
Depreciation of property and equipment		
– owned assets	35,085	
– leased assets	131	
		35,216
Cost of inventories recognised as an expense		445,325
Operating lease rentals in respect of land and buildings		
– Minimum lease payments	137,178	
– Contingent rents	5,092	
		142,270
Salaries, allowances and commission	197,383	
Contributions to retirement benefit scheme	6,734	
Share-based payments	4,240	
		208,357
Loss on disposal of property and equipment		23
Net foreign exchange loss		139
Dividend income from held for trading investments		(536)

During the year ended 31 December 2010, CFSG contributed HK$1,564,390,000 from the Group's net operating cash flows, contributed HK$14,980,000 in respect of investing activities and paid HK$1,449,000,000 in respect of financing activities.

The carrying amount of the assets and liabilities of the CFSG at the date of losing control are disclosed in note 33.

16. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

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

	2011 HK$'000	2010 HK$'000
(Loss) earnings for the purpose of basic (loss) earnings per share	**(127,324)**	50,792

The denominators used are the same as those detailed below for the loss per share from continuing operations.

The incremental shares from assumed exercise of share options and conversion of convertible notes are excluded in calculating the diluted (loss) earnings per share from the continuing and discontinued operations because they are antidilutive in calculating the diluted loss per share from continuing operations.

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

Loss figures are calculated as follows:

	2011 HK$'000	2010 HK$'000
(Loss) profit for the year attributable to owners of the Company	**(127,324)**	50,792
Less: Loss (profit) for the year from discontinued operations attributable to the owners of the Company	**30,810**	(72,508)
Loss for the purpose of basic loss per share from continuing operations	**(96,514)**	(21,716)

	2011 '000	2010 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share from continuing operations	**3,480,649**	2,581,143

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 24 September 2010, a total of approximately 46,601,000 bonus shares were issued on the basis of one bonus share for every five existing shares held by the shareholders. In addition, pursuant to an ordinary resolution passed by the shareholders at a special general meeting of the Company held on 27 October 2010, each of the Company's share was subdivided into ten shares (details disclosed in note 31(a)). Accordingly, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share have been adjusted retrospectively for the share subdivision and the bonus issue for the year ended 31 December 2010.

The computation of diluted loss per share from the continuing operations for both years has not assumed the exercise of share options and conversion of convertible notes as the effect of which would decrease in the loss per share from the continuing operations.

16. (LOSS) EARNINGS PER SHARE (continued)

From discontinued operations

Basic and diluted loss per share for the discontinued operations is HK0.885 cent per share (2010: earnings per share of HK2.809 cents per share).

The denominators used are the same as those detailed above for the loss per share from continuing operations.

The incremental shares from assumed exercise of share options and conversion of convertible notes are excluded in calculating the diluted (loss) earnings per share from the discontinued operations because they are antidilutive in calculating the diluted loss per share from continuing operations.

17. DIVIDENDS

	2011	2010
	HK$'000	HK$'000
Dividends recognised as distribution during the year:		
2010 Final – HK0.2 cent per share (2010: nil)	**6,846**	–
2010 interim – HK2 cents per share (before share subdivision and bonus issue in year 2010)	**–**	4,660
	6,846	4,660

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: Final dividend of HK0.2 cent per share).

18. PROPERTY AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST OR VALUATION					
At 1 January 2010	68,000	163,794	152,406	5,116	389,316
Additions	–	20,160	6,271	980	27,411
Disposals	–	(3,403)	(2,922)	(501)	(6,826)
Deficit on valuation	(3,000)	–	–	–	(3,000)
Losing control of subsidiaries	(65,000)	(154,098)	(106,891)	(4,027)	(330,016)
At 31 December 2010	–	26,453	48,864	1,568	76,885
Additions	–	1,502	4,405	1,737	7,644
Acquisition of subsidiaries (Note 34)	–	311	1,239	–	1,550
Disposals	–	–	(588)	(1,568)	(2,156)
Disposals of subsidiaries (Note 35)	–	–	(2,729)	–	(2,729)
Exchange adjustments	–	61	462	–	523
At 31 December 2011	–	28,327	51,653	1,737	81,717
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2010	–	86,680	77,808	3,010	167,498
Provided for the year	1,361	23,133	19,002	164	43,660
Eliminated on disposals	–	(3,004)	(2,993)	(501)	(6,498)
Eliminated on revaluation	(1,361)	–	–	–	(1,361)
Eliminated on losing control of subsidiaries	–	(87,932)	(57,363)	(1,105)	(146,400)
At 31 December 2010	–	18,877	36,454	1,568	56,899
Provided for the year	–	3,070	6,773	232	10,075
Eliminated on disposals	–	–	(588)	(1,568)	(2,156)
Eliminated on disposals of subsidiaries	–	–	(547)	–	(547)
Exchange adjustments	–	27	285	–	312
At 31 December 2011	–	21,974	42,377	232	64,583
NET BOOK VALUES					
At 31 December 2011	–	6,353	9,276	1,505	17,134
At 31 December 2010	–	7,576	12,410	–	19,986

18. PROPERTY AND EQUIPMENT (continued)

The above property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	The shorter of the lease terms and 20 years
Leasehold improvements	The shorter of the lease terms and 5 years
Furniture, fixtures and equipment	3 to 7 years
Motor vehicles	3 to 5 years

The leasehold land and buildings of the Group were situated in Hong Kong under medium-term lease.

The leasehold land and buildings of the Group were valued on the date of losing control of CFSG by B.I. Appraisals Limited, an independent qualified professional valuers, on an open market value basis. B.I. Appraisals Limited is not connected with the Group. The revaluation deficit on leasehold land and buildings of approximately HK$1,639,000 has been debited to other comprehensive income during the year ended 31 December 2010.

During the year ended 31 December 2010, depreciation charge of HK$635,000 is capitalised as development costs.

19. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2010	163,712
Additions	1,636
Increase in fair value recognised in profit or loss	19,074
Losing control of subsidiaries (Note 33)	(88,612)
At 31 December 2010	95,810
Increase in fair value recognised in profit or loss	3,722
At 31 December 2011	99,532

The fair value of the Group's investment properties at 31 December 2011 and 2010 have been arrived at on the basis of a valuation carried out on that date by B. I. Appraisals Limited, independent qualified professional valuers not connected with the Group. B. I. Appraisals Limited are members of the Institute of Valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

The Group's property interests held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and is classified and accounted for as investment property.

19. INVESTMENT PROPERTIES (continued)

The carrying value of investment properties shown above are situated on:

	2011 HK$'000	2010 HK$'000
Land in Hong Kong with medium-term lease	**80,000**	75,000
Land in the PRC with long-term lease	**19,532**	20,810
Total assets	**99,532**	95,810

20. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at the end of the reporting period comprise:

	2011 HK$'000	2010 HK$'000
Unlisted investments:		
Unlisted shares, at cost	**10,800**	10,800
Less: Impairment loss recognised	**(10,800)**	(10,800)
	–	–

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in Taiwan and the British Virgin Islands ("BVI"). They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

21. GOODWILL

	HK$'000
COST	
At 1 January 2010	233,476
Loss of control of subsidiaries	(62,710)
At 31 December 2010	170,766
Acquisitions of subsidiaries (Note 34)	28,231
At 31 December 2011	198,997
IMPAIRMENT	
At 1 January 2010 and 31 December 2010	87,405
Impairment loss recognised	28,231
At 31 December 2011	115,636
CARRYING AMOUNTS	
At 31 December 2011 and 31 December 2010	83,361

The CGU relating to online game service include goodwill of HK$83,361,000 (2010: HK$83,361,000) and online game development costs of HK$51,678,000 (2010: HK$20,000,000) as disclosed in note 23. The recoverable amount of the CGU of online game services has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-years period and discount rate of 20.6% (2010: 15%). The cash flows beyond the 5-years period are extrapolated using a steady percentage growth rate of 2% (2010: 6%). The management has taken into account of the future prospect on online game products currently under development to be launched upon completion and their revenue to be generated from this CGU. The aforesaid growth rate used for the CGU of online game is determined by reference to the growth rate for the online game industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted active concurrence user, peak concurrence user and payment subscribers. Such estimation is based on the CGU's past performance and management's expectations for the market development. At 31 December 2011 and 2010, management considers no impairment on goodwill and online game development costs since the recoverable amounts of this CGU exceeds its carrying value. In addition, the management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of this CGU to exceed the aggregate recoverable amount.

