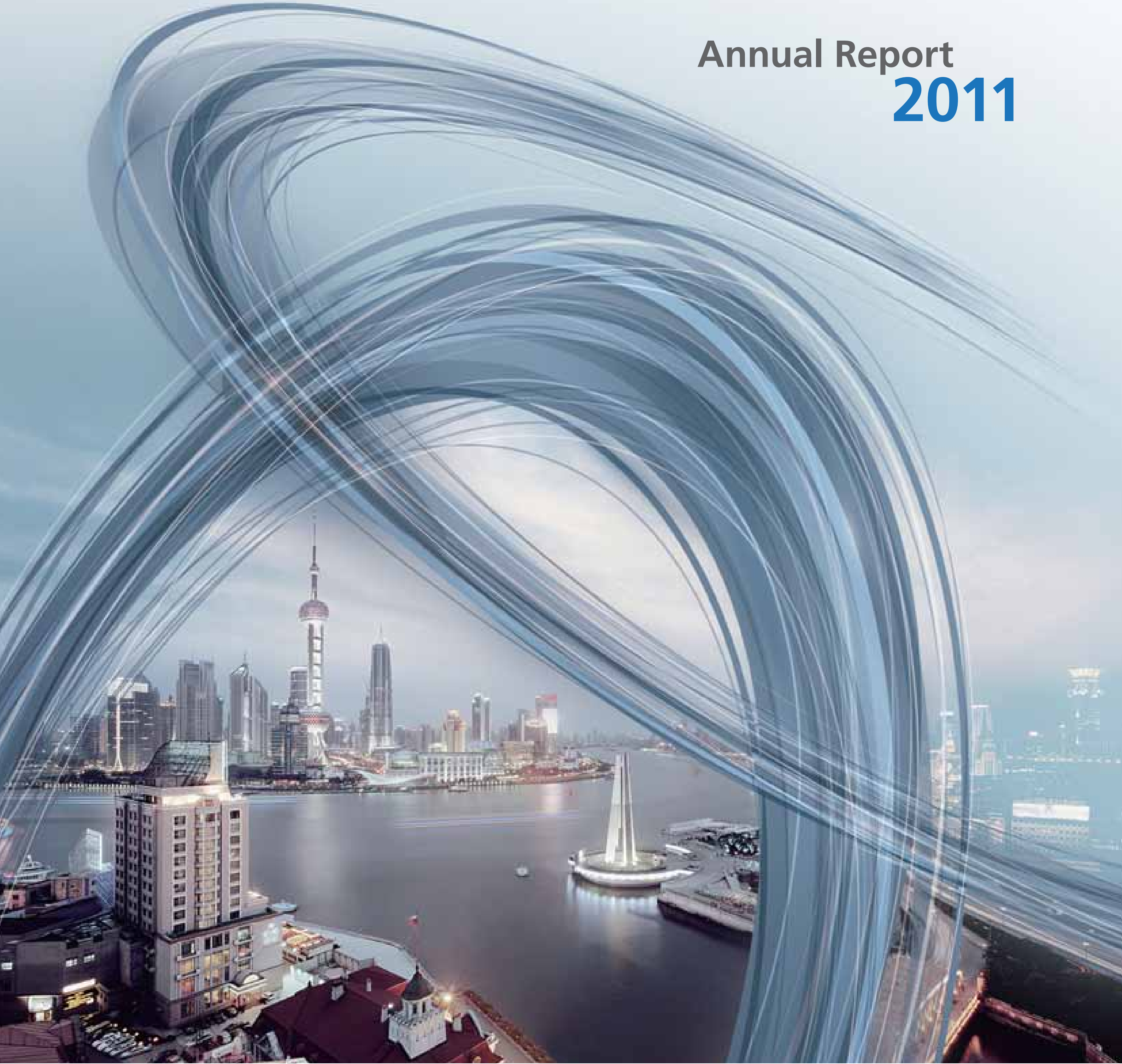
GENVON GROUP LIMITED
正峰集團有限公司

Incorporated in the Cayman Islands with limited liability
Stock Code: 2389

Annual Report 2011



Content

Chairman's Statement

I would like to present the annual results of Genvon Group Limited (the "Company") together with its subsidiaries (collectively the "Group") for the year ended 31 December 2011 on behalf of the Board of Directors.

During the year under review, the Group recorded a turnover of HK$114,040,000 (2010: HK$108,760,000). Loss attributable to shareholders was HK$41,669,000 (2010: HK$12,438,000). Basic loss per share amounted to HK1.0 cent (2010: basic loss per share of HK0.4 cent and diluted loss per share of HK1.0 cent). The increase in loss for the year was mainly attributable to the decrease in operating margin as a result of the rise in cost and appreciation of Renminbi, as well as the lack of HK$24,535,000 one-off other income arising from fair value gain on conversion option embed in conversion rights of the convertible notes and write-back of other payables recorded in year 2010.

In 2011, given that the global economy was still picking up slowly, and the PRC government had implemented the ever most stringent macro-control measures to dampen investment and speculation, certain demand in the real estate market was immediately reined-in. On top of this, factors including high inflation, excess liquidity, tight credit policy implemented by the commercial banks and strong wait-and-see sentiment among buyers have also induced a continued downturn in the trading volume of the domestic real estate market. There was a sharp fall in real estate sales in major cities.

To stay ahead of the tough market conditions, the Group has framed a pragmatic marketing strategy to step up the sales of projects. Promising sales results were reaped. In 2011, the construction and sales of the Group's project in Minhang District, Shanghai attained smooth progress as expected. A total of 74 suites of 灝峰南苑 were sold in 2011, with cumulative sales accounting for approximately 86% of the overall saleable GFA. 灝峰北苑 was also launched for open sale in September this year. Salable GFA of approximately 4% was successfully sold by the end of the year. The rest of the saleable real estate is expected to be rolled out for sale in 2012.

In relation to land bank, no new land reserves were added by the Group in 2011 because of the sufficiency of the existing land bank to meet its development needs in the next three to five years. As at 31 December 2011, the Group had land reserves of a total GFA of about 604,000 square metres, of which the equity component amounted to approximately 440,000 square metres. We believe that the existing land bank is sufficient to cater for our development and construction needs in the coming three to five years.

For power tool business, orders placed with the Group's factories recorded a steady growth. There was an increase in factory output value when compared to that of the same period last year. During the period under review, a number of new product lines of power tools developed and produced by the Group have entered a mature stage. It is expected that the introduction of new customers in 2012 will bring profit contribution for the Group. In addition, during the period under review, the Group successfully formed close cooperation with a number of new customers in Europe, and successfully shipped products to those customers. The Group estimates that the power tool business is expected to re-contribute profits for the Group in the next few years.

Looking ahead, given that it is difficult to predict the movements and developments of the global financial market along with the uncertain economic prospects in Europe and the U.S., the business environment will remain challenging to a certain extent. Under a macro-environment where strict purchase restriction, price control and credit crunch are exercised by the PRC government, it is expected that the business landscape of the real estate market will not be greatly improved, but will still be exposed to pressures from a number of spectrums ranging from policy, macro-economy and market instead.

However, on the other hand, China's economy will continue to sustain a relatively stable growth. The overall price level is still controllable, and is expected to exhibit a fall gradually. Monetary and credit policies will be increasingly normalized, whereas stringent control measures for the real estate market will remain basically stable. Fuelled by the increase in market supply and the implementation of flexible pricing strategies by developers, the trading volume in the market may rebound. The ease of the wait-and-see sentiment in the market will present favourable opportunities for the development of the real estate peers. It is always the vision of the Group to keep ahead of the prevailing environment and to meet market challenges ahead with best efforts.

At the same time, the Group will continue to optimize the operation model of the power tool business, while endeavouring to reward our shareholders and investors with brighter business performance. The Group will continue to identify opportunities to expand the Group's land bank in the coming year. I am confident that the Group's financial position will continue to be improved in the next few years, thereby creating promising returns for shareholders.

I would like to take this opportunity to thank my fellow Directors, management and staff, and to express heartfelt gratitude to all colleagues for their hard work and contribution to the development of the Group in the past year. Meanwhile, I would also like to express appreciation to all shareholders, the banking sector, the investment community and business partners for their vote of strong confidence in the Group and long-lasting patronage to the Group.

Management Discussion and Analysis

INDUSTRY REVIEW

Property development business

2011 was the first year of the implementation of the country's "12th Five-Year Plan". The further accelerated pace of industrialization and urbanization will establish a base from which a strong demand can be fuelled for the development of the real estate business. Reforms relating to policies for property taxes and indemnificatory housing and plans for significant increase in land supply will be conducive to the long-term stable development of the real estate industry.

Led by the sustained steady economic growth in Mainland China during the year, there was an increase in disposable income per capita. The accelerated pace of urbanization has driven a continued robust demand for both owner-occupied housing and better housing. Under these backdrops, coupled with the Group's sales strategy in response to market changes, the contract real estate sales for the year achieved encouraging performance.

At the same time, to fulfill a goal of "structural adjustment, price stabilization", the central government continued to strengthen the macro-economic regulation and control over the real estate industry. The "8 National Clauses" and pilot property tax reforms have been put into place. Policies including "Restrictions on Purchases", "Restrictions on Prices" and "Restrictions on Loans" were implemented on full scale. Cities which are subject to restrictions on purchases sharply increased from less than 20 cities in 2010 to over 40. During the mid-year, at an executive meeting of the State Council, it was clearly defined that "the second-tier and third-tier cities should also be subject to restrictions on purchases". The number of cities which are subject to restrictions on purchases increased to nearly 50. In October 2011, the fulfillment of the projects relating to the construction of 10 million units of affordable housing was ahead of schedule. The series of regulation and control measures on real estate commencing in 2010 continued to be refined and implemented in 2011 in order to curb demand and increase supply. Administrative and economic means were further refined.

Power Tools

During the year under review, corporate costs within the industry showed an intensified volatility and an overall rising trend. Businesses are facing challenges arising from the rise in the overall costs. The sharp rise in raw material prices since early 2011 continued into the third quarter, and exhibited an extent of decrease by nearly 5% in the fourth quarter. This extent of decrease was due to the weak demand for metallic materials as a result of the imposition of pressures on the industry by the government. However, as a whole, costs jumped by nearly 5% over those of 2010. The current government has actively unveiled income doubling plans, which drive a continued rise in labour costs. The minimum wage standards were enforced across 30 provinces in China in 2010. There was a rise in wages throughout 13 provinces in China in 2011. As reflected by many enterprises, in addition to a rise in first-line labour costs, there was also an upward trend in comprehensive costs for corporate officers including managers, marketers, R&D personnel and designers. At the same time, as the difficulty of recruitment since 2010 have not yet been alleviated, it is generally noticed by companies that difficulty of recruitment will continue to be an important factor that hinders business capacity in the short run. Given the above two aspects, together with the factors such as the appreciation of RMB, the price advantages of products from the PRC were weakened, particular attention should be drawn to the transfer of orders to the surrounding areas.

Monetary tightening was another move made by the government to suppress prices. This move has resulted in the rise in financing costs and the widespread capital crunch of micro-scale enterprises. There were waves of closure of manufacturing players along the coastal areas. These backgrounds have led to the rise in management costs of supply chains. Meanwhile, the surge in costs was directly attributable to the increase in basic tariff by the government in the second half of the year.

The fall in corporate profits represented a challenge to the long-term competitiveness of the PRC enterprises. To mitigate the pressures of rising costs, companies tended to raise prices to reduce losses. However, the profitability of the increased product prices cannot fully compensate for the losses arising therefrom. The decrease in corporate profits of enterprises will be detrimental to their long-term structural adjustment and R&D innovation. The appreciation of RMB by 4.8% during the whole year of 2011 exerted direct impacts on the expected gross profit. Meanwhile, given that the appreciation of RMB has also led to the increase in price levels for the newly-solicited overseas projects, the price gap between the PRC and the European and American competitors was continuously narrowed.