As detailed in note 34(i), the Group acquired Yole Wireless in April 2011 with a goodwill of HK$28,231,000, which reflected the management expectation of the synergy effect between mobile digital business and online game business. Subsequent to acquisition, management realised that the expected synergy would not be as significant as expected and thus decided to dispose of Yole Wireless in November 2011. As the estimated fair value less cost to sell is lower than the net carrying amount of the assets (including goodwill) and liabilities, an impairment loss of HK$28,231,000 is recognised in profit or loss and allocated to reduce the carrying amount of goodwill.

22. INTEREST IN AN ASSOCIATE

	2011 HK$'000	2010 HK$'000
Cost of investment in an associate:		
Listed in Hong Kong	**370,814**	375,115
Share of post-acquisition other comprehensive income	**4,369**	1,919
Share of post-acquisition profits	**16,750**	33,888
	391,933	410,922
Fair value of listed investments	**182,358**	775,207

As at 31 December 2011 and 2010, the Group had interest in the following associate:

Name of entity	Form of business structure	Country of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal activity
					2011 %	2010 %	**2011 %**	2010 %	
CFSG	Incorporated	Bermuda	Hong Kong	Ordinary	**42.30**	42.13	**42.30**	42.13	Investment holding

Note: CFSG's shares are listed on the Stock Exchange.

On 11 October 2010, CFSG ceased as a subsidiary and became an associate of the Company upon the Directors' Disposals. Details are disclosed in note 15. On the same date, the fair value of the interests in CFSG held by the Company is HK$384,622,000. In October and November 2010, CFSG issued shares through private placement and exercise of share options, the Group's beneficial interest in CFSG decreased from 48.32% to 42.13%. As a result, a loss on dilution of shareholding in an associate of HK$9,507,000 was recognised in profit or loss during the year ended 31 December 2010. At 31 December 2011, the Group's equity interest increased due to share repurchase by CFSG and the financial impact to the Group is not considered as significant.

At 31 December 2011, the carrying amount of the Group's interest in the listed associate was higher than their fair value. The management of the Group carried out impairment review on the entire carrying amount of its interest in the listed associate as a single asset by comparing its recoverable amount using value in use with its carrying amount. In determining the value in use of the investments, the Group estimated the present value of the estimated future cash flows expected to be generated the associate, including cash flows from the operations of the associate and proceeds on the ultimate disposal of the investment at an discount rate of 16%. Based on the assessments, the recoverable amount of the interests in the listed associate exceeded their entire carrying amount. Hence, no impairment on the interests in the listed associate is considered necessary.

22. INTEREST IN AN ASSOCIATE (continued)

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

	2011 HK$'000	2010 HK$'000
Total assets	**2,889,701**	2,738,931
Total liabilities	**(1,928,607)**	(1,794,188)
Net assets	**961,094**	944,743
Group's share of net assets of an associate	**391,933**	410,922
Revenue for the year (2010: revenue since recognition of CFSG as associate)	**1,334,440**	353,647*
Loss for the year (2010: profit since recognition of CFSG as associate)	**(31,964)**	80,437*
Other comprehensive income for the year (2010: other comprehensive income since recognition of CFSG as associate)	**26,773**	4,554*
Group's share of (loss) profit and other comprehensive income of associate for the year	**(14,688)**	35,807*

* Included revenue, profit or other comprehensive income of CFSG from the date it became an associate of the Group up to 31 December 2010.

23. INTANGIBLE ASSETS

	Trading rights HK$'000	Club membership HK$'000	Online game related intellectual property HK$'000	Online game development costs HK$'000 (Note (a))	Domain name HK$'000 (Note (b))	Trademarks HK$'000	Mobile digital related intellectual property HK$'000	Mobile digital related development cost HK$'000	Gaming licences HK$'000 (Note (c))	Total HK$'000
COST										
At 1 January 2010	9,392	660	16,390	5,593	5,460	38,000	–	–	–	75,495
Additions	–	–	–	20,000	–	–	–	–	–	20,000
Losing control of subsidiaries	(9,392)	(660)	–	–	–	(38,000)	–	–	–	(48,052)
At 31 December 2010	–	–	16,390	25,593	5,460	–	–	–	–	47,443
Additions	–	–	–	31,678	–	–	–	4,496	–	36,174
Acquisition of subsidiaries	–	–	–	–	–	–	87,383	5,100	40,295	132,778
Disposal of subsidiaries	–	–	–	–	–	–	(87,383)	(9,596)	–	(96,979)
At 31 December 2011	–	–	16,390	57,271	5,460	–	–	–	40,295	119,416
AMORTISATION AND IMPAIRMENT										
At 1 January 2010	–	–	16,390	5,585	2,730	–	–	–	–	24,705
Charge for the year	–	–	–	8	–	–	–	–	–	8
Impairment loss reversed in the year	–	–	–	–	(2,730)	–	–	–	–	(2,730)
At 31 December 2010	–	–	16,390	5,593	–	–	–	–	–	21,983
Charge for the year	–	–	–	–	–	–	11,651	87	4,457	16,195
Eliminated on disposal of subsidiaries	–	–	–	–	–	–	(11,651)	(87)	–	(11,738)
At 31 December 2011	–	–	16,390	5,593	–	–	–	–	4,457	26,440
NET BOOK VALUES										
At 31 December 2011	–	–	–	51,678	5,460	–	–	–	35,838	92,976
At 31 December 2010	–	–	–	20,000	5,460	–	–	–	–	25,460

23. INTANGIBLE ASSETS (continued)

Notes:

(a) As at 31 December 2011, intangible assets of online game development costs with carrying amounts of approximately HK$51,678,000 (2010: HK$20,000,000) represented internally generated online game development costs. As the online game development costs are not ready for use, no amortisation is provided during the year ended 31 December 2011 and 2010. Management of the Group determines that the recoverable amounts of the CGU relating to the online game service whereby the intangible assets belong to exceed their carrying amounts. Details of the impairment assessment are disclosed in note 21.

(b) As at 31 December 2011, intangible assets with carrying amounts of HK$5,460,000 (2010: HK$5,460,000) represent domain name. It represents the legal and beneficial ownership of domain name "www.shanghai.com" and has indefinite useful life.

The domain name is considered by management of the Group as having an indefinite useful life because it is expected to be used indefinitely. The domain name will not be amortised until its useful life is determined to be finite, instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

For the purpose of impairment testing on domain name, the recoverable amount has been determined based on fair value less costs to sell. The fair value less costs to sell is arrived at by market approach, with reference to the desirability of the domain name through recent sales or offering of similar domain name currently on the market in order to arrive at an indication of the most probable selling price for the domain name. The fair value less costs to sell at 31 December 2011 and 2010 was supported by a valuation carried out at that day by Peak Vision Appraisals Limited (2010: Norton Appraisals Limited), an independent qualified professional valuer not connected with the Group. A reversal of impairment loss on domain name of approximately HK$2,730,000 was recognised to profit or loss during the year ended 31 December 2010 since the recoverable amounts of domain name exceed the carrying amounts.

(c) As at 31 December 2011, gaming licences under the mobile game service CGU with carrying amounts of approximately HK$40,112,000 (2010: nil) was purchased as part of a business combination of Oberon Media (defined and explained in note 34) in current year. This intangible asset has definite useful life and is amortised on a straight-line basis over 7 years. For the purpose of impairment testing on gaming licenses, the recoverable amount of gaming licenses under the mobile game service CGU has been determined based on value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering 7-years period and discount rate of 20.8% (2010: nil). As at 31 December 2011, no impairment on gaming licences has been made since recoverable amount of gaming licences exceeds its carrying value.

24. INVENTORIES

	2011	2010
	HK$'000	HK$'000
Finished goods held for sale	**186**	–

25. ACCOUNTS RECEIVABLE/PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2011	2010
	HK$'000	HK$'000
Accounts receivable arising from the business of provision of online game services	**744**	632

The Group allows an average credit period of 30 days to its customers. The accounts receivable with a carrying amount of approximately HK$744,000 (2010: HK$632,000) are neither past due nor impaired at the end of the reporting period for which the Group believes that the amounts are recoverable. Amounts receivable is aged within 30 days based on the invoice date at the end of the reporting period.

The Group has policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and age analysis of accounts and on management's judgement including the credit creditworthiness and the past collection history of each client.

25. ACCOUNTS RECEIVABLE/PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

In determining the recoverability of the accounts receivable, the Group considers any change in the credit quality of the accounts receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of the Company believe that there is no credit provision required in excess of the allowance for bad and doubtful debts.