Management Discussion and Analysis

BUSINESS REVIEW

Property Development Business

Since mid 2009, the Group shifted to adopt a business strategy to develop high-quality residential areas for the middle and upper classes in the PRC. As at 31 December 2011, the Group's major real estate development projects were under smooth progress.

Contract sales

The Group's residential projects, which are now available for sale, are located in the first-tier cities in the PRC. All of these projects are high-end developments. Due to their superior quality, the number of units sold in the opening week for sale is high. During the year, the Group's saleable GFA contracted for but not yet recognized was about 10,822 square metres, generating contract sales revenue of RMB166,235,000 (2010: 13,405 square metres and RMB215,659,000). The accumulated saleable GFA contracted for but not yet recognized was about 24,227 square metres, generating contract sales revenue of RMB381,894,000. The contract sales will be recognized, depending on the timeframe for the completion of the construction, the issue of the occupation permits and the delivery to the purchasers. They are expected to be realized in 2012.

In 2011, contract sales revenue was as follows:

Project	Purpose	Sales area (Square metres)	Contract sales revenue (RMB'000)	Approximate contract average selling price per square meter (RMB)
上海頴峰南苑	Residential	9,803	142,185	14,504
上海頴峰北苑	Residential	1,019	24,050	23,602

Land Bank

No new land bank was added in 2011 as the Group's land bank is enough for the development in the next three to five years. As at 31 December 2011, the Group had a land bank of total GFA of about 604,000 square metres, of which, the equity component amounted to approximately 440,000 square metres.

During the year, a number of discussions were held with the government of Haian County in respect of the land piece in Haian County, Jiangsu Province successfully tendered by the Group last year, in order to confirm the delivery of the relevant land. As indicated by the Land Resources Bureau of Haian County, the demolition works have been completed for about 144,500 square metres of the land, and the state-owned land use right certificates have been successfully applied for such area. The demolition of the remaining land has been substantially completed. According to its own development needs, the Group will apply for the state-owned land use right certificates for the rest of the land with the Land Resources Bureau of Haian County from time to time. The Group considers that the procurement of the state-owned land use right certificates in batches can help to avoid policy risks arising from idle land, and that part of the land received in the first batch is sufficient to meet the development needs of the Company in the coming one to two years.

From the perspective of geographical distribution, about 81% of the Group's land bank is located in Jiangsu Province, and the remaining 11% is located in Shanghai. The acquisition of the prime land pieces at very reasonable prices will strengthen the Group's earnings base, and will further add value for the Group. To ensure the continued rapid growth, the Group will continue to replenish its land bank prudently and carefully through a number of channels, with a view to establishing a solid foundation for bolstering the future profitability.

Power Tool Business

The Group's factories are mainly engaged in the production and sale of products including AC and DC power tools and air tools. During the period under review, the continued rise in domestic prices and raw material prices has contributed to the increase in the overall costs of products in the manufacturing industry.

Management Discussion and Analysis

During the year under review, factory orders attained a steady growth and factory output value grew over the same period last year. During the period under review, a variety of new product lines of the power tool segment developed and produced by the Group has entered a mature stage. This is expected to facilitate the introduction of new customers and the launch of new projects in 2012, and bring profit contribution for the Group. In addition, during the period under review, the Group successfully formed close cooperation with a number of new customers in Europe, and successfully shipped products to those customers. Currently, the Group maintains a continued growth in its customer base. Major customers include: world-renowned chain stores such as BOSCH and SPARKY, as well as major power and air tool distributors in the U.S. and Europe.

In respect of new product development, efforts were made in full swing. Smooth progress was achieved as expected. With the further recovery in the North American market such as the U.S., in order to ensure the further exploration into the North American market, and to actively keep abreast of the customers' demand for new product development, the Group continued to step up R&D efforts for the North American market in the first half of 2011 and strengthened the research and prediction for the North America market. Endeavours were also dedicated to promote the Group's product innovation and to constantly introduce new products into the North American market. The Group has made a success in rolling out a number of new power tools during the period under review. At the same time, to enhance product quality and to ensure that new products meet the requirements of the directive standards in the European Union and North America, the Group has also reinforced the investment in specialized laboratories, with a view to striving for the establishment of a national-level experimental centre. At present, the provincial-level power tool inspection and testing centre of the Group is gradually exerting its influence in Jiangsu province, and undertook 58 product inspection and testing tasks during the period under review. At present, thanks to further enhancement in the Group's professional R&D capabilities, the overall R&D pace has been accelerated, thus uplifting the standard of products. A wider diversity of new products has been launching into the market.

FINANCIAL REVIEW

Revenue and profit analysis

For the year ended 31 December 2011, the Group recorded revenue of approximately HK$114,040,000, representing an increase of 4.9% when compared to 2010. Loss attributable to shareholders in 2011 amounted to approximately HK$41,669,000 (2010: loss of HK$12,438,000). The increase in revenue was mainly attributable to the increase in the orders of the power tool business and the rise in product prices. The increase in loss for the year was mainly attributable to the decrease in operating margin as a result of the rise in cost and appreciation of Renminbi, as well as the lack of HK$24,535,000 one-off other income arising from fair value gain on conversion option embed in conversion rights of the convertible notes and write-back of other payables recorded in year 2010.

Revenue Breakdown by Products and Geographical Locations

In terms of products, during the year, power tools were the only source of income for the Group (2010: power tools accounted for 99.93%, air tools accounted for 0.02% as well as hand tools and other products accounted for 0.05%). Geographically, the U.S. was the main market of the Group. In 2011, the proportion of the income of the Group from the U.S. and other markets was 61:39 (2010: 69:31).

Gross Profit and Profit Margin Analysis

For the year ended 31 December 2011, the Group's gross profit decreased from approximately HK$10,502,000 in 2010 to approximately HK$2,874,000 The decrease in gross margin was primarily due to the rise in raw material prices, which were not immediately transferred by the Group to its major customers.

Liquidity and Gearing Ratio

As at 31 December 2011, the Group's cash on hand was HK$67,899,000 (2010: HK$208,269,000). The Group's long-term and short-term debts were HK$338,212,000 (2010: HK$433,252,000) in aggregate. The total debts decreased by approximately HK$95,040,000 when compared to the end of 2010. As at 31 December 2011, the gearing ratio (total borrowing/equity) was 50% (2010: 66%).

Capital Expenditure

The Group's capital expenditure in 2011 was approximately HK$6,693,000 (2010: HK$7,300,000), whereas expenditure for development of mould amounted to HK$4,085,000 (2010: HK$1,801,000).

Working Capital Analysis

For the year ended 31 December 2011, the turnover days for the Group's accounts receivable was 87 days (2010: 78 days), whereas the turnover day for accounts payable was 142 days (2010: 162 days) and the inventory turnover day was 47 days (2010: 56 days).

Management Discussion and Analysis

Capital Structure

The Group took full advantage of the financing platform as a listed company by striving to constantly optimize the capital and financing structure, so as to obtain sufficient funds for the future property development projects. As at 31 December 2011, the Group's operations were mainly financed by internal resources and bank borrowings.

Pledge of Assets

The Group has pledged its property, plant and equipment with a net book value of approximately HK$50,983,000 (2010: HK$59,504,000), prepaid lease payments of approximately HK$25,111,000 (2010: HK$24,526,000) and properties under development held for sales of approximately HK$335,046,000 (2010: HK$366,763,000) to secure general banking facilities granted to the Group.

Contingent Liabilities

As at 31 December 2011, the Group had no material contingent liabilities (2010: nil).

Foreign Exchange Risk

The Group's exposure to foreign exchange risks was primarily related to trade and other receivables, bank balances, trade and other payables and bank borrowings denominated in US dollars and RMB. In respect of the Group's exposure to potential foreign exchange risks arising from the currency exchange rate fluctuations, it did not make any arrangement or use any financial instruments to hedge against potential foreign exchange risks. However, the management will continue to monitor foreign exchange risks and adopt hedging measures where necessary.

Employee Benefits and Training

For the year ended 31 December 2011, the Group had approximately 417 employees, of which, 19 employees were management staff and 45 employees were engineers. The total staff cost (including Directors' emoluments) amounted to approximately HK$20,634,000 (2010: HK$20,408,000).

Remuneration for the employees of the Group is based on their merit, qualifications and competence. Employees may also be granted shares options according to the share option scheme and at the discretion of the Board of Directors. Other benefits include contributions to the provident fund scheme or mandatory provident fund and medical insurance.

The Group makes great efforts to enhance the quality of staff through the provision of various kinds of staff training. During the year under review, the Group organized internal training courses for staff at all levels. Topics of the training courses included moral, ethic, languages, technical and management skill trainings. The Group also organized hundreds of on-the-job training programs in its production plants in the PRC.

FUTURE OUTLOOK

Property Development Business

The Group considers that the international business environment in 2012 will remain unstable. The European sovereign debt crisis has not yet shown signs of improvement. This will directly affect the economic growth of the European Union countries, and will cause heightened uncertainties to the global economy. At the same time, the pace of global economic recovery is bound to be weighed down by the weak economic recovery and the high unemployment rate in the U.S.. Against the backdrop of the rapid economic growth in China, the slowdown in the speed of economic growth will divert the direction of China's macroeconomic policy, and will further affect the domestic real estate market.

According to the estimation based on the "middle-term and long-term dynamic real estate model of China", it is difficult for commercial housing to achieve a growth in terms of annual volume and prices. Sales areas and prices are expected to fall within the range between 3% and 6% and between 1% and 4%, respectively. The growth rate of the investment in real estate development and the construction of new areas will further be slowed down within the range between 15% and 20% and between 6% and 9%, respectively. The growth rate will continue to fall under the background in 2011.

In 2012, it is anticipated that the central government will continue to exercise stringent macro-control policies on the real estate market and will unswervingly uphold the control policies on the real estate sector. Monetary policy will be fine-tuned to alleviate regulation and control pressures and promote the resumption of reasonable prices. Administrative policies ranging from "Restrictions on Purchases", Restrictions on Prices" and "Restrictions on loans" will not be relaxed in 2012. Long-term mechanisms including land system improvement and property tax pilot reform may also be put into practice. At the end of November 2011, China's Central Bank cut the bank reserve ratios for the first time over the recent three years. Monetary policy is expected to be fine-tuned in 2012. The intensity and pace of fine-tuning will be a crucial key to the trends of the real estate market in 2012.

Management Discussion and Analysis

In 2012, the Group will keep ahead of the market in respect of its sales strategy. A positive and flexible sales strategy will be adopted to drive sales growth. We will take a targeted, sophisticated sales strategy according to the characteristics of individual projects, in order to boost the sales of the existing projects and accelerate the return of funds.

Power Tools

The focus of the Group's factories in 2011 was: to broaden the mix of product lines, foster the development of market diversification, and to speed up the expansion of new markets. Initial fruitful results were reaped. The Group expects that the overall business performance in 2012 will be steadily enhanced. The Group will further accelerate the expansion of new markets, especially the U.S. market. Efforts will also be dedicated to step up the enhancement of the grade of new products. Faced with new opportunities and challenges ahead, we hope to explore a brand new prospect for the development of the Group.

In terms of R&D, the Group plans to reinforce its R&D efforts. A focus will be placed on the enhancement of the market competitiveness of the Group's products. In addition, the Group will continue to establish close collaboration with the well-known certification companies in Europe and the government departments of quality and technical supervision in China. Endeavours will be made to promote the setting up of a specialized laboratory, enhance the quality of products and improve the grade of products.