At 31 December 2011, the account balance of prepayments, deposits and other receivables included consideration receivable from disposal of a subsidiary amounting to HK$17,296,000 (2010: nil) as at 31 December 2011. Details of disposal are disclosed in note 35.

26. HELD FOR TRADING INVESTMENTS

	2011	2010
	HK$'000	HK$'000
Equity securities listed in Hong Kong	**–**	1,875

The fair values of the listed investments held for trading are determined based on the quoted market bid prices available on the relevant exchange.

27. BANK BALANCES AND CASH

The amounts comprised cash held by the Group and short-term bank deposits at market interest rates with an original maturity of three months or less. Bank balances carry interest at average rate at 0.1% (2010: 0.1% per annum).

28. ACCOUNTS PAYABLE

	2011	2010
	HK$'000	HK$'000
Accounts payable arising from the online game services aged within 30 days based on invoice date at the end of the reporting period	**523**	32

29. OBLIGATIONS UNDER FINANCE LEASES

	2011	2010
	HK$'000	HK$'000
Analysed for reporting purpose as:		
Current liabilities	**617**	–
Non-current liabilities	**693**	–
	1,310	–

It was the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term was three years for the year ended 31 December 2011. Interest rates underlying all obligations under finance leases were fixed at 3.35% per annum. No arrangements had been entered into for contingent rental payments.

29. OBLIGATIONS UNDER FINANCE LEASES (continued)

	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount payable under finance leases				
Within one year	**652**	–	**617**	–
In more than one year but not more than two years	**652**	–	**639**	–
In more than two years but not more than five years	**54**	–	**54**	–
	1,358	–	**1,310**	–
Less: Future finance charges	**(48)**	–	**–**	–
Present value of lease obligations	**1,310**	–	**1,310**	–
Less: Amount due for settlement within one year (shown under current liabilities)			**(617)**	–
Amount due for settlement after one year			**693**	–

The Group's obligations under finance leases were secured by the lessor's charge over the leased assets.

30. BORROWINGS

	2011	2010
	HK$'000	HK$'000
Secured bank borrowings	**51,970**	53,669
Secured other borrowings	**78,892**	100,012
Unsecured other borrowings	**9,638**	18,300
	140,500	171,981

	2011	2010
	HK$'000	HK$'000
Carrying amount repayable based on schedule repayment terms:		
Within one year	**21,698**	122,443
More than one year but not exceeding two years	**78,892**	18,300
	100,590	140,743
Carrying amount of bank loans (shown under current liabilities) contain a repayment on demand clause	**39,910**	31,238
	140,500	171,981
Less: Amount due within one year shown under current liabilities	**(61,608)**	(153,681)
Amount shown under non-current liabilities	**78,892**	18,300

30. BORROWINGS (continued)

As at 31 December 2011, bank borrowings of approximately HK$51,970,000 (2010: HK$53,669,000) were secured by corporate guarantees from the Company and certain subsidiaries, investment properties of the Group with carrying amount of approximately HK$99,532,000 (2010: HK$95,810,000), as well as personnel guarantee from Mr Kwan Pak Hoo Bankee, an executive director and a shareholder with significant influence over the Company through his entire shareholding and control over Cash Guardian as explained in note 42.

As at 31 December 2011, the other borrowings amounting to approximately HK$78,892,000 (2010: HK$100,012,000) was secured by the shares of CIGL (defined in note 15), which is a wholly-owned subsidiary of the Company.

As at 31 December 2011, bank loans amounting to approximately HK$51,970,000 (2010: HK$53,669,000) are at variable-rate borrowings which carry interest at either HIBOR plus a spread or Hong Kong Prime Rate plus a spread. The unsecured other borrowings amounting to approximately HK$9,638,000 (2010: HK$18,300,000) carry interest at Hong Kong Prime Rate plus 3% per annum. Secured other borrowings of approximately HK$78,892,000 (2010: HK$100,012,000) carry interest rate at HIBOR plus 6% per annum (2010: HIBOR plus 4% per annum).

The effective interest rates on the Group's borrowings ranged from 2.4% to 8% (2010: 4.5% to 8%) per annum.

31. SHARE CAPITAL

	Notes	**Par value of each ordinary share** HK$	**Number of shares** '000	**Amount** HK$'000
Ordinary shares				
Authorised:				
At 1 January 2010		0.1	3,000,000	300,000
Share subdivision	(a)		27,000,000	–
At 31 December 2010 and 31 December 2011		0.01	30,000,000	300,000
Issued and fully paid:				
At 1 January 2010		0.1	205,505	20,551
Shares issued upon conversion of convertible notes	(b)(i)	0.1	6,500	650
Exercise of share options	(c)	0.1	13,612	1,361
Issue of subscription shares	(d)	0.1	20,000	2,000
Issue of shares upon bonus issue	(e)	0.1	46,601	4,660
Share subdivision	(a)		2,629,964	–
Shares issued upon conversion of convertible notes	(b)(ii)	0.01	102,041	1,020
Exercise of share options	(c)	0.01	66,000	660
At 31 December 2010			3,090,223	30,902
Exercise of share options	(c)	0.01	61,200	612
Issue of top up shares	(f)	0.01	308,000	3,080
Shares issued upon conversion of convertible notes	(b)(iii)	0.01	156,062	1,561
Issue of consideration shares	(g)	0.01	95,802	958
Repurchase of shares	(h)	0.01	(16,968)	(170)
At 31 December 2011			3,694,319	36,943

31. SHARE CAPITAL (continued)

Notes:

(a) Pursuant to the ordinary resolution passed on 27 October 2010, each of the Company's issued and unissued shares of par value HK$0.1 each were subdivided into ten subdivided shares of par value of HK$0.01 each ("Share Subdivision"). Immediately upon the Share Subdivision becoming effective on 28 October 2010, the authorised share capital of the Company was divided into 30,000,000,000 shares of HK$0.01 each, of which 2,922,181,770 shares of HK$0.01 each were in issue and fully paid.

(b) (i) On 1 September 2010, 6,500,000 new ordinary shares of the Company of HK$0.10 each were issued upon the partial conversion of the convertible notes. Convertible notes with aggregate principal amount of HK$6,500,000 were converted into 6,500,000 ordinary shares of the Company at a conversion price of HK$1 each.

(ii) On 29 October 2010 and 30 November 2010, 84,033,613 and 18,007,202 new ordinary shares of the Company of HK$0.01 each were issued upon the partial conversion of the convertible notes. Convertible notes with aggregate principal amount of HK$7,000,000 and HK$1,500,000 were converted into 84,033,613 and 18,007,202 ordinary shares of the Company respectively at a conversion price of HK$0.0833 (adjusted after Share Subdivision and bonus issue) each.

(iii) On 15 April 2011, 27 April 2011 and 17 June 2011, respectively, 72,028,811, 36,014,405 and 48,019,207 new ordinary shares of the Company of HK$0.01 each were issued upon partial conversion of convertible notes. Convertible notes with aggregate principal amount of HK$13,000,000 and aggregate carrying amount of the liability component of HK$9,403,000 were converted at a conversion price of HK$0.0833 each.

(c) The particulars of options exercised during the year ended 31 December 2011 and 2010 are set out below:

Date of issue of shares	Number of options exercised and resulting number of shares in issue	Exercise price per share	Total consideration (before expenses)
	'000	HK$	HK$'000
During the year ended 31 December 2011			
28.03.2011	25,200	0.0942	2,374
31.03.2011	36,000	0.0942	3,391
	61,200		5,765
During the year ended 31 December 2010			
Before Share Subdivision			
20.09.2010	1,000	1.1300	1,130
05.10.2010	7,680	0.9420	7,235
25.10.2010	2,466	1.3400	3,304
26.10.2010	2,466	1.3400	3,304
	13,612		14,973
After Share Subdivision			
15.11.2010	36,000	0.0942	3,391
29.11.2010	30,000	0.8100	24,300
	66,000		27,691
Total	79,612		42,664

31. SHARE CAPITAL (continued)

Notes: (continued)

(d) On 5 August 2010, a total of 20,000,000 top up shares of HK$0.10 each were issued at a top up price of HK$2.50 of HK$0.10 each to a related party of the Group, Cash Guardian (see details in note 42). The gross proceeds of HK$50,000,000 were raised to provide additional working capital for the Group.

(e) Pursuant to a special general meeting held on 24 September 2010, a total of approximately 46,601,000 bonus shares of HK$0.10 each were issued on the basis of one bonus share for every five existing shares.