Looking ahead, in order to stay ahead of the market, the Group will accelerate the pace of market expansion and march towards market diversification. Vigorous efforts will be delivered to enhance the grade of products through development of a wider range of middle-end and high-end products of premium quality, thereby raising the economic efficiency of the Group. The Group will further reinforce its efforts on promoting a higher level of management and building an admirable corporate culture within the Group. At the same time, to capture immense growth potentials emerging from the booming market, the Group is confident that it is well-positioned to attain a sustained growth in its power tool and new product business operations by making unwavering efforts. With continuous efforts on fostering the internal and external corporate development, the Group will continue to strengthen its operation and management capabilities. The Group will also constantly achieve new breakthroughs in a number of important aspects including sales, R&D and production. Genvon Group is bound to move ahead and create a brilliant future.

Corporate Governance Report

The Board of Directors (the "Board") of the Company is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2011.

The manner in which the principles and code provisions in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") are applied and implemented is explained as follows:

CORPORATE GOVERNANCE PRACTICES

The Group acknowledges the vital importance of good corporate governance to the Group's success and sustainability. We are committed to achieving a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of our business.

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

The Company has adopted different measures to ensure a high standard of corporate governance and has put in place corporate governance practices that are considered to be relevant to the Group, to meet the CG Code.

Throughout the year ended 31 December 2011, the Company has complied with the code provisions as set out in the CG Code, except for the deviations from code provisions A.2.1 and A.4.1, which deviations are explained in the relevant paragraphs of this Report.

The Company will continue to review regularly review its corporate governance practices to ensure compliance with the CG Code.

THE BOARD/BOARD OF DIRECTORS

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the Chief Executive Officer, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors have carried out their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its shareholders at all times.

DELEGATION OF MANAGEMENT FUNCTIONS

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

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

Corporate Governance Report

BOARD COMPOSITION

The Board currently comprises ten members, consisting of six Executive Directors, one Non-executive Director and three Independent Non-executive Directors.

The list of all Directors (by category) is set out under "Corporate Information" on page 72 and all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The Independent Non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The Board of the Company currently comprises the following Directors:

Executive Directors:

Mr. Wang Zheng Chun *(Chairman and Chief Executive Officer)*
Mr. Zheng Wei Chong
Mr. Zhang Xiu He
Mr. Xu Wen Cong
Mr. Cheung Man
Mr. Liu Hoi Keung *(appointed on 27 May 2011)*

Non-executive Director:

Mr. Ho Hao Veng

Independent Non-executive Directors:

Mr. Ang Siu Lun Lawrence
Mr. Ma Kwai Yuen
Mr. Law Wing Tak Jack *(to retire at the next forthcoming annual general meeting)*

None of the members of the Board is related to one another.

During the year ended 31 December 2011, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent Non-executive Directors have been invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

APPOINTMENT,RE-ELECTION AND REMOVAL OF DIRECTORS

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing Board composition, evaluating the balance of skills, knowledge and experience of the Board and making recommendations on the appointment of Directors.

In accordance with the Company's Articles of Association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself for re-election by shareholders at the first general meeting after appointment.

Code provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election.

None of the Independent Non-executive Directors of the Company has entered into an appointment letter with the Company for a specific term of service but their appointment is subject to retirement by rotation and offers himself for re-election in accordance with the Articles of Association of the Company. Moreover, the Company in general meeting shall have power by ordinary resolution to remove any Director before the expiration of his period of office.

Corporate Governance Report

TRAINING INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary.

BOARD AND BOARD COMMITTEE MEETINGS

Number of Meetings and Directors' Attendance

During the year ended 31 December 2011, 4 regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each Director at the meetings of the Board, Nomination Committee, Remuneration Committee and Audit Committee during the year ended 31 December 2011 are set out below:

	Attendance/Number of meetings held subsequent to the appointment of the Directors concerned			
Name of Directors	Board	Nomination Committee	Remuneration Committee	Audit Committee
Executive Directors				
Mr. Wang Zheng Chun	4/4	0/2	–	–
Mr. Zheng Wei Chong	4/4	–	2/2	–
Mr. Xu Wen Cong	4/4	–	–	–
Mr. Zhang Xiu He	4/4	–	–	–
Mr. Cheung Man	4/4	–	–	–
Mr. Liu Hoi Keung *(appointed on 27 May 2011)*	3/3	–	–	–
Non-executive Director				
Mr. Ho Hao Veng	3/4	–	1/2	2/4
Independent Non-executive Directors				
Mr. Ang Siu Lun Lawrence	3/4	2/2	2/2	3/4
Mr. Ma Kwai Yuen	4/4	2/2	2/2	4/4
Mr. Law Wing Tak Jack	2/4	0/2	0/2	1/4

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

Corporate Governance Report

The senior management would attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The secretary of the meetings or the company secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and final versions are open for Directors' inspection.

The Company's Articles of Association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Wang Zheng Chun is the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of the roles of Chairman and Chief Executive Officer, are necessary.

BOARD COMMITTEES

The Board has established three committees, namely, Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Company and the Stock Exchange.

The majority of the members of each Board committee are Independent Non-executive Directors.

Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expense.

NOMINATION COMMITTEE

The Nomination Committee comprises four members, namely, Mr. Ang Siu Lun Lawrence (Chairman of the Committee), Mr. Ma Kwai Yuen, Mr. Law Wing Tak Jack (who will retire at the next forthcoming annual general meeting) and Mr. Wang Zheng Chun. The majority of them are Independent Non-executive Directors.

Principal duties of the Nomination Committee include reviewing the Board composition, identifying suitable candidates for appointment as Directors and making recommendations to the Board on the appointment and succession planning of Directors.

The Nomination Committee met twice up to the date of this report and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The attendance records of the Nomination Committee are set out under "Board Committee Meetings" on page 10.

In accordance with the Company's Articles of Association, Mr. Liu Hoi Keung, having been appointed as Executive Director of the Company during the year, shall retire and being eligible, offer himself for re-election at the next forthcoming annual general meeting. In addition, Mr. Zheng Wei Chong, Mr. Law Wing Tak Jack and Mr. Cheung Man shall retire by rotation and Mr. Zheng Wei Chong and Mr. Cheung Man, being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 18 April 2012 contains detailed information of the Directors standing for re-election.

Corporate Governance Report

REMUNERATION COMMITTEE

The Remuneration Committee comprises five members, namely, Mr. Ho Hao Veng (Chairman of the Committee), Mr. Ang Siu Lun Lawrence, Mr. Ma Kwai Yuen, Mr. Law Wing Tak Jack (who will retire at the next forthcoming annual general meeting) and Mr. Zheng Wei Chong, the majority of them are Independent Non-executive Directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee met twice up to the date of this report and reviewed the remuneration policy and structure of the Company, and the remuneration packages of the Directors and the senior management for the year under review. The attendance records of the Remuneration Committee are set out under "Board Committee Meetings" on page 10.

AUDIT COMMITTEE

The Audit Committee comprises one Non-executive Director and three Independent Non-executive Directors, namely, Mr. Ma Kwai Yuen (Chairman of the Committee), Mr. Ang Siu Lun Lawrence, Mr. Law Wing Tak Jack (who will retire at the next forthcoming annual general meeting) and Mr. Ho Hao Veng, with Independent Non-executive Directors in majority (including one independent non-executive Director with the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the internal auditor or external auditors before submission to the Board

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures

The Audit Committee held four meetings up to the date of this report to review the financial results and reports, financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors. The attendance records of the Audit Committee are set out under "Board Committee Meetings" on page 10.

The Company's annual results for the year ended 31 December 2011 have been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "Company Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2011.

The Company has applied the Model Code to the employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Model Code by the employees was noted by the Company.

Corporate Governance Report

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements. The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and that relevant statutory and regulatory requirements and applicable accounting standards are complied with.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on pages 22-23.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2011 amounted to HK$1,280,000 and HK$330,000 respectively.

INTERNAL CONTROLS

During the year under review, the Board conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such on an annual basis.

The Company has developed its systems of internal control and risk management and will continue to review and assess procedures for their effectiveness.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The internal audit division reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

The key elements of the Group's internal control system include the following:

- A comprehensive financial accounting system to provide indicators for performance measurement and to ensure compliance with relevant rules
- Annual plans prepared by senior management on financial reporting, operations and compliance with reference to potential significant risks
- Appropriate policy to ensure the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget
- Review and evaluation of the control process and monitoring of any risk factors on a regular basis by the management; and report by the same to the Audit Committee on any findings and measures to address the variances and identified risks

The main duties of the internal audit division include the following:

- Establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls, and providing for identification and management of risks
- Presenting a risk-based internal audit plan to the Audit Committee for approval
- Reporting to the Audit Committee on any key findings and progress of the internal audit process

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

To promote effective communication, the Company maintains a website at http://www.genvon.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, are available to answer questions at shareholder meetings.

The 2011 Annual General Meeting ("AGM") was held on 25 May 2011. The notice of AGM was sent to shareholders at least 20 clear business days before the AGM.

The Company continues to enhance communication and relationship with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong at Suite 1101, 11/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for any enquiries.

SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual Directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

Directors and Senior Management

EXECUTIVE DIRECTORS

Wang Zheng Chun

Mr. Wang Zheng Chun, aged 47, was appointed as an Executive Director of the Group in June 2008. He was re-designated as the Chairman of the Group in October 2008. He has over ten years of experience in property development and management. Mr. Wang has substantial experience in developing and constructing villas, residential units and commercial buildings in the People's Republic of China. Mr. Wang is also the committee member of 上海市閔行區工商業聯合會 (The Association of Industry and Commerce in Minhang District, Shanghai).

Zheng Wei Chong

Mr. Zheng Wei Chong, aged 44, is an Executive Director of the Group. Mr. Zheng holds a bachelor of law degree from the China University of Political Science and Law. Prior to joining the Group in November 2007, Mr. Zheng has more than ten years of management experience in various business sectors. Mr. Zheng is mainly responsible for the Group's legal issue.

Xu Wen Cong

Mr. Xu Wen Cong, aged 43, was appointed as an Executive Director of the Group in October 2008. Mr. Xu is responsible for the property management and development businesses. Mr. Xu graduated from Zhejiang University and has over seventeen years of experience in property construction and installation in the PRC, and he has acquired all-round experience in enterprise management, project planning, property construction and ancillary works. His last employment was the standing vice general manager of a property development company located in Shanghai. Mr. Xu is mainly responsible for the Group's property development business.

Zhang Xiu He

Mr. Zhang Xiu He, aged 43, was appointed as an Executive Director of the Group in October 2008. Mr. Zhang is responsible for the businesses of investment and finance, the enterprise financial management, and supervision of the cashflow position of the Group. Mr. Zhang obtained a Bachelor of Economics and Master of Professional Accountancy in Fushun Petroleum Engineering Management Institute and The Chinese University of Hong Kong, respectively. Mr. Zhang served as a head of finance, chief finance officer and vice general manager of a company listed in Shanghai between the period from July 1999 and April 2005, and has been serving as a Director and chief executive officer of an investment management company in Shanghai before joining the Group.

Cheung Man

Mr. Cheung Man, aged 44, was appointed as an Executive Director of the Group in September 2009. Prior to joining the Company, Mr. Cheung has served at senior positions in a number of securities and investment companies. Mr. Cheung has more than seventeen years of the experience in investment banking and is well connected with fund managers in Shanghai and Hong Kong.

Liu Hoi Keung

Mr. Liu Hoi Keung, aged 47, joined the Group as Chief Financial Officer since January 2008 and appointed as Executive Director in May 2011. Mr. Liu is responsible for the Group's accounting and finance matter. Mr. Liu received his Master of Science degree from the University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Liu is currently an Independent Non-Executive Director of Century Sunshine Group Holdings Limited, a Main Board listed company in Hong Kong. Prior to joining the Company, he had served various positions as the Chief Executive Office, Executive Director and Company Secretary in a Main Board listed company in Hong Kong for more than ten years. Mr. Liu also has around nine years experience working in international accounting firms.

Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Ho Hao Veng

Mr. Ho Hao Veng, aged 65, was appointed as an Independent Non-executive Director of the Group in April 2002 and was re-designated as a Non-executive Director of the Group in September 2005. Mr. Ho graduated from Queen's University, Ontario, Canada with a Bachelor's degree in Applied Science and he has been a securities dealer since 1975. Mr. Ho has been an Executive Director of some companies of the Keuntai Group since 1971 and is mainly responsible for the overall management and operations of the fund management sector with a focus on equity markets and international foreign exchange markets, real estate development and property investment sectors. Mr. Ho has also been a Director of Tai Fung Bank Limited, Macau since June 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ang Siu Lun, Lawrence

Mr. Ang Siu Lun, Lawrence, aged 51, was appointed as an Independent Non-executive Director of the Group in September 2005. Mr. Ang holds a Bachelor of Science degree in Physics and Computer Science and a Master of Business Administration degree from The Chinese University of Hong Kong. Mr. Ang is currently an Executive Director of Geely Automobile Holdings Limited, a listed public company in Hong Kong and a Non-executive Director of Honbridge Holdings Limited, a listed public company in Hong Kong. Mr. Ang previously worked in a number of major international investment banks for nineteen years with extensive experience in equity research, investment banking and financial analysis.

Ma Kwai Yuen

Mr. Ma Kwai Yuen, aged 59, was appointed as an Independent Non-executive Director in September 2008. Mr. Ma is an Executive Director of a consulting company in Hong Kong and has over thirty years of professional experience in the accounting and financial management and consulting industries. Mr. Ma also holds a Doctor of Philosophy degree in Business Administration from Bulacan State University and LLM degree from University of Wolverhampton. Mr. Ma is a fellow member of The Chartered Institute of Management Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the CPA Australia. Mr. Ma was an Independent Non-executive Director of Vision Tech International Holdings Limited for the period from 6 March 2008 to 10 June 2009 and China Shineway Pharmaceutical Group Limited for the period from 30 May 2008 to 16 December 2009, which are listed on the Main Board of the Stock Exchange. He is currently an Independent Non-executive Director of China Aoyuan Property Limited, PacMOS Technologies Holdings Limited and China Fiber Optic Network System Group Ltd, which are listed on the Main Board of the Stock Exchange of Hong Kong.

Law Wing Tak, Jack

Mr. Law Wing Tak, Jack, aged 58, was appointed as an Independent Non-executive Director of the Group in October 2008. Mr. Law is a graduate of Newcastle University in the United Kingdom with a degree of Bachelor of Arts in Economics and Accounting. Mr. Law is a member of the Institute of Chartered Accountants in England and Wales and a member of Hong Kong Institute of Certified Public Accountants. Mr. Law has been in the corporate finance business for more than twenty years and has held Directorships in a number of Hong Kong and the United Kingdom listed companies. His experience covers the areas of banking, credit control, financial management, appraising and implementing investment projects, merger & acquisitions, and corporate finance. Mr. Law is also currently a partner of a firm of chartered accountants in the United Kingdom. Mr. Law is currently the chief executive officer of Ford Eagle Group Limited.

SENIOR MANAGEMENT

John Bee

Mr. John Bee, aged 45, was appointed as General Manager of Jiangsu Golden Harbour Enterprises Limited ("Golden Harbour") in July 2009. Mr. Bee holds a Bachelor of Laws degree from East China University of Political Science and Law, and a Master of Business Administration degree from the University of Washington. Prior to joining the Group, Mr. Bee has over eighteen years of experience in marketing and sales, in which more than 10 years experience as general manager in a well known power tools enterprise.

Wan Ji Ming

Mr. Wan Ji Ming, aged 43, is the Director of Technique Global Operation Centre of the Group and the Executive Deputy General Manager of Jiangsu Golden Harbour Enterprises Limitedr. Mr. Wan is responsible for the technical aspect of the factory and to supervise the design and production of power tool products. Mr. Wan graduated from the Jiangsu Industry College with a Bachelor's degree of mechanical engineering. Mr. Wan has over 17 years of experience in the power tool industry. Mr. Wan is experienced in product design and production management. Mr. Wan is also specialized in bringing local Chinese management philosophy into practice. Mr. Wan joined the Group in December 2001.

Lam Ka Tak

Mr. Lam Ka Tak, aged 30, is the Financial Controller and Company Secretary of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants. He graduated from the Hong Kong Polytechnic University. Prior to joining the Company in 2010, he had more than seven years experience working in international accounting firms.

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 37 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Company and its subsidiaries (collectively known as the "Group") for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 24.

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

MAJOR SUPPLIERS AND CUSTOMERS

Aggregate purchase attributable to the Group's five largest suppliers were less than 30% of total purchases.

The largest and the top five customers of the Group accounted for approximately 44.24%% and 88.78% respectively of the Group's total revenue for the year.

At no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have a beneficial interest in any of the Group's five largest customers or suppliers during the year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2011, the Company's reserves available for distribution amounted to HK$101,415,000 which consisted of share premium of HK$381,028,000 net of accumulated losses of HK$279,613,000.

SHARE CAPITAL

Details of movement during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

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

Executive Directors:

Mr. Wang Zheng Chun *(Chairman and Chief Executive Officer)*
Mr. Xu Wen Cong
Mr. Zhang Xiu He
Mr. Zheng Wei Chong
Mr. Cheung Man
Mr. Liu Hoi Keung (appointed on 27 May 2011)

Non-executive Director:

Mr. Ho Hao Veng

Independent non-executive Directors:

Mr. Ang Siu Lun Lawrence
Mr. Ma Kwai Yuen
Mr. Law Wing Tak Jack *(to retire at the next forthcoming annual general meeting)*

In accordance with the Article 108 of the Company's Articles of Association, Mr. Cheung Man, Mr. Zheng Wei Chong and Mr. Law Wing Tak, Jack will retire by rotation and Mr. Zheng Wei Chong and Mr. Cheung Man, being eligible, offer themselves for re-election at the next forthcoming annual general meeting. Pursuant to the Article 112 of the Company's Articles of Association, Mr. Liu Hoi Keung will hold office only until the forthcoming annual general meeting and, being eligible, offer himself for election.

The term of office of each Independent non-executive Director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2011, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

(i) Long positions

Ordinary shares of HK$0.10 each of the Company

Name of Director	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Approx. percentage of the issued share capital of the Company
Mr. Wang Zheng Chun	Held by spouse	70,148,000 (Note 1)	–	70,148,000	1.66%
	Held by controlled corporation	2,268,403,000 (Note 2)	–	2,268,403,000	53.69%
	Held by controlled corporation	795,718,000 (Note 3)	–	795,718,000	18.84%
		3,134,269,000	–	3,134,269,000	74.19%
	Beneficial owner	–	10,937,500 (Note 4)	10,937,500	0.26%
Mr. Zheng Wei Chong	Beneficial owner	–	3,281,250 (Note 5)	3,281,250	0.08%
Mr. Xu Wen Cong	Beneficial owner	–	3,281,250 (Note 5)	3,281,250	0.08%
Mr. Zhang Xiu He	Beneficial owner	11,550,000	3,281,250 (Note 5)	14,831,250	0.35%
Mr. Cheung Man	Beneficial owner	–	3,281,250 (Note 5)	3,281,250	0.08%
Mr. Liu Hoi Keung	Beneficial owner	–	27,120,874 (Note 6)	27,120,874	0.64%
Mr. Ho Hao Veng	Beneficial owner	2,396,000	1,675,907 (Note 7)	4,071,907	0.10%
Mr. Ang Siu Lun, Lawrence	Beneficial owner	–	1,675,907 (Note 8)	1,675,907	0.04%
Mr. Ma Kwai Yuen	Beneficial owner	–	1,093,750 (Note 5)	1,093,750	0.03%
Mr. Law Wing Tak, Jack	Beneficial owner	–	1,093,750 (Note 5)	1,093,750	0.03%

Directors' Report

Notes:

1. Mr. Wang Zheng Chun is deemed to be interested in 70,148,000 shares, being the interests beneficially held by his spouse, Ms. Shen Ling Zhao.

2. The 2,268,403,000 shares are held by Grand Vision Group Limited, the entire issued share capital of which is beneficially owned by Mr. Wang Zheng Chun.

3. The 795,718,000 shares are held by Hillfame Holdings Limited, a company incorporated in the British Virgin Islands and the entire issued share capital of which is beneficially owned by Mr. Wang Zheng Chun.

4. The 10,937,500 shares are derived from share options granted by the Company to Mr. Wang Zheng Chun on 6 November 2009 which entitle the holder thereof to subscriber for a total number of 10,937,500 shares at an exercise price of HK$0.21 per share exercisable during the period from 6 November 2010 to 5 November 2019.

5. The interests derived from share options granted by the Company on 6 November 2009 which entitle the holders thereof to subscribe for shares at an exercise price of HK$0.21 per share during the period from 6 November 2011 to 5 November 2019.

6. Of the 27,120,874 underlying shares which Mr. Liu Hoi Keung ("Mr. Liu") is interested in, interest in 17,676,343 shares are derived from share options granted by the Company to Mr. Liu on 10 January 2008 which entitle the holder thereof to subscribe for a total number of 17,676,343 shares at an exercise price of HK$0.477 per share exercisable during the period from 10 January 2009 to 9 January 2018, interest in 6,163,281 shares are derived from share options granted by the Company to Mr. Liu on 5 May 2008 which entitle the holder thereof to subscribe for a total number of 6,163,281 shares at an exercise price of HK$0.183 per shares are derived from share options granted by the Company to Mr. Liu on 6 November 2009 which entitle the holder thereof to subscribe for a total number of 3,281,250 shares at an exercise price of HK$0.21 per share exercisable during the period from 6 November 2010 to 5 November 2019.

7. Of the 1,675,907 underlying shares which Mr. Ho Hao Veng ("Mr. Ho") is interested in, interest in 582,157 shares are derived from share options granted by the Company to Mr. Ho on 18 August 2007 which entitle the holder thereof to subscribe for a total number of 582,157 shares at an exercise price of HK$0.114 per share exercisable during the period from 18 August 2007 to 10 April 2012 and interest in the remaining 1,093,750 shares are derived from share options granted by the Company to Mr. Ho on 6 November 2010 which entitle the holder thereof to subscribe for a total number of 1,093,750 shares at an exercise price of HK$0.21 per share exercisable during the period from 6 November 2011 to 5 November 2019.

8. Of the 1,675,907 underlying shares which Mr. Ang Siu Lun, Lawrence ("Mr. Ang") is interested in, interest in 582,157 shares are derived from share options granted by the Company to Mr. Ang on 18 August 2007 which entitle the holder thereof to subscribe for a total number of 582,157 shares, at an exercise price of HK$0.114 per share exercisable during the period from 18 August 2007 to 10 April 2012 and interest in the remaining 1,093,750 Shares are derived from share options granted by the Company to Mr. Ang on 6 November 2010 which entitle the holder thereof to subscribe for a total number of 1,093,750 shares at an exercise price of HK$0.21 per Share exercisable during the period from 6 November 2010 to 5 November 2019.

Save as disclosed above, none of the Directors, nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

(ii) Share options

Particulars of the Company's share option scheme are set out in note 33 to the consolidated financial statements.