(f) In April 2011, Cash Guardian, a related party of the Group (see details in note 42), signed a placing and top up agreement with the Company and a placing agent. The placing agent agreed to procure the placing of 100,000,000 existing shares held by Cash Guardian at placing price of HK$0.50 each and the Company allotted 100,000,000 top up shares of HK$0.01 each to Cash Guardian at a top up price of HK$0.50 each.

In June 2011, Cash Guardian, a related party of the Group (see details in note 42), and Mr Law Ping Wah Bernard, an executive director of the Company, signed placing and top up agreements with the Company and a placing agent. The placing agent agreed to procure the placing of 107,000,000 existing shares held by Cash Guardian and 101,000,000 existing shares held by Mr Law Ping Wah Bernard at placing price of HK$0.51 each and the Company allotted 107,000,000 and 101,000,000 top up shares of HK$0.01 each to Cash Guardian and Mr Law Ping Wah Bernard respectively at a top up price of HK$0.51 each.

(g) On 26 April 2011 and 17 June 2011, respectively, 63,564,000 and 32,237,569 consideration shares of HK$0.01 each were issued as consideration for acquisition of Yole Wireless and Oberon Media (both defined and explained in note 34 respectively).

(h) Repurchase of shares

During the year ended 31 December 2011, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK$0.01 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	HK$	HK$'000
July 2011	10,338	0.210	0.196	2,092
September 2011	6,630	0.119	0.084	728

The repurchased shares were cancelled in current year and the issued share capital of the Company was reduced by the nominal value thereof.

The repurchases of the Company's shares during the year ended 31 December 2011 were effected by the Directors, pursuant to the repurchase mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

All the shares issued during the year ended 31 December 2011 and 2010 rank pari passu in all respects with the other shares in issue.

32. CONVERTIBLE NOTES

In previous year, the Company issued 2% per annum convertible notes with a principal amount of HK$43,243,000 which will mature on 31 December 2011 ("Convertible Notes") at 100% of principal amount to Cash Guardian ("Noteholder"), a related party of the Group (see details in note 42), in relation to the acquisition of subsidiaries. The Convertible Notes are denominated in HK$ and will be redeemed at 100% of the principal amount upon maturity. The Company has the right to request the Noteholder to convert, and the Noteholder has the right to convert, the whole or any part (in an amount or integral multiple of HK$1,000,000) of the outstanding principal amount of the Convertible Notes into the ordinary shares of the Company with par value of HK$0.10 each for the period commencing on the expiry of 6 months from the date of issue and ending on the maturity date ("Conversion Period") at initial conversion price of HK$1 per share (adjusted to HK$0.0833 per share after Share Subdivision and bonus issue), subject to antidilutive adjustments. The management considers the fair value of the right to request the Noteholder to convert the Convertible Notes is insignificant.

32. CONVERTIBLE NOTES (continued)

At the discretion of the Company only, the Convertible Notes would be redeemed in whole or in part of integral multiple of HK$1,000,000 of outstanding principal amount at any time during the Conversion Period by giving the Noteholder redemption request not less than 3 business days' notice at the following redemption amount:

- if the redemption request is made within the period from the date of issue up to 31 December 2009, the Company may redeem the Convertible Notes at a redemption premium of 110% of the principal amount of the Convertible Notes outstanding less all the coupon interest paid to the Noteholder up to the date of redemption;

- if the redemption request is made within the period from 1 January 2010 up to 31 December 2010, the Company may redeem the Convertible Notes at a redemption premium of 121% of the principal amount of the Convertible Notes outstanding less all the coupon interest paid to the Noteholder up to the date of redemption; and

- if the redemption request is made within the period from 1 January 2011 to 31 December 2011, the Company may redeem the Convertible Notes at a redemption premium of 133% of the principal amount of the Convertible Notes outstanding less all the coupon interest paid to the Noteholder up to the date of redemption.

The Convertible Notes contain three components, liability component, derivative component and equity element. The equity element representing the conversion option of Noteholder that converts Convertible Notes into equity is included in equity of the Company (Convertible Notes equity reserve).

The principal amount of the Convertible Notes outstanding as at 31 December 2010 was HK$28,243,000 and its fair value of the Convertible Notes is approximately HK$33,386,000 as at 31 December 2010.

In April and June 2011, Convertible Notes with aggregate principal amount of HK$13,000,000 were converted into ordinary shares of the Company.

In October 2011, the Company has exercised its redemption rights to Noteholder to redeem the remaining Convertible Notes at a consideration of HK$18,401,000, being the 133% of the principal amount of the Convertible Notes reduced by all the coupon interest paid to the Noteholder from the date of issuance to the date of redemption of the Convertible Notes resulting in a loss of HK$7,107,000 being charged to profit or loss in 2011.

The carrying values of the liability component of the Convertible Notes are as follow:

	HK$'000
As at 1 January 2010	28,172
Interest expenses	6,355
Interest paid	(794)
Conversion to ordinary shares	(15,000)
As at 31 December 2010	18,733
Interest expenses	2,285
Interest paid	(321)
Conversion to ordinary shares (Note 31(b)(iii))	(9,403)
Early redemptions	(11,294)
As at 31 December 2011	–

33. LOSING CONTROL OF SUBSIDIARIES

As referred to in note 15, on 11 October 2010, CFSG ceased as a subsidiary of the Group upon the Directors' Disposals. Immediately after the Directors' Disposals, the Group's remaining voting power on CFSG was 49.94%. As a result, the Group is no longer in a position to exercise control but significant influence over CFSG. The fair value of the Group's interest in CFSG of approximately HK$384,622,000 as at 11 October 2010 determined based on quoted market price of CFSG at the same date, has been regarded as cost of interest in associate from the date on which the Group ceased to have control, and incorporated in the consolidated financial statements using the equity method of accounting. The net assets of CFSG which control was lost at the date of losing control were as follows:

	11.10.2010 HK$'000
Analysis of assets and liabilities over which control was lost:	
Property and equipment	183,616
Investment properties	88,612
Goodwill	62,710
Interests in associates	120,518
Loan to an associate	10,296
Other deposits	29,318
Other assets	15,357
Intangible assets	48,052
Inventories	41,728
Accounts receivable	2,203,504
Loan receivables	36,798
Prepayments, deposits and other receivables	34,237
Tax recoverable	7,730
Held for trading investment	26,411
Bank deposits under conditions	84,058
Bank balances – trust and segregated accounts	727,642
Bank balances and cash	205,849
Accounts payable	(1,233,611)
Accrued liabilities and other payables	(78,917)
Taxation payable	(6,574)
Obligation under finance leases	(1,056)
Borrowings	(1,968,743)
Loan from a non-controlling shareholder	(27,437)
Deferred tax liabilities	(16,864)
Net assets disposed of	593,234

33. LOSING CONTROL OF SUBSIDIARIES (continued)

	11.10.2010 HK$'000
Gain on losing control of subsidiaries:	
Net asset disposed of	(593,234)
Non-controlling interests	283,922
	(309,312)
Cumulative exchange differences in respect of the net assets of CFSG reclassified from equity to profit or loss	5,435
Reclassified as interest in an associate (Note)	384,622
Gain on losing control of subsidiaries	80,745
Net cash outflow arising on losing control:	
Bank balances and cash disposed of	205,849

Note: During the year ended 31 December 2010, the fair value assessments of certain underlying assets and liabilities (in particular, the trademark in relation of the retailing business) of CFSG had not been finalised and thus, the initial accounting for the aforesaid acquisition of equity interest in CFSG has been determined provisionally. In 2011, the fair value assessments were finalised. No adjustment in respect of the carrying amount and the share of result of the associate is required.

Of the gain of HK$80,745,000, HK$75,310,000 is attributable to recognising the residual interest in CFSG at fair value at the date control is lost, which is the difference between the fair value of residual interest in CFSG of HK$384,622,000 and the carrying amount of derecognised assets, liabilities and non-controlling interests of CFSG of HK$309,312,000.

The impact of losing control of CFSG on the Group's results and cash flows in the current and prior periods is disclosed in note 15.

34. ACQUISITION OF SUBSIDIARIES

(i) Acquisition of Yole Wireless

On 11 January 2011, the Group entered into a sale and purchase agreement with independent third parties to acquire 51% equity interest of Yole Wireless. The transaction was completed on 26 April 2011. This acquisition has been accounted for using the acquisition method. Yole Wireless is an investment holding company and its subsidiaries are engaged in the mobile digital business in the PRC.

Consideration transferred

	HK$'000
Cash	48,447
Equity instruments of the Company issued (Note)	32,418
Total	80,865

Note: As part of the consideration for the acquisition of Yole Wireless, 63,564,000 ordinary shares of the Company with par value of HK$0.01 each were issued. The fair value of the ordinary shares of the Company, determined using the quoted market price available at the date of the acquisition amounted to approximately HK$32,418,000.

Acquisition-related costs amounting to approximately HK$447,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the other operating, administrative and selling expenses line item in the consolidated statement of comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Property and equipment	1,057
Intangible assets (Note (1))	92,483
Accounts receivable (Note (2))	8,206
Prepayment, deposits and other receivables	7,329
Bank balances and cash	16,945
Accounts payable	(2,137)
Other payables and accrued charges	(6,261)
Deferred tax liabilities	(14,418)
	103,204

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	80,865
Plus: Non-controlling interests (49% in Yole Wireless) (Note (3))	50,570
Less: Net assets acquired	(103,204)
Goodwill arising on acquisition	28,231

34. ACQUISITION OF SUBSIDIARIES (continued)

(i) Acquisition of Yole Wireless (continued)

Notes:

(1) Amount represented the mobile digital related intellectual property and mobile digital related development cost of approximately HK$87,383,000 and HK$5,100,000 respectively, purchased as part of a business combination of Yole Wireless in current year. The fair value is based on a valuation carried out by Royal Assets Appraisal Limited, an independent professional valuer not connected with the Group, by applying income approach.

(2) The fair value of accounts receivable at the date of acquisition amounted to approximately HK$8,206,000, which is the same as the gross contractual amounts of accounts receivable at the date of acquisition.

(3) The non-controlling interests are determined by proportionate share of assets acquired and liabilities recognised of Yole Wireless at the date of acquisition.

Goodwill arose in the acquisition of Yole Wireless because consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies between mobile digital business of Yole Wireless and existing online game business of the Group, revenue growth and future development in both online game market and mobile digital market in the PRC. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration paid	48,447
Less: Bank balances and cash acquired	(16,945)
Total consideration	31,502

Included in the profit for the year for the discontinued operations is HK$1,407,000 attributable to Yole Wireless and its subsidiaries. Revenue for the year for the discontinued operations includes HK$32,432,000 generated by Yole Wireless and its subsidiaries.

Had the acquisition been completed on 1 January 2011, total group revenue for the year from discontinued operations would have been HK$46,453,000, and profit for the year from discontinued operations taken into account the amortisation of intangible assets after fair value adjustment would have been HK$993,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Yole Wireless been acquired at the beginning of the current year, the directors have calculated amortisation of intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination.

34. ACQUISITION OF SUBSIDIARIES (continued)

(ii) Acquisition of Oberon Media

On 7 June 2011, the Group entered into a sale and purchase agreement with an independent third party (to supersede the sale and purchase agreement dated 12 February 2011) to acquire entire equity interest of Oberon Media. The transaction was completed on 17 June 2011. This acquisition has been accounted for using the acquisition method. Oberon Media is an investment holding company and its subsidiaries are engaged in the development, publishing and distribution of mobile games in the PRC.

Consideration transferred

	HK$'000
Equity instruments of the Company issued	17,731
Equity instruments of Moli Mobile Digital Entertainment Holdings Limited ("Moli Mobile Digital") issued	12,920
Total	30,651

As part of the consideration for the acquisition of Oberon Media, 32,237,569 ordinary shares of the Company with par value of HK$0.01 each were issued. The fair value of the ordinary shares of the Company, determined using the quoted market price available at the date of the acquisition, amounted to approximately HK$17,731,000.

Also, part of the consideration is settled by issuance of 1,030 new ordinary shares of Moli Mobile Digital, a subsidiary of the Company, with par value of US$1.00 each. The fair value of equity interests issued by Moli Mobile Digital determined by reference to its fair value at the date of the acquisition amounted to approximately HK$12,920,000. Upon the completion of acquisition of Oberon Media, the Group's equity interest on Moli Mobile Digital is decreased from 100% to 89.7%. The difference between the fair value of 10.3% equity interest in Moli Mobile Digital of HK$12,920,000 and the proportionate share of net liabilities attributable to 10.3% equity interest of HK$16,946,000 totalling to HK$29,866,000 is recognised in other reserve and attributed to owners of the Company.

The fair value of Moli Mobile Digital is determined based on a valuation carried out by Royal Assets Appraisal Limited, an independent qualified professional valuer not connected with the Group, by applying income approach. The following were the key model input used in determining the fair value:

- assumed discount rate of 20.4%;
- assumed long-term sustainable growth rate of 3%; and
- assumed 30% discount because of lack of marketability.

Acquisition-related costs amounting to approximately HK$2,000,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the other operating, administrative and selling expenses line item in the consolidated statement of comprehensive income.

34. ACQUISITION OF SUBSIDIARIES (continued)

(ii) Acquisition of Oberon Media (continued)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Property and equipment	493
Intangible assets – gaming licenses (Note (1))	40,295
Prepayment, deposits and other receivables	146
Bank balances and cash	350
Other payables and accrued charges	(465)
Deferred tax liabilities	(6,649)
	34,170
Consideration transferred	30,651
Plus: non-controlling interests (10.3% equity interest of Oberon Media) (Note (2))	3,519
Less: Net assets acquired	(34,170)
	–

Notes:

(1) The fair value of gaming licenses of HK$40,295,000 is based on a valuation carried out by Royal Assets Appraisal Limited, an independent professional valuer not connected with the Group, by applying income approach covering a 7-year period and discount rate of 21.82%.

(2) The non-controlling interests are determined by proportionate share of assets acquired and liabilities recognised of Oberon Media at the date of acquisition.

Net cash inflow arising on acquisition:

	HK$'000
Bank balances and cash acquired	350

Included in the loss for the year from continuing operations is HK$1,824,000 attributable to Oberon Media and its subsidiaries. Revenue for the year from the continuing operations includes HK$4,000 generated from Oberon Media and its subsidiaries.

Had the acquisition been completed on 1 January 2011, total group revenue for the year from continuing operations would have been HK$10,248,000, and loss for the year from continuing operations would have been HK$104,381,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Oberon Media been acquired at the beginning of the current year, the directors have calculated amortisation of intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination.

35. DISPOSAL OF SUBSIDIARIES

As referred to in note 15, on 28 December 2011, the Group completed the disposal of its equity interests in Yole Wireless to an independent third party at a consideration of HK$50,000,000 by cash. The Group discontinued its mobile digital business upon the disposal of Yole Wireless.

	HK$'000
Analysis of assets and liabilities over which control was lost:	
Property and equipment	2,182
Intangible assets	85,241
Accounts receivable	10,106
Prepayment, deposits and other receivables	10,410
Bank balances and cash	19,380
Accounts payable	(2,502)
Other payables and accrued charges	(7,765)
Deferred tax liabilities	(12,496)
Net assets disposed of	104,556
Loss on disposal of subsidiaries:	
Cash consideration	50,000
Net assets disposed of	(104,556)
Non-controlling interests	51,233
Loss on disposal	(3,323)
Net cash inflow arising on disposal:	
Cash consideration	50,000
Consideration receivable (Note)	(17,296)
Less: Bank balances and cash disposed of	(19,380)
	13,324

Note: Consideration receivable of HK$17,296,000 is included in prepayments, deposits and other receivables as at 31 December 2011 and will be settled by several installments until 13 April 2012.

The impact of Yole Wireless on the Group's results and cash flows in current period is disclosed in note 15.

36. RESERVES

Translation reserve

	2011	2010
	HK$'000	HK$'000
At 1 January	**(769)**	4,571
Exchange differences arising on translation to presentation currency	**1,277**	95
Reclassification adjustment upon losing control of subsidiaries	**–**	(5,435)
Share of translation reserve of an associate	**2,450**	–
At 31 December	**2,958**	(769)

Properties revaluation reserve

	2011	2010
	HK$'000	HK$'000
At 1 January	**1,919**	18,907
Loss on revaluation of leasehold land and buildings	**–**	(792)
Deferred taxation arising on revaluation of leasehold land and buildings	**–**	130
Transfer upon losing control of subsidiaries	**–**	(18,245)
Share of properties revaluation surplus of an associate	**–**	1,919
Transfer upon disposal of properties by an associate	**(1,919)**	–
At 31 December	**–**	1,919

37. NON-CONTROLLING INTERESTS

	Share of net assets of subsidiaries	**Share options reserve of subsidiaries**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2010	287,250	7,072	294,322
Share of loss for the year	(7,555)	–	(7,555)
Loss on revaluation of leasehold land and buildings	(847)	–	(847)
Deferred taxation arising on revaluation of leasehold land and buildings	140	–	140
Share-based payments of CFSG	–	4,240	4,240
Dividend paid by CFSG	(6,378)	–	(6,378)
Transfer upon losing control of CFSG	(272,610)	(11,312)	(283,922)
At 31 December 2010	–	–	–
Share of loss for the year	(4,626)	–	(4,626)
Acquisition of subsidiaries	54,089	–	54,089
Disposal of subsidiaries	(51,233)	–	(51,233)
Disposal of partial interest in a subsidiary	(16,946)	–	(16,946)
At 31 December 2011	(18,716)	–	(18,716)

38. MAJOR NON-CASH TRANSACTIONS

For year ended 31 December 2011

(1) As detailed in note 34, part of the purchase consideration of 51% equity interest in Yole Wireless in 2011 was satisfied by the issue of 63,564,000 ordinary shares of the Company amounting to approximately HK$32,418,000.