The following table discloses the number of share options granted to Directors of the Company outstanding at beginning and end of the year:

Directors	Outstanding at beginning and end of year
Mr. Wang Zheng Chun	10,937,500
Mr. Zheng Wei Chong	3,281,250
Mr. Xu Wen Cong	3,281,250
Mr. Zhang Xiu He	3,281,250
Mr. Cheung Man	3,281,250
Mr. Ho Hao Veng	1,675,907
Mr. Ang Siu Lun, Lawrence	1,675,907
Mr. Ma Kwai Yuen	1,093,750
Mr. Law Wing Tak, Jack	1,093,750
Mr. Liu Hoi Keung	27,120,874
	56,722,688

There was no share option granted, exercised or lapsed during the year.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACT

During the year, no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered or existed.

SUBSTANTIAL SHAREHOLDERS

Other than as disclosed above in the section headed "Directors' interests in shares and underlying shares" at 31 December 2011, the shareholders (other than Directors or chief executives of the Company) who had interests of 5% or more or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO or had otherwise notified to the Company were as follows:

Long positions in the shares of the Company

Name of shareholder	Capacity	Number of shares beneficially held	Percentage of holding
Mr. Wang Zheng Chun	Interest held by spouse (Note 1)	70,148,000	1.66%
	Interest held by controlled corporation (Note 2)	2,268,403,000	53.69%
	Interest held by controlled corporation (Note 3)	795,718,000	18.83%
	Beneficial Owner (Note 4)	10,937,500	0.26%
		3,145,206,500	74.45%

Directors' Report

Notes:

1. Mr. Wang Zheng Chun is deemed to be interested in 70,148,000 shares, being the interest beneficially held by his spouse, Ms. Shen Ling Zhao.

2. The 2,268,403,000 shares are held by Grand Vision Group Limited, the entire issued share capital of which is beneficially owned by Mr. Wang Zheng Chun.

3. The 795,718,000 shares are held by Hillfame Holdings Limited, a company incorporated in the British Virgin Islands and the entire issued share capital of which is beneficially owned by Mr. Wang Zheng Chun.

4. The 10,937,500 shares derived from share options granted by the Company to Mr. Wang Zheng Chun on 6 November 2010 which entitle the holder thereof to subscribe for a total number of 10,937,500 shares at an exercise price of HK$0.21 per share exercisable during the period from 6 November 2011 to 5 November 2019.

Save as disclosed above and in the section headed "Directors' interests in shares and underlying shares", as at 31 December 2011, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange. The Company considers all of the Independent Non-executive Directors are independent.

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to Directors and eligible employees. Details of the scheme are set out in note 33 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2011.

AUDITOR

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

On behalf of the Board

Wang Zheng Chun
Chairman

27 March 2012

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF GENVON GROUP LIMITED
正峰集團有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Genvon Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 70, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 the 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 our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 control 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report

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

27 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	7	**114,040**	108,760
Cost of sales		**(111,166)**	(98,258)
Gross profit		**2,874**	10,502
Other income	9	**2,104**	2,484
Other gains and losses	10	**3,772**	7,918
Selling and distribution expenses		**(3,782)**	(5,472)
Administrative expenses		**(43,574)**	(43,630)
Fair value gain on conversion option embedded in convertible note	28	**–**	18,302
Finance costs	13	**(3,824)**	(2,776)
Loss for the year	15	**(42,430)**	(12,672)
Other comprehensive income			
Exchange differences arising on translation		**43,576**	4,725
Total comprehensive income (expense) for the year		**1,146**	(7,947)
Loss for the year attributable to:			
Owners of the Company		**(41,669)**	(12,438)
Non-controlling interest		**(761)**	(234)
		(42,430)	(12,672)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**(7,323)**	(7,713)
Non-controlling interest		**8,469**	(234)
		1,146	(7,947)
Loss per share	16		
– basic (HK cent)		**(1.0)**	(0.4)
– diluted (HK cent)		**(1.0)**	(1.0)

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	17	96,033	94,504
Prepaid lease payments	18	25,015	24,569
Intangible assets	19	5,447	5,400
		126,495	124,473
Current assets			
Inventories	20	14,215	15,030
Properties under development held for sale	21	937,088	366,763
Trade and other receivables	22	158,078	106,401
Deposit paid for acquisition of land use rights	23	230,320	523,540
Prepaid lease payments	18	772	735
Bank balances and cash	24	67,899	208,269
		1,408,372	1,220,738
Current liabilities			
Trade and other payables	25	45,519	47,477
Deposits and accrued expenses		6,792	5,600
Deposits received from pre-sale of properties		439,939	175,254
Bank and other borrowings – due within one year	26	155,769	210,657
Loans from related companies	27	22,088	46,311
		670,107	485,299
Net current assets		738,265	735,439
Total assets less current liabilities		864,760	859,912
Capital and reserves			
Share capital	29	422,477	422,477
Reserves		52,673	58,205
		475,150	480,682
Non-controlling interest		204,720	179,570
Total equity		679,870	660,252

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Bank and other borrowings – due after one year	26	**160,355**	176,284
Deferred income	30	**24,535**	23,376
		184,890	199,660
		864,760	859,912

The consolidated financial statements on pages 24 to 70 were approved and authorised for issue by the Board of Directors on 27 March 2012 and are signed on its behalf by:

Wang Zheng Chun
DIRECTOR

Zheng Wei Chong
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium account HK$'000	Share options reserve HK$'000	Merger reserve HK$'000	Translation reserve HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2010	168,991	178,634	6,917	800	14,009	710	(262,385)	107,676	–	107,676
Other comprehensive income for the year	–	–	–	–	4,725	–	–	4,725	–	4,725
Loss for the year	–	–	–	–	–	–	(12,438)	(12,438)	(234)	(12,672)
Total comprehensive income (expenses) for the year	–	–	–	–	4,725	–	(12,438)	(7,713)	(234)	(7,947)
Issue of shares:										
– on rights issue	253,486	126,744	–	–	–	–	–	380,230	–	380,230
Transaction costs attributable to issue of shares	–	(4,348)	–	–	–	–	–	(4,348)	–	(4,348)
Capital contributed by non-controlling interest	–	–	–	–	–	–	–	–	179,804	179,804
Recognition of equity-settled share-based payments	–	–	4,837	–	–	–	–	4,837	–	4,837
Release upon lapse of vested share options	–	–	(544)	–	–	–	544	–	–	–
At 31 December 2010	422,477	301,030	11,210	800	18,734	710	(274,279)	480,682	179,570	660,252
Other comprehensive income for the year	–	–	–	–	34,346	–	–	34,346	9,230	43,576
Loss for the year	–	–	–	–	–	–	(41,669)	(41,669)	(761)	(42,430)
Total comprehensive income (expenses) for the year	–	–	–	–	34,346	–	(41,669)	(7,323)	8,469	1,146
Capital contributed by non-controlling interest	–	–	–	–	–	–	–	–	16,681	16,681
Recognition of equity-settled share-based payments	–	–	1,791	–	–	–	–	1,791	–	1,791
Release upon lapse of vested share options	–	–	(899)	–	–	–	899	–	–	–
At 31 December 2011	**422,477**	**301,030**	**12,102**	**800**	**53,080**	**710**	**(315,049)**	**475,150**	**204,720**	**679,870**

The merger reserve represents the difference between the nominal value of the share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued for the acquisition under the group reorganisation on 11 April 2002.

Other reserves, consisting of enterprise expansion fund and the statutory reserve fund, are provided in accordance with the Articles of Association of a subsidiary established in The People's Republic of China (the "PRC").

Laws and regulations in the PRC allow foreign investment enterprises to appropriate from profit after taxation, prepared in accordance with the PRC statutory requirements, an amount to the statutory reserve fund and enterprise expansion fund according to the Articles of Association of the enterprises or the decision of the Board of Directors.

The statutory reserve fund is used to expand the enterprise's working capital. When that subsidiary suffers losses, the statutory reserve fund may be used to make up unrecovered losses under special circumstances.

The enterprise expansion fund is to be used for business expansion of that subsidiary and, if approved, can also be used to increase capital.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES		
Loss for the year	**(42,430)**	(12,672)
Adjustments for:		
Share-based payment expenses	**1,791**	4,837
Amortisation of intangible assets	**2,429**	1,971
Depreciation of property, plant and equipment	**7,492**	7,383
Release of prepaid lease payments	**756**	719
Loss on disposal of property, plant and equipment	**103**	241
Impairment loss recognised on trade receivables	**–**	31
Interest income from banks	**(1,161)**	(322)
Finance costs	**3,824**	2,776
Fair value gain on conversion option embedded in convertible note	**–**	(18,302)
Write back of other payables	**–**	(6,233)
Recovery of bad debts written off in prior years	**–**	(634)
Operating cash flows before movements in working capital	**(27,196)**	(20,205)
Decrease (increase) in inventories	**815**	(2,036)
Increase in trade and other receivables	**(51,516)**	(47,332)
Increase in deposit paid for acquisition of land use rights	**–**	(523,540)
Increase in properties under development held for sale	**(197,474)**	(90,223)
(Decrease) increase in trade and other payables	**(1,958)**	19,185
Increase (decrease) in deposits and accrued expenses	**1,192**	(651)
Increase in deposit received from pre-sale of properties	**250,844**	175,254
NET CASH USED IN OPERATING ACTIVITIES	**(25,293)**	(489,548)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(4,538)**	(4,358)
Purchase of intangible assets and development costs paid	**(2,155)**	(2,900)
Interest received from banks	**1,161**	322
Proceeds on disposal of property, plant and equipment	**–**	255
NET CASH USED IN INVESTING ACTIVITIES	**(5,532)**	(6,681)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
FINANCING ACTIVITIES		
Repayments of bank and other borrowings	(228,281)	(67,459)
Repayments of amounts due to related companies	(45,734)	(81,860)
Interest paid	(12,064)	(17,598)
New bank and other borrowings raised	132,962	396,229
Capital contributed by non-controlling interest	16,682	179,804
Advances from related companies	19,747	82,942
Proceeds from issue of new shares (net of cost directly attributable to issue of shares)	–	172,562
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(116,688)	664,620
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(147,513)	168,391
CASH AND CASH EQUIVALENTS AT 1 JANUARY	208,269	35,198
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	7,143	4,680
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	67,899	208,269

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's controlling shareholder is Mr. Wang Zheng Chun ("Mr. Wang"), an Executive Director of the Company.

The Company acts as an investment holding company. Details of the principal activities of its principal subsidiaries are set out is note 37. The address of the registered office and principal place of business of the Company are disclosed in Corporate Information to the annual report.

The functional currency of the Company is United States dollars ("USD"), and the consolidated financial statements are presented in Hong Kong dollars ("HKD"). The Directors of the Company selected HKD as the presentation currency because the shares of the Company are listed on the Stock Exchange.

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 HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[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]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	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]
Amendments to HKAS 32	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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

New and revised Standards on consolidation, joint arrangements, 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).

These five new or revised standards on consolidation, joint arrangements and disclosures are effective of annual period beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The Directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for the financial year ending 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statement and HK(SIC) – Int 12 *Consolidated – 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) 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. Based on the existing group structure, the application of HKFRS 10 will not have material impact on the financial performance and financial position of the Group.

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 or after 1 July 2012. The presentation of items of other comprehensive income may be modified accordingly when the amendments are applied in the future accounting periods.

The Directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretation will have no material impact on the financial performance and financial position of the Group.

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. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and up to the effective date of disposal, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated in full 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 (effective from 1 January 2010 onwards).

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 amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, 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 recognise 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 accumulated losses 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

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

Specifically, revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the buyers. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

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.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress 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.

Properties in the course of construction for production, supply or administrative purposes are carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the approximate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

An item of property, plant 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, plant 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

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. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is released over the lease term on a straight-line basis. When 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, plant and equipment.