(2) As detailed in note 34, the purchase consideration of entire interest in Oberon Media in 2011 was satisfied by the issue of 32,237,569 ordinary shares of the Company amounting to approximately HK$17,731,000 and 1,030 new ordinary shares of Moli Mobile Digital amounting to approximately HK$12,920,000.

(3) The Group acquired a motor vehicle of approximately HK$1,737,000 under finance lease.

For year ended 31 December 2010

46,601,000 bonus shares were issued by the capitalisation of approximately HK$4,660,000 of the share premium account.

39. OPERATING LEASE COMMITMENTS

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

	2011 **HK$'000**	2010 HK$'000
Within one year	**13,343**	10,014
In the second to fifth year inclusive	**9,803**	14,900
	23,146	24,914

Operating lease payments represent rental payable by the Group for office premises for both years ended. Leases are mainly negotiated for lease term of two to five years and rentals are fixed for an average of three years.

40. SHARE OPTION SCHEMES

(A) Share option scheme of the Company

The Company's share option scheme ("Share Option Scheme") was adopted pursuant to an ordinary resolution passed at the special general meeting of the Company held on 19 February 2002. The major terms of the Share Option Scheme are summarised as follows:

(i) The purpose was to provide incentives to:

- award and retain the participants who have made contributions to the Company, its subsidiaries and associates, including CFSG and its subsidiaries ("Net2Gather Group"); or

- attract potential candidates to serve the Net2Gather Group for the benefit of the development of the Net2Gather Group.

(ii) The participants included any employee, director, consultant, adviser or agent of any member of the Net2Gather Group.

(iii) The maximum number of shares in respect of which share options might be granted under the Share Option Scheme must not exceeded 10% of the issued share capital of the Company as at the date of approval of the Share Option Scheme and such limit might be refreshed by shareholders in general meeting. The maximum number of shares was 342,302,980 shares, representing 9.27% of the issued share capital of the Company as at the date of these consolidated financial statements were authorised for issue. However, the total maximum number of shares which might be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.

(iv) The maximum number of shares in respect of which share options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the share options cancelled) under any share option granted to the same participant under the Share Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.

(v) There was no requirement for a grantee to hold the share option for a certain period before exercising the share option save as determined by the Board of Directors and provided in the offer of grant of share option.

(vi) The exercise period should be any period fixed by the Board of Directors upon grant of the option but in any event the share option period should not go beyond 10 years from the date of offer for grant.

(vii) The acceptance of a share option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee to the Company.

(viii) The exercise price of a share option must be the highest of:

- the closing price of the Company's shares on the date of grant which day must be a trading day;

- the average closing price of the Company's shares for the 5 trading days immediately preceding the date of grant; and

- the nominal value of the Company's share.

(ix) The life of the Share Option Scheme is effective for 10 years from the date of adoption.

All share-based compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

40. SHARE OPTION SCHEMES (continued)

(A) Share option scheme of the Company (continued)

The following table discloses details of the Company's share options held by the directors, the employees and consultants of the Group and movements in such holdings:

				Number of share options								
Name of scheme	Date of grant	Exercise price per share HK$	Option period	outstanding as at 1.1.2010	granted in 2010 (Note (1))	adjusted in 2010 (Note (3))	exercised in 2010 (Note (2))	outstanding as at 31.12.2010 and 1.1.2011	granted in 2011	exercised in 2011 (Note (2))	lapsed in 2011	outstanding as at 31.12.2011
Directors												
Share Option Scheme	13.3.2009	0.0942	13.3.2009–31.3.2011	4,600,000	–	39,800,000	(37,200,000)	7,200,000	–	(7,200,000)	–	–
	3.6.2010 (Notes (1) & (4))	0.1667	3.6.2010–31.5.2012	–	5,000,000	55,000,000	–	60,000,000	–	–	–	60,000,000
	25.3.2011 (Note (5))	0.5920	25.3.2011–24.3.2013	–	–	–	–	–	60,000,000	–	(60,000,000)	–
				4,600,000	5,000,000	94,800,000	(37,200,000)	67,200,000	60,000,000	(7,200,000)	(60,000,000)	60,000,000
Employees												
Share Option Scheme	13.3.2009	0.0942	13.3.2009–31.3.2011	10,900,000	–	50,580,000	(7,480,000)	54,000,000	–	(54,000,000)	–	–
	3.6.2010 (Notes (1) & (4))	0.1667	3.6.2010–31.5.2012	–	8,000,000	88,000,000	–	96,000,000	–	–	–	96,000,000
				10,900,000	8,000,000	138,580,000	(7,480,000)	150,000,000	–	(54,000,000)	–	96,000,000
Consultants												
Share Option Scheme	1.6.2010 (Notes (1) & (4))	1.3400	1.6.2010–31.5.2012 (Note (4))	–	4,110,000	822,000	(4,932,000)	–	–	–	–	–
	26.11.2010 (Notes (1) & (4))	0.8100	26.11.2010–30.11.2013 (Note (4))	–	30,000,000	–	(30,000,000)	–	–	–	–	–
	29.11.2010 (Note (4))	0.8600	29.11.2010–30.11.2013 (Note (4))	–	30,000,000	–	–	30,000,000	–	–	–	30,000,000
				–	64,110,000	822,000	(34,932,000)	30,000,000	–	–	–	30,000,000
				15,500,000	77,110,000	234,202,000	(79,612,000)	247,200,000	60,000,000	(61,200,000)	(60,000,000)	186,000,000
Exercisable at the end of reporting period								61,200,000				156,000,000

40. SHARE OPTION SCHEMES (continued)

(A) Share option scheme of the Company (continued)

Notes:

(1) During the year ended 31 December 2010, options were granted on 1 June 2010, 3 June 2010 and 26 November, 2010. The estimated fair values of the options granted on those dates are HK$166,000, HK$10,470,000 and HK$765,000 respectively.

(2) In respect of the share options exercised during the year ended 31 December 2011, the weighted average share price at the dates of exercise is HK$0.68 (2010: HK$0.769 (adjusted after Share Subdivision and bonus issue)).

(3) The number and the exercise price of options which remained outstanding have been adjusted on 26 September 2010 due to bonus issue and on 27 October 2010 due to Share Subdivision of the Company with effect from 27 September 2010 and 27 October 2010 respectively.

The exercise prices of share options were adjusted as follows:

	Exercise price per share		
Date of grant	**before 26.9.2010**	**from 27.9.2010 to 26.10.2010**	**after 27.10.2010**
	HK$	HK$	HK$
13.3.2009	1.1300	0.9420	0.0942
1.6.2010	1.6080	1.3400	N/A
3.6.2010	2.0000	1.6670	0.1667

(4) In relation to each grantee of the option granted on 3 June 2010, the options are vested in 2 tranches so as to (i) 50% exercisable from 1 January 2011 to 31 May 2012; and (ii) 50% exercisable from 1 January 2012 up to 31 March 2012. All options will be vested until the grantee remains in service in the Group for 18 months from the date of grant.

For option granted on 1 June 2010, 26 November 2010 and 29 November 2010, these options were granted to consultants of the Group for the services to be provided to the Group. The options will be exercisable within 7 days from the date of completion of the services determined at the sole discretion of the Board of Directors.

(5) For option granted to a director of the Company on 25 March 2011, the options are vested only if the individual performance and/or corporate performance can be achieved on or before 31 August 2011. Fair value of share options at the date of grant is estimated and assumptions are disclosed below. As the specified target has not been met, the options were not vested. The recognised share-based payment was reversed and nil amount is recognised for these share options in 2011. The closing price of the share immediately before the date of grant of options was HK$0.61 (2010: HK$0.577 (adjusted after Share Subdivision and bonus issue)).

These fair values are calculated using the Black-Scholes pricing model. The variables and assumptions used in computing the fair value of the share options are based on the best estimation of the Directors of the Company. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

	Share options grant date			
	25 March 2011	**26 November 2010**	**3 June 2010**	**1 June 2010**
Weighted average share price (Note)	HK$0.59	HK$0.81	HK$0.1667	HK$0.131
Exercise price	HK$0.59	HK$0.81	HK$0.1667	HK$0.134
Expected volatility	58%	61.4%	73.96%	71.53%
Expected life	2 years	7 days	2 years	7 days
Risk-free rate	0.7%	0.7%	0.7%	0.7%
Expected dividend yield	Nil	Nil	Nil	Nil

Note: The weighted average share price and exercise price is the price after Share Subdivision and bonus issue.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 256 trading days.

The Group recognised the total expenses of approximately HK$6,980,000 (2010: HK$4,422,000) for the year ended 31 December 2011 in relation to share options granted by the Company.

40. SHARE OPTION SCHEMES (continued)

(B) Share option scheme of Netfield Technology Limited ("Netfield"), the wholly-owned subsidiary of the Group

The Netfield share option scheme ("Netfield Share Option Scheme") was adopted pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 6 June 2008. During the years ended 31 December 2011 and 2010, no option has been granted under the Netfield Share Option Scheme. The major terms of the Netfield Share Option Scheme are summarised as follows:

(i) The purpose was to provide incentives to:

- award and retain the participants who have made contributions to Netfield and its subsidiaries ("Netfield Group"); or

- attract potential candidates to serve the Netfield Group for the benefit of the development of the Netfield Group.

(ii) The participants included any employee, executive, officer, consultant, adviser or agent of any member of the Netfield Group.

(iii) The maximum number of shares in respect of which share options might be granted under the Netfield Share Option Scheme must not exceeded 10% of the issued share capital of Netfield as at the date of approval of the Netfield Share Option Scheme and such limit might be refreshed by shareholders in general meeting. However, the total maximum number of shares which might be issued upon exercise of all outstanding share options granted and yet to be exercised under the Netfield Share Option Scheme and any other share option scheme must not exceed 30% of the Netfield shares in issue from time to time.

(iv) The maximum number of shares in respect of which share options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the share options cancelled) under any share option granted to the same participant under the Netfield Share Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the relevant class of securities of Netfield in issue from time to time.

(v) There was no requirement for a grantee to hold the share option for a certain period before exercising the share option save as determined by the board of directors of Netfield and provided in the offer of grant of share option.

(vi) The exercise period should be any period fixed by the board of directors of Netfield upon grant of the option but in any event the share option period should not go beyond 10 years from the date of offer for grant.

(vii) The acceptance of a share option, if accepted, must be made within 25 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee to Netfield.

(viii) The exercise price of a share option shall be such price as the board of directors of Netfield at its absolute discretion shall determine, save that such price must not always be less than the nominal value of Netfield's share, which is currently of HK$0.10 each.

(ix) The exercise price of a share option granted at any time after Netfield has resolved to seek a separate listing of Netfield and up to the listing date or during the period commencing 6 months before the lodgement of listing application and up to the listing date, shall not be less than the new issue price at listing.

40. SHARE OPTION SCHEMES (continued)

(B) Share option scheme of Netfield Technology Limited ("Netfield"), the wholly-owned subsidiary of the Group (continued)

(x) After the Netfield's share have been listed, the exercise price of a share option must be the highest of:

- the closing price of the Netfield's shares on the date of grant which day must be a trading day;
- the average closing price of the Netfield's shares for the 5 trading days immediately preceding the date of grant; and
- the nominal value of the Netfield's share.

(xi) The life of the Netfield Share Option Scheme is effective for 10 years from the date of adoption until 5 June 2018.

No share option has been granted under this scheme in both years.

41. RETIREMENT BENEFITS SCHEMES

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

The Group operates various benefits schemes for its full-time employees in the PRC in accordance with the relevant PRC regulations and rules, including provision of housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury insurance and pregnancy insurance. Pursuant to the existing schemes, the Group contributes 7%, 5%, 17%, 2%, 0.5% and 0.5% of the basic salary of its employees to the housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury and pregnancy insurance respectively.

The employer's contribution to the MPF Schemes and various benefits schemes in the PRC is disclosed in note 9 for continuing operations and note 15 for discontinued operations.

42. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group entered into the following transactions with related parties:

	Notes	**2011 HK$'000**	2010 HK$'000
Commission and interest income received from the following shareholders of the Company	(a)		
Cash Guardian		–	160
Mr Kwan Pak Hoo Bankee and associates		–	48
		–	208
Commission and interest income received from a shareholder of the Company who has significant influence over the Company	(b)	–	77
Commission and interest income received from the following directors of the Company	(c)		
Mr Law Ping Wah Bernard and associates		–	130
Commission and interest income received from the following directors of CFSG	(d)		
Mr Cheng Man Pan Ben and associates		–	28
Mr Yuen Pak Lau Raymond and associates		–	14
		–	42
Interest expenses paid to Cash Guardian	(e)	**321**	794
Rental expenses paid to an associate of the Group	(f)	–	12,343
Loan interest income received from a director of the Company	(g)		
Mr Ng Kung Chit Raymond		–	25
Loan interest income received from common directors of CFSG and the Company	(h)		
Mr Law Ping Wah Bernard		–	55
Mr Cheng Man Pan Ben		–	34
Mr Yuen Pak Lau Raymond		–	55
Mr Chan Chi Ming Benson		–	55
		–	199
Placing commission expenses paid to CFSG	(i)	**4,682**	–
Commission and interest expenses paid to CFSG	(j)	**426**	–
Rental and building management fee income received from CFSG	(j)	**2,484**	–

42. RELATED PARTY TRANSACTIONS (continued)

Notes:

(a) During the year ended 31 December 2010, the Group received commission and interest income from margin financing of approximately HK$208,000 from Cash Guardian. Cash Guardian is solely owned and controlled by Mr Kwan Pak Hoo Bankee, an executive director of the Company. Cash Guardian has significant influence over the Company at 31 December 2011 and 2010.

(b) During the year ended 31 December 2010, the Group received commission and interest from margin financing of approximately HK$77,000 from a shareholder of the Company who has significant influence over the Company.

(c) During the year ended 31 December 2010, the Group received commission and interest from margin financing of approximately HK$130,000 from a Director of the Company.

(d) During the year ended 31 December 2010, the Group received commission and interest from margin financing of approximately HK$42,000 from certain directors of CFSG.

(e) During the year ended 31 December 2011, the Group paid interest expense of approximately HK$321,000 (2010: HK$794,000) to Cash Guardian (see note (a) above) in relation to the issue of Convertible Notes.

(f) During the year ended 31 December 2010, the Group paid rental expenses of approximately HK$12,343,000 to an associate of CFSG.

(g) During the year ended 31 December 2010, the Group derived interest income from loan to certain directors of the Company of approximately HK$25,000.

(h) During the year ended 31 December 2010, the Group derived interest income from loans to common directors of CFSG and the Company of approximately HK$199,000.

(i) During the year ended 31 December 2011, the Group incurred placing commission expenses from placing of the Company's shares of approximately HK$4,682,000 (2010: nil).

(j) During the year ended 31 December 2011, the Group paid commission and interest expenses to CFSG of approximately HK$426,000 (2010: nil) and received rental and building management fee income from CFSG of approximately HK$2,484,000 (2010: nil).

(k) Other than (e), (i) and (j) above, the other related party transactions have ceased upon Directors' Disposals.

Compensation of key management personnel

The remuneration of directors and key executives which is disclosed in note 12 is determined by the remuneration committee having regard to the performance of individuals and market trends.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Year 2011 and 2010

Name	Place of incorporation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Voting power held by the Company		Proportion of nominal value of issued share capital held by the Company		Principal activities
			2011	2010	**2011**	2010	
			%	%	**%**	%	
CASH Group Limited	BVI	US$1	**100**	100	**100**	100	Investment holding
Celestial Investment Group Limited	BVI	US$10,000	**100**	100	**100**	100	Investment holding
摩力游(上海)信息科技有限公司# (translated as MOLI China Information Technology Limited)	PRC	US$10,000,000	**89.7***	100	**89.7***	100	Online game developer
上海摩力游數字娛樂有限公司## (translated as Shanghai Moliyo Digital Entertainment Limited)	PRC	RMB10,000,000	**89.7***	100	**89.7***	100	Online game operator
Libra Capital Management (HK) Limited	BVI	US$1	**100**	100	**100**	100	Trading of securities
Praise Joy Limited	BVI	US$1	**100**	100	**100**	100	Investment holding

Wholly-owned foreign enterprise established in the PRC.