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 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations and those denominated in functional currency of USD are translated into the presentation currency of the Group (i.e. HKD) 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, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 year in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and other schemes managed by the PRC government are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments 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 the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 are 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 are also recognised in other comprehensive income or directly in equity respectively.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost 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.

Gains or losses arising from derecognition of an intangible asset are measured as 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.

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 (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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Research and development expenditures (Continued)

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. Where no internally-generated intangible asset can be recognised, development expenditure is charged to 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Properties under development held for sale

Properties under development held for sale are stated at the lower of cost and estimated net realisable value. Properties under development which are intended for sale in the ordinary course of business upon completion are classified as current assets.

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 liabilities at fair value through profit or loss ("FVTPL")) 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 to profit or loss.

Financial assets

The Group's financial assets comprise mainly loans and receivables.

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 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.

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 trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 60–120 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

Financial liabilities and equity

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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 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 financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

Convertible note

Convertible notes issued by the Company that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion options that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument are conversion option derivatives. When convertible notes are issued, both the liability and conversion option derivative components are recognised at fair value.

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

Other financial liabilities

Other financial liabilities including trade and other payables, bank and other borrowings and loans from related companies are subsequently measured at amortised cost, using the effective interest method.

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.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity-settled share-based payment transactions

Share options granted to employees under an equity-settled share-based payment arrangement

The fair value of employee 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, with a corresponding increase in equity (share options 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 original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

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

Impairment of tangible and intangible assets

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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Impairment on property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are carried at cost less accumulated depreciation and accumulated impairment losses. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The review comprises a comparison of the carrying amount and recoverable amount of the property, plant and equipment and intangible assets and hence involves consideration of the value in use. The cash flows used in the value in use calculation are based on the most up-to-date budgets and plans formally approved by management covering a 5-year period and are based on reasonable and supportable assumptions. For impairment assessment as at 31 December 2011, discount rate of 14% (2010: 14%) and a zero-growth rate have been used. In management's view, the discount rate represents the rate that the market would expect on an investment of equivalent risk. No impairment loss on property, plant and equipment and intangible assets was recognised in both years. Management believes that any reasonably possible charge in any of these assumptions would not cause the aggregate carrying amount of the property, plant and equipment and intangible assets to exceed the aggregate recoverable amount of property, plant and equipment and intangible assets.

Deferred taxation

As at 31 December 2011, the Group has not recognised any deferred tax assets in the consolidated statement of financial position in relation to unused tax losses of certain group entities. The recognition 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 more than expected, a material deferred tax asset may be recognised, which would be credited to profit or loss in the consolidated statement of comprehensive income for that year. Details of unused tax losses not recognised amounted to approximately HK$59,467,000 (2010: HK$58,245,000) and other deductible temporary difference amounted to approximately 24,535,000 (2010: HK$23,376,000) as disclosed in note 14.

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 stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged for both years.

The capital structure of the Group consists of debts (that includes bank and other borrowings and loans from related companies) and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Directors of the Company review the capital structure by considering the cost of capital and the risks associated with each class of capital on a regular basis. Based on recommendations of the Directors, the Group will balance its overall capital structure through issues of new shares and share buy-backs as well as the issue of new debts or repayment of existing debts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	119,122	235,975
Financial liabilities		
Amortised cost	383,731	480,729

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, loans from related companies and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The functional currencies of the Company's principal subsidiaries are USD and Renminbi ("RMB"). The functional currencies of some of the principal subsidiaries are USD because most of the sales transactions of those subsidiaries are negotiated, denominated and settled in USD. While most of the Group's operations are transacted in the functional currencies of the respective group entities, the Group undertakes certain transactions denominated in foreign currencies. The Group currently has not formulated any hedging policies against its exposure to currency risk. Yet, the Group still manages its foreign currency risk by closely monitoring movements of foreign currency exchange rates.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies other than functional currencies of the relevant group entities at the end of the reporting periods are as follows:

	2011 HK$'000	2010 HK$'000
Assets		
RMB	5	13
USD	191	264
Euro ("EUR")	55	13
HKD	80	675
Liabilities		
RMB	2,665	2,541
HKD	884	277

Management monitors foreign exchange exposure as stated above and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

As HKD is pegged to USD, currency risk in relation to HKD and USD denominated monetary assets and liabilities is expected to be minimal. The Group is mainly exposed to the risk of fluctuation of RMB and EUR.

The following table details the sensitivity of the Group to a 10% (2010: 10%) increase and decrease in USD against RMB and EUR. 10% (2010: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% (2010: 10%) change in foreign currency rates. On this basis, there will be an increase in loss (2010: increase in loss) where the functional currency of relevant entities weakens against RMB, EUR and USD by 10% (2010: 10%), and vice versa. For a 10% (2010: 10%) weakening of USD against the relevant currencies, loss for the year would be as follows:

	Assets		**Liabilities**	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Decrease (increase) in loss	**7**	3	**(267)**	(254)

(ii) Interest rate risk

The Group's cash flow interest rate risk primarily relates to its variable-rate bank balances and bank and other borrowings and it is mainly concentrated on the fluctuation of the People's Bank of China base interest rate arising from the Group's RMB denominated bank borrowings. Details of the Group's bank balances and bank and other borrowings are disclosed in notes 24 and 26 respectively.

The Group was also exposed to fair value interest rate risk in relation to fixed rate bank and other borrowings as at 31 December 2011 (see note 26 for details of these borrowings).

The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2010: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2010: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2011 would increase/decrease by HK$839,000 (2010: increase/decrease by HK$310,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2011, 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 and debtors is the carrying amount of the respective financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group is responsible for determination of credit limits, credit approvals 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 the end of the reporting period 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 credit risk on bank balances is limited because the counterparties are banks with high credit ratings assigned by International Credit Rating agencies.

The Group has a customer whose outstanding trade receivable represents approximately 44% (2010: 47%) of the total trade receivables of the Group as at 31 December 2011 which expose the Group to the concentration of credit risk. The customer has good credit rating and repayment history and is a well-known distributor of power tools in the world. Other than that, the Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties. The Group reviews the recoverable amounts of outstanding trade receivables on regular basis and an allowance for doubtful debt is made where there is an identified loss.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has 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. The table includes both interest and principal cash flows.

To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average contractual interest rate	On demand or less than 1 month HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	1–5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
2011							
Non-derivate financial liabilities							
Trade and other payables	–	45,519	–	–	–	45,519	45,519
Bank borrowings							
– fixed rate	7.22%	111	335	19,380	–	19,826	18,503
– variable rate	6.73%	1,107	3,322	45,863	160,440	210,732	197,359
Other borrowings							
– interest free	–	55,829	–	–	–	55,829	55,829
– variable rate	6.56%	–	44,852	–	–	44,852	44,433
Loans from related companies	–	22,088	–	–	–	22,088	22,088
		124,654	48,509	65,243	160,440	398,846	383,731
2010							
Non-derivate financial liabilities							
Trade and other payables	–	47,477	–	–	–	47,477	47,477
Bank borrowings							
– fixed rate	6.12%	94	283	18,145	–	18,522	17,628
– variable rate	5.6%	1,024	38,208	6,808	175,883	221,923	211,541
Other borrowings							
– fixed rate	15%	–	–	103,420	–	103,420	96,337
– variable rate	5.81%	–	62,175	–	–	62,175	61,435
Loans from related companies	–	46,311	–	–	–	46,311	46,311
		94,906	100,666	128,373	175,883	499,828	480,729

The amounts included above for variable interest rate instruments for non-derivative financial liabilities 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.

(c) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. REVENUE

Revenue represents the amounts received and receivable for sales of power tools to outside customers during the year.

8. SEGMENT INFORMATION

For the purposes of resources allocation and performance assessment, the Group's chief operating decision maker (i.e. Executive Directors) regularly review internal reports derived from two operating segments which consist of (a) Manufacturing and Trading of power tools, air tools, hand tools ("Manufacturing and Trading") and (b) Property Development and Trading. Segment information about the Manufacturing and Trading segment is further analysed based on the geographical location of customers for the purposes of resource allocation and performance assessment:

– Europe

– the United States of America (the "USA")

– Other countries

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

For the year ended 31 December 2011

	Manufacturing and Trading				
	Europe HK$'000	USA HK$'000	Other countries HK$'000	Property Development and Trading HK$'000	Total HK$'000
Segment revenue – external	27,239	69,096	17,705	–	114,040
RESULTS					
Segment profit	896	2,272	(294)	(12,291)	(9,417)
Unallocated corporate income, gains and losses					5,876
Unallocated corporate expenses					(35,065)
Finance costs					(3,824)
Loss for the year					(42,430)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2010

	Manufacturing and Trading				
	Europe HK$'000	USA HK$'000	Other countries HK$'000	Property Development and Trading HK$'000	Total HK$'000
Segment revenue – external	26,115	74,613	8,032	–	108,760
RESULTS					
Segment profit	2,478	7,078	915	(5,015)	5,456
Unallocated corporate income, gains and losses					28,704
Unallocated corporate expenses					(44,056)
Finance costs					(2,776)
Loss for the year					(12,672)

The accounting policies for the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represent the profit earned by each segment without allocation of central administration costs, Directors' salaries, finance costs, other income, other gains and losses, selling and distribution expenses and impairment loss recognised in respect of property, plant and equipment. Cost of sales for each geographical location of Manufacturing and Trading segment is allocated on the basis of the revenue earned by each segment.

Segment assets and liabilities are not regularly reviewed by the chief operating decision maker for the purposes of performance assessment and resource allocation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2011

	Manufacturing and Trading					
	Europe HK$'000	USA HK$'000	Other countries HK$'000	Property Development and Trading HK$'000	Others HK$'000	Total HK$'000
Amounts included in the segment profit:						
Depreciation of property, plant and equipment	**1,564**	**3,968**	**1,017**	**109**	**834**	**7,492**
Amortisation of intangible assets	**580**	**1,472**	**377**	**–**	**–**	**2,429**

For the year ended 31 December 2010

	Manufacturing and Trading					
	Europe HK$'000	USA HK$'000	Other countries HK$'000	Property Development and Trading HK$'000	Others HK$'000	Total HK$'000
Amounts included in the segment profit:						
Depreciation of property, plant and equipment	1,452	4,150	447	131	1,203	7,383
Amortisation of intangible assets	473	1,352	146	–	–	1,971
Impairment losses recognised on trade receivables	–	–	31	–	–	31

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2011 HK$'000	2010 HK$'000
Sales of power tools	**114,040**	108,682
Sales of air tools	**–**	27
Sales of hand tools	**–**	51
	114,040	108,760

The above information about the Group's revenue from major products was determined based on the location of customers. The Group's non-current assets are substantially located in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8. SEGMENT INFORMATION (Continued)

Information about major customers

For the year ended 31 December 2011, revenue from a single customer in the Manufacturing and Trading segment amounted to HK$50,453,000 (2010: HK$54,497,000) which contributed to approximately 44.24% (2010: 50.11%) of the Group's total revenue.

9. OTHER INCOME

	2011 HK$'000	2010 HK$'000
Interest income from banks	**1,161**	322
Sundry income	**943**	2,162
	2,104	2,484

10. OTHER GAINS AND LOSSES

	2011 HK$'000	2010 HK$'000
Write-back of other payables (Note i)	**–**	6,233
Net exchange gain	**3,875**	1,292
Loss on disposal of property, plant and equipment	**(103)**	(241)
Recovery of bad debts written off in prior years	**–**	634
	3,772	7,918

Note:

(i) The amount in prior year represented a derecognition of an other payable under the relevant PRC Civil Law.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the ten (2010: nine) Directors were as follows:

Year ended 31 December 2011

	Executive Directors						Non-executive Director	Independent Non-executive Directors			
	Mr. Wang Zheng Chun HK$'000	Mr. Xu Wen Cong HK$'000	Mr. Zhang Xiu He HK$'000	Mr. Zheng Wei Chong HK$'000	Mr. Cheung Man HK$'000	Mr. Liu Hoi Keung* HK$'000	Mr. Ho Hao Veng HK$'000	Mr. Ang Siu Lun, Lawrence HK$'000	Mr. Ma Kwai Yuen HK$'000	Mr. Law Wing Tak, Jack HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	100	120	150	150	520
Other emoluments:											
Salaries	1,560	580	580	390	540	656	–	–	–	–	4,306
Contributions to retirement benefits scheme	61	61	64	–	12	–	–	–	–	–	198
Share-based payment expenses	386	116	116	116	116	145	39	39	39	39	1,151
Total emoluments	2,007	757	760	506	668	801	139	159	189	189	6,175

* A Director of the Company appointed on 25 May 2011.

Year ended 31 December 2010

	Executive Directors					Non-executive Director	Independent Non-executive Directors			
	Mr. Wang Zheng Chun HK$'000	Mr. Xu Wen Cong HK$'000	Mr. Zhang Xiu He HK$'000	Mr. Zheng Wei Chong HK$'000	Mr. Cheung Man HK$'000	Mr. Ho Hao Veng HK$'000	Mr. Ang Siu Lun, Lawrence HK$'000	Mr. Ma Kwai Yuen HK$'000	Mr. Law Wing Tak, Jack HK$'000	Total HK$'000
Fees	–	–	–	–	–	100	120	150	150	520
Other emoluments:										
Salaries	1,560	551	551	390	540	–	–	–	–	3,592
Contributions to retirement benefits scheme	54	54	61	–	12	–	–	–	–	181
Share-based payment expenses	819	246	246	246	246	82	82	82	82	2,131
Total emoluments	2,433	851	858	636	798	182	202	232	232	6,424

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2010: three) were Directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining one (2010: two) individual(s) was as follows:

	2011 HK$'000	2010 HK$'000
Salaries and other benefits	550	1,045
Contributions to retirement benefits scheme	64	121
Share-based payment expenses	116	492
Total emoluments	730	1,658

Their emoluments of individual employee were within the band of not exceeding HK$1,000,000.

During the years ended 31 December 2011 and 2010, no emoluments were paid by the Group to any of the Directors or the five highest paid individuals (including Directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors waived any emoluments during the years ended 31 December 2011 and 2010.

13. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	19,230	17,598
Imputed interest expense on convertible note	–	14,546
	19,230	32,144
Less: Interest capitalised in properties under development held for sale	(15,406)	(29,368)
	3,824	2,776

Borrowing costs capitalised during the year arose from specific borrowings that are used to finance the construction of properties under development for sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

14. TAXATION

No provision for PRC income tax has been made in the consolidated financial statements as all of the PRC subsidiaries incurred tax losses for the year.

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

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to the Decree Law No. 58/99M, Chapter 2, Article 12, dated 18 October 1999, a subsidiary of the Company, Gerrards (Commercial Offshore de Macau) Ltd., is exempted from Macao Complementary Tax. No provision for the relevant income tax in Macau has been made in the consolidated financial statements.

The taxation for the year can be reconciled to the loss for the year per the consolidated statement of comprehensive income as follows:

	2011 HK$'000	2010 HK$'000
Loss for the year	**(42,430)**	(12,672)
Tax at the PRC Enterprise Income Tax rate of 25% (Note)	**(10,608)**	(3,168)
Tax effect of expenses not deductible for tax purpose	**8,911**	8,658
Tax effect of income not taxable for tax purpose	**(881)**	(6,720)
Tax effect of tax losses and deductible temporary difference not recognised	**2,578**	1,230
Taxation for the year	**–**	–

Note: The domestic income tax rate is the income tax rate of the jurisdiction where major operations of the Group are based.

At the end of the reporting period, the Group has estimated unused tax losses and other deductible temporary difference of HK$59,467,000 (2010: HK$58,245,000) and HK$24,535,000 (2010: HK$23,376,000) respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses will expire on various dates up to 2016.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

15. LOSS FOR THE YEAR

	2011 HK$'000	2010 HK$'000
Loss for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	**7,492**	7,383
Amortisation of intangible assets	**2,429**	1,971
Release of prepaid lease payments	**756**	719
Directors' emoluments (note 11)	**6,175**	6,424
Other staff costs	**12,293**	10,279
Other staff's retirement benefits scheme contribution	**1,526**	999
Share-based payment expenses for staffs other than Directors	**640**	2,706
Total staff costs	**20,634**	20,408
Auditors' remuneration	**1,280**	1,325
Impairment loss recognised on trade receivables (included in administrative expenses)	**–**	31
Cost of inventories recognised as expense	**111,166**	98,258

16. LOSS PER SHARE

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

	2011 HK$'000	2010 HK$'000
Loss		
Loss for the purpose of basic loss per share	**41,669**	12,438
Effect of dilutive potential ordinary shares:		
Effect on fair value gain on conversion option embedded in the convertible note	**–**	18,302
Loss for the purpose of diluted loss per share	**41,669**	30,740

	Number of shares 2011 '000	2010 '000
Weighted average number of ordinary shares for the purpose of basic loss per share	**4,224,775**	2,785,892
Effect of dilutive potential ordinary shares:		
Convertible note	**–**	360,156
Weighted average number of ordinary shares for the purpose of diluted loss per share	**4,224,775**	3,146,048

The weighted average number of ordinary shares for the purposes of basic loss per share for the year ended 31 December 2010 has been adjusted for the rights issue completed on 10 August 2010.

The computation of the diluted loss per share for the years ended 31 December 2011 and 2010 does not assume the exercise of the Company's options as the exercise would result in a decrease in loss per share for the both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST								
At 1 January 2010	70,877	108	84,731	33,485	11,245	3,178	1,761	205,385
Exchange adjustments	2,469	2	2,729	439	215	72	55	5,981
Additions	–	129	616	1,801	1,668	97	47	4,358
Transfer	134	(223)	–	–	89	–	–	–
Disposals	–	–	(920)	–	–	(98)	–	(1,018)
At 31 December 2010	73,480	16	87,156	35,725	13,217	3,249	1,863	214,706
Exchange adjustments	3,644	1	4,326	761	451	108	84	9,375
Additions	–	–	180	4,085	78	80	115	4,538
Disposals	–	–	–	–	(103)	–	–	(103)
At 31 December 2011	**77,124**	**17**	**91,662**	**40,571**	**13,643**	**3,437**	**2,062**	**228,516**
DEPRECIATION AND IMPAIRMENT								
At 1 January 2010	9,178	–	55,500	32,170	10,048	2,175	1,051	110,122
Exchange adjustments	352	–	1,984	404	403	41	35	3,219
Charge for the year	1,406	–	2,720	1,374	1,342	268	273	7,383
Elimination on disposals	–	–	(434)	–	–	(88)	–	(522)
At 31 December 2010	10,936	–	59,770	33,948	11,793	2,396	1,359	120,202
Exchange adjustments	573	–	3,021	647	424	64	60	4,789
Charge for the year	1,482	–	2,771	2,301	740	52	146	7,492
At 31 December 2011	**12,991**	**–**	**65,562**	**36,896**	**12,957**	**2,512**	**1,565**	**132,483**
CARRYING VALUES								
At 31 December 2011	**64,133**	**17**	**26,100**	**3,675**	**686**	**925**	**497**	**96,033**
At 31 December 2010	62,544	16	27,386	1,777	1,424	853	504	94,504

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the unexpired term of the relevant lease and their estimated useful lives ranging from 20 to 50 years
Plant and machinery	10%
Moulds	20%
Leasehold improvements, furniture and fixtures	20–33$^1/_3$%
Computer equipment	20%
Motor vehicles	20–33$^1/_3$%

All the Group's buildings are situated on the land under medium-term lease outside Hong Kong.

As at the end of the reporting period, in view of operating loss incurred in the operating segment in manufacturing and trading of power tools, air tools and hand tools, in this and prior years, the Directors conducted an annual review of the Group's assets including certain buildings and plant and machinery, moulds, prepaid lease payments and intangible assets which are used in the Group's manufacturing and trading segment. The recoverable amounts of the relevant assets have been determined based on the value in use calculation. The discount rate and growth rate in measuring the recoverable amounts determined based on the value in use was 14% (representing the rate that the market would expect on an investment of equivalent risk) and 0% respectively. No impairment loss has been recognised in profit or loss for both years.

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise property interests in medium-term leasehold lands in the PRC and are released over the term of relevant leases with a range from 20 to 50 years.

	2011 **HK$'000**	2010 HK$'000
Analysed for reporting purposes as:		
Current assets	**772**	735
Non-current assets	**25,015**	24,569
	25,787	25,304

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

19. INTANGIBLE ASSETS

	Development costs HK$'000	Patents, trademark, licences and manufacture know-how HK$'000	Exclusive supply right HK$'000	Total HK$'000
COST				
At 1 January 2010	14,249	19,191	37,350	70,790
Exchange adjustments	557	348	–	905
Additions	2,618	282	–	2,900
Write off	–	–	(37,350)	(37,350)
At 31 December 2010	17,424	19,821	–	37,245
Exchange adjustments	901	524	–	1,425
Additions	1,807	348	–	2,155
Disposal	–	(5)	–	(5)
At 31 December 2011	**20,132**	**20,688**	**–**	**40,820**
AMORTISATION AND IMPAIRMENT				
At 1 January 2010	11,703	17,477	37,350	66,530
Exchange adjustments	433	261	–	694
Amortisation for the year	1,099	872	–	1,971
Write off	–	–	(37,350)	(37,350)
At 31 December 2010	13,235	18,610	–	31,845
Exchange adjustments	689	415	–	1,104
Amortisation for the year	1,629	800	–	2,429
Eliminated on disposal	–	(5)	–	(5)
At 31 December 2011	**15,553**	**19,820**	**–**	**35,373**
CARRYING VALUES				
At 31 December 2011	**4,579**	**868**	**–**	**5,447**
At 31 December 2010	4,189	1,211	–	5,400

Development costs are internally generated. All of the Group's patents, trademark, licences and manufacture know-how and exclusive supply right were acquired from third parties.

The above intangible assets have finite useful lives. They are amortised on a straight-line basis over the following periods:

Development costs	5 years
Patents, trademark, licences, and manufacture know-how	5 to 15 years
Exclusive supply right	7 years

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

20. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	**5,150**	6,226
Work in progress	**5,600**	3,623
Finished goods	**3,465**	5,181
	14,215	15,030

21. PROPERTIES UNDER DEVELOPMENT HELD FOR SALE

The amount represents two parcel of lands and properties being developed into residential properties for sale in the ordinary course of business upon completion. Those parcel of lands are situated in Shanghai and Haian County, the PRC and held under a long lease.

The construction work for land in Shanghai is expected to be completed by mid of 2012.

As at 31 December 2011, the Group received an aggregate amount of deposits of HK$439,939,000 (2010: HK$175,254,000) from the pre-sales of properties from the buyers of the properties and recognised as current liabilities in the consolidated statement of financial position.

In 2011, an addition of properties under development held for sale amounted to HK$293,220,000 (RMB258,760,000) was transferred from deposit paid for acquisition of land use rights which represents a parcel of land to be developed into residential properties for sale in the ordinary course of business upon completion. The parcel of land is situated in Haian County, the PRC and held under a long lease. Details are set out in note 23.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

22. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit period of 60-120 days to its trade customers. In addition, for certain customers with long-established relationship and good past repayment history, a longer credit period may be granted.