Domestic enterprise with limited liabilities established in the PRC. 上海摩力游數字娛樂有限公司 is indirectly held by the Company through the declarations of trust executed by 魏麗 (Wei Li) and 譚靜琳 (Tan Jing Lin) who hold the interest in 上海摩力游數字娛樂有限公司 of 80% and 20% respectively.

* Being subsidiaries of Moli Mobile Digital whereby the Group's equity interest thereon dropped to 89.7% at 31 December 2011. Details are set out in note 34(ii).

All the subsidiaries shown above are indirectly held by the Company. In the opinion of the directors of the Company, a complete list of the particulars of subsidiaries will be of excessive length and therefore the above list contains only the particulars of those subsidiaries which principally affect the results or net assets of the Group.

44. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2011	2010
	HK$'000	HK$'000
Amounts due from subsidiaries	**886,042**	712,589
Other receivables and payables	**55**	376
Bank balance and cash	**1,348**	127
Other payables and accruals	**(705)**	(2,594)
Convertible notes	**–**	(18,733)
Total assets	**886,740**	691,765
Share Capital	**36,943**	30,902
Reserves	**843,797**	660,863
Total equity	**886,740**	691,765

Appendix I – Investment Properties

Held as at 31 December 2011

Location	Approximate gross floor area*/ saleable area** (sq. ft.)	Land use
Room 2102 on Level 18, Maison des artiste, No.18 Lane 688, Huang Jin Cheng Road, Changning District, Shanghai, the PRC	2,469*	The property has been rented out
Flat B on 3rd Floor and Car Parking Space No. 25 on Ground Floor, Rose Gardens, No. 9 Magazine Gap Road, The Peak, Hong Kong	2,235**	The property is vacant

Appendix II – Five-Year Financial Summary

The summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements as appropriate, is set out below:

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue					
Continuing operations	**9,418**	13,823	31,938	116,637	169,661
Discontinued operations	**32,432**	940,556	1,097,204	1,196,109	1,495,791
	41,850	954,379	1,129,142	1,312,746	1,665,452
(Loss) profit before taxation:					
Continuing operations	**(101,713)**	(18,564)	(38,389)	(297,397)	1,275
Discontinued operations	**(30,104)**	71,953	61,636	(88,296)	168,448
	(131,817)	53,389	23,247	(385,693)	169,723
Taxation charge	**(133)**	(10,152)	(19,174)	(9,425)	(30,079)
(Loss) profit for the year	**(131,950)**	43,237	4,073	(395,118)	139,644
Attributable to:					
Equity holders of the Company	**(127,324)**	50,792	20,823	(356,725)	51,902
Non-controlling interests	**(4,626)**	(7,555)	(16,750)	(38,393)	87,742
	(131,950)	43,237	4,073	(395,118)	139,644

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Property and equipment	**17,134**	19,986	221,818	204,219	137,430
Investment property	**99,532**	95,810	163,712	–	5,000
Goodwill	**83,361**	83,361	146,071	192,547	233,115
Interest in an associate	**391,933**	410,922	116,931	111,684	65,778
Intangible assets	**92,976**	25,460	50,790	55,929	68,255
Other non-current assets	**–**	–	48,283	83,685	36,260
Current assets	**107,365**	95,036	1,798,084	1,486,146	2,641,128
Total assets	**792,301**	730,575	2,545,689	2,134,210	3,186,966
Current liabilities	**85,516**	192,881	1,778,450	1,353,062	2,025,791
Long term borrowings	**–**	18,300	62,772	128,271	1,249
Other non-current liabilities	**93,546**	7,222	49,556	10,371	9,866
Total liabilities	**179,062**	218,403	1,890,778	1,491,704	2,036,906
Net assets	**613,239**	512,172	654,911	642,506	1,150,060
Equity attributable to equity holders of the Company	**631,955**	512,172	360,589	272,182	657,854
Non-controlling interests	**(18,716)**	–	294,322	370,324	492,206
	613,239	512,172	654,911	642,506	1,150,060

Definitions

In this annual report, the following expressions have the following meanings unless the context requires otherwise:

"Audit Committee"	the audit committee of the Company established pursuant to the CG Code of the Listing Rules
"Board"	the board of Directors
"CASH Asset Management"	CASH Asset Management Limited, a company incorporated with limited liability in Hong Kong, is a wholly-owned subsidiary of CFSG, and currently an associate of the Company via CFSG. It is a licensed corporation under the SFO which is engaged in type 9 (asset management) regulated activity
"Cash Guardian"	Cash Guardian Limited, a company incorporated in the British Virgin Islands; a substantial Shareholder of the Company and an associate of Mr Kwan Pak Hoo Bankee
"Celestial Capital"	Celestial Capital Limited, a company incorporated with limited liability in Hong Kong, is a wholly-owned subsidiary of CFSG, and currently an associate of the Company via CFSG. It is a licensed corporation under the SFO which is engaged in types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities
"Celestial Commodities"	Celestial Commodities Limited, a company incorporated with limited liability in Hong Kong, is a wholly-owned subsidiary of CFSG, and currently an associate of the Company via CFSG. It is a licensed corporation under the SFO which is engaged in type 2 (dealing in futures contracts) regulated activity
"Celestial Securities"	Celestial Securities Limited, a company incorporated with limited liability in Hong Kong, is a wholly-owned subsidiary of CFSG, and currently an associate of the Company via CFSG. It is a licensed corporation under the SFO which is engaged in type 1 (dealing in securities) regulated activity
"CEO"	the chief executive officer of the Company
"CFO"	the chief financial officer of the Company
"CFSG"	CASH Financial Services Group Limited (stock code on Main Board: 510), a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board. CFSG is currently an associate of the Company
"CFSG Group"	CFSG and its subsidiaries
"CG Code"	the Code on Corporate Governance Practices as contained in the Listing Rules
"CG Report"	the corporate governance report of the Company covering the year ended 31 December 2011 as required to be included in this annual report under the Listing Rules
"CIGL"	Celestial Investment Group Limited, a company incorporated in the British Virgin Islands with limited liability, is a wholly-owned subsidiary of the Company. It is the substantial shareholder of CFSG
"Company" or "Net2Gather"	Net2Gather (China) Holdings Limited (formerly known as Celestial Asia Securities Holdings Limited) (stock code: 1049), a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board
"COO"	the chief operating officer of the Company
"CRMG" or "CRMG Group"	CASH Retail Management (HK) Limited ("CRMG", together with its subsidiaries "CRMG Group"), a company incorporated in the British Virgin Islands with limited liability, and the holding company of the CRMG Group. CRMG Group are mainly engage in retail business in Hong Kong and China. CRMG is currently a wholly-owned subsidiary of CFSG, an associate of the Company

Definitions (continued)

"Directors"	the directors of the Company
"ED(s)"	the executive Director(s) of the Company
"Group" or "Net2Gather Group"	the Company and its subsidiaries
"Hong Kong" or "HKSAR"	the Hong Kong Special Administrative Region of the PRC
"INED(s)"	the independent non-executive Director(s) of the Company
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the main board of the Stock Exchange
"Model Code"	the required standards of dealings regarding securities transactions by Directors or the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Listing Rules
"Moli Mobile Digital"	Moli Mobile Digital Entertainment Holdings Limited, a company incorporated in British Virgin Islands with limited liability, is a subsidiary of the Group. It is joint venture holding company of Moliyo Group
"Moliyo Group"	Netfield and its subsidiaries, which mainly operate online games business in the PRC, are wholly-owned subsidiaries of the Company
"NED(s)"	the non-executive Director(s) of the Company
"Netfield"	Netfield Technology Limited, a company incorporated in Bermuda with limited liability. It is a wholly-owned subsidiary of the Company and the holding company of the Moliyo Group
"PRC"	the People's Republic of China
"Principles"	a set of corporate governance principles adopted by the Board
"Remuneration Committee"	the remuneration committee of the Company established pursuant to the CG Code of the Listing Rules
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	the existing share option scheme of the Company adopted by the Shareholders at the special general meeting held on 19 February 2002
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Yole Wireless"	Yole Wireless Technology (Hongkong) Co., Limited, a company incorporated in Hong Kong with limited liability, which is the holding company for companies engaged in mobile digital entertainment business in the PRC
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong

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