The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period:

	2011 **HK$'000**	2010 HK$'000
Within 30 days	**15,263**	11,392
Between 31 to 60 days	**10,953**	9,726
Between 61 to 90 days	**955**	1,613
Between 91 to 120 days	**–**	2
Over 120 days	**121**	466
Trade receivables	**27,292**	23,199
Other receivables	**3,578**	4,084
Deposits and prepayments (Note)	**127,208**	79,118
	158,078	106,401

Before accepting any new customer, the Group will assess the potential customer's credit quality and determines its credit limits. Credit sales are made to customers with an appropriate credit history. Credit limits attributed to customers are reviewed regularly.

At the end of the reporting period, the Directors considered that trade receivables which are neither past due nor impaired are of good credit quality.

Included in the Group's trade receivable balance are receivables with aggregate carrying amount of HK$121,000 (2010: HK$466,000) which are past due at the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

	2011 **HK$'000**	2010 HK$'000
Over 120 days	**121**	466

The Directors considered trade and other receivables which are past due but not impaired are of good credit quality based on good repayment history. Satisfactory settlement was received subsequent to the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

22. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts of trade receivables:

	2011 HK$'000	2010 HK$'000
Balance at beginning of the year	–	–
Impairment losses recognised on trade receivables	–	31
Amounts written off as uncollectible	–	(31)
Balance at end of the year	–	–

Trade and other receivables that are denominated in the following currencies other than the functional currencies of the relevant group entities are set out below:

	RMB	**HK$**
As at 31 December 2011 (HK$'000)	**5**	**12**
As at 31 December 2010 (HK$'000)	13	12

Note: Included in deposits and prepayments are deposits paid to subcontractors for the construction of properties under development held for sale of approximately HK$6,414,000 (2010: HK$17,496,000), deposits paid to local government authorities before the commencement of construction of properties under development held for sale in Haian County, the PRC, of approximately HK$20,353,000 (equivalent to RMB16,500,000) (2010: Nil), prepayment for related taxes for the deposits received from pre-sale of properties of approximately HK$34,799,000 (2010: Nil), and a refundable deposit of HK$61,675,000 (equivalent to RMB50,000,000) (2010: HK$58,761,000 (equivalent to RMB50,000,000)) paid to the Bureau of Land Resources, Haian County, the PRC, as prerequisite in connection to the acquisition of certain land use rights (see note 23). The amount will be refundable within the next twelve months from the end of the reporting period and the amount is therefore classified as current assets.

23. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

The amount in prior year represented the cash consideration of RMB445,480,000 (equivalent to approximately HK$523,540,000 paid for the land use right of a parcel of land (the "Jiangsu Land") located in Haian County, the PRC at that date. The parcel of land will be used for development of residential properties for sale in the ordinary course of business.

As at 31 December 2010, the transfer of the Jiangsu Land had not been completed as the Bureau of Land Resources, Haian County needs further time to put the Jiangsu Land to a vacant possession for the purpose of the land transfer. During the year ended 31 December 2011, certain of the land use right certificates of the Jiangsu Land has been obtained and the related amount of deposit paid of approximately RMB258,760,000 (equivalent to HK$293,220,000) was transferred to properties under development held for sale during the year. As a result, the remaining amount of approximately RMB186,720,000 (equivalent to approximately HK$230,320,000) is accounted for as deposit paid for the acquisition of land use rights and classified as current assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

24. BANK BALANCES AND CASH

The bank balances carried interest at variable market rates which range from 0.001% to 0.5% (2010: 0.001% to 0.36%) per annum.

Bank balances that are denominated in the following currencies other than functional currencies of the relevant group entities are set out below:

	US$	EUR	HK$
As at 31 December 2011 (HK$'000)	**191**	**55**	**68**
As at 31 December 2010 (HK$'000)	264	13	663

25. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
Within 30 days	**27,078**	20,864
Between 31 to 60 days	**4,455**	15,457
Between 61 to 90 days	**1,965**	923
Between 91 to 120 days	**6,044**	1,084
Over 120 days	**3,599**	5,283
Trade payables	**43,141**	43,611
Other payables	**2,378**	3,866
	45,519	47,477

The credit period on purchases of goods is ranging from 30–90 days.

Trade and other payables that are denominated in the following currencies other than the functional currencies of the relevant group entities are set out below:

	RMB	HK$
As at 31 December 2011 (HK$'000)	**2,665**	**844**
As at 31 December 2010 (HK$'000)	2,541	277

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

26. BANK AND OTHER BORROWINGS

	2011 HK$'000	2010 HK$'000
Bank loans	215,862	229,169
Other loans	100,262	157,772
	316,124	386,941
Secured	215,862	229,169
Unsecured	100,262	157,772
	316,124	386,941
Carrying amount repayable*:		
Within one year	155,769	210,657
More than two years but not more than five years	160,355	176,284
	316,124	386,941
Less: Amounts due within one year shown under current liabilities	(155,769)	(210,657)
Amounts shown under non-current liabilities	160,355	176,284
Interest-free borrowings	55,829	–
Fixed-rate borrowings	18,503	113,965
Floating-rate borrowings	241,792	272,976
	316,124	386,941

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

During the year ended 31 December 2011, the Group obtained new bank loans amounting to RMB75,000,000 (equivalent to HK$90,656,000) including new loans of RMB15,000,000 (equivalent to HK$18,131,000) which carry interests at fixed rate of 7.216% per annum and RMB60,000,000 (equivalent to HK$72,525,000) carried at variable rate ranging from 120% to 130% of the People's Bank of China base interest rate per annum (effective interest rate of 7.872% to 8.528% per annum). All these new bank loans are secured and will be repayable within one year.

During the year ended 31 December 2011, the Group obtained a new other loan from an independent third party of principal amount of RMB35,000,000 (equivalent to HK$42,306,000) which is unsecured, interest-free and repayable within one year.

During the year ended 31 December 2010, the Group obtained new bank loans amounting to RMB195,000,000 (equivalent to HK$223,954,000) including new loans of RMB15,000,000 (equivalent to HK$17,227,000) which carry interest at fixed rate of 6.1% per annum and RMB30,000,000 (equivalent to HK$34,452,000) carries at variable rates of commercial banks in PRC of 5.6% per annum and are repayable within one year. A new bank loan of RMB150,000,000 (equivalent to HK$172,275,000) which carries interest at the People's Republic of China base interest rate less 5% per annum (effective interest rate of 5.04% per annum) and will be repayable in 2013.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

26. BANK AND OTHER BORROWINGS (Continued)

During the year ended 31 December 2010, the Group obtained new other loans from independent third parties of principal amount of RMB150,000,000 (equivalent to HK$172,275,000) including RMB70,000,000 (equivalent to HK$80,395,000) which carry interest at the prevailing market rate of commercial banks in the PRC and RMB80,000,000 (equivalent to HK$91,880,000) with fixed interest rate at 15% per annum. All of the other loans are unsecured and repayable within one year.

During the year ended 31 December 2011, the Group repaid bank loans amounted to RMB95,000,000 (equivalent to HK$114,832,000) and other loans borrowed from independent third parties of principal amount of approximately RMB93,857,000 (equivalent to HK$113,449,000).

The range of effective interest rates (which are equal to the contractual interest rates) on the Group's borrowings are as follows:

	2011	2010
Effective interest rates:		
Variable-rate borrowings	**6.32% – 8.53%**	5.6% – 6.1%
Fixed-rate borrowings	**7.22%**	6.1% – 15%

27. LOANS FROM RELATED COMPANIES

	2011 HK$'000	2010 HK$'000
Interest-free loans	**22,088**	46,311

The related companies are controlled by Mr. Wang, a controlling shareholder of the Company.

All loans from related companies as at 31 December 2011 and 2010 are unsecured, interest free and repayable on demand.

28. CONVERTIBLE NOTE

The Company issued a zero coupon convertible note in the aggregate principal value of HK$195,500,000 on 15 July 2008 to Grand Vision Group Limited which is wholly owned by Mr. Wang as part of consideration paid for the acquisition of the piece of land situated in Shanghai, the PRC. The convertible note was denominated in Hong Kong dollars. The note entitled the holders to convert it into ordinary shares of the Company at any time between the date of having obtained the state-owned land use rights certificate and the physical possession and actual occupation in respect of the property in the name of Shanghai Zhuanfeng Land and Building Development Limited and its settlement date on 14 July 2010 at a conversion price of HK$0.46 per share, which was subsequently adjusted to HK$0.29 per share as a result of open offer completed on 27 July 2009. The convertible note was redeemed on 14 July 2010 at 104% of the principal amount. Details are set out in note 29(b).

The convertible note contained two components, liability component and conversion option derivative. The effective interest rate of the liability component was 13.9%. The conversion option derivative was measured at fair value with changes in fair value recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

28. CONVERTIBLE NOTE (Continued)

The movement of the liability component and conversion option derivative of the convertible note for the year is set out as below:

	Liability component HK$'000	Conversion option derivative HK$'000
As at 1 January 2010	188,774	18,302
Capitalisation of interest charge	14,546	–
Gain arising on changes of fair value	–	(18,302)
Repayment	(203,320)	–
As at 31 December 2010 and 2011	–	–

29. SHARE CAPITAL

	Number of shares	Value HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2010	5,000,000,000	500,000
Increase during the year (Note a)	5,000,000,000	500,000
At 31 December 2010 and 2011	**10,000,000,000**	**1,000,000**
Issued and fully paid:		
At 1 January 2010	1,689,910,000	168,991
Rights issue (Note b)	2,534,865,000	253,486
At 31 December 2010 and 2011	**4,224,775,000**	**422,477**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

29. SHARE CAPITAL (Continued)

Notes:

(a) On 11 June 2010, the authorised share capital of the Company was increased from HK$500,000,000 to HK$1,000,000,000 by the creation of 5,000,000,000 ordinary shares of HK$0.10 each.

(b) On 13 June 2010, the Company announced that, among others, the Company had entered into an underwriting agreement with Grand Vision Group Limited (the "Underwriter") and Mr. Wang Zheng Chun on 11 June 2010 in relation to the Rights Issue (the "Rights Issue").

In according with the underwriting agreement, the Underwriter agreed to advance a shareholder's loan in the amount equal to the redemption amount of the convertible note plus the 4% premium thereon (i.e. HK$203.32 million) (the "Shareholder's Loan") to the Company. The Shareholder's Loan is unsecured, interest-free and repayable within one year from the date of advance. The Shareholder's Loan was used to settle the Outstanding Principal and interest of the convertible note set out in note 28.

On 10 August 2010, the Rights Issue has become unconditional and the Company completed the Rights Issue by issuing 2,534,865,000 Rights Shares on the basis of three shares for every two shares, at the subscription price at HK$0.15 per Rights Shares. Six valid acceptances of provisional allotments have been received for an aggregate of 301,462,000 Rights Shares.

The underwriting agreement also became unconditional on 10 August 2010. As a result of the under-subscription of the Rights Shares, the Underwriter was obliged to subscribe for 2,233,403,000 Rights Shares that have not been subscribed for. The aggregate Subscription Price of HK$335.0 million payable by the Underwriter has been offset against the entire Shareholder's Loan and the balance of HK$131.7 million was settled in cash. Proceeds from other subscribers amounted to HK$45.2 million. The cash proceeds of approximately HK$176.9 million, before shares issue expenses, are used as general working capital of the Group.

These new shares rank pari passu with the then existing shares in issue in all aspects.

30. DEFERRED INCOME

The amount represents the government grant of RMB20,000,000 received in prior years from the local government in the PRC in relation to costs to be incurred for the acquisition of high-tech machines and relevant costs to incur in the production. The amount has been recognised as deferred income and is to be released to profit or loss over the useful lives of the relevant assets. As at 31 December 2010 and 2011, the Group had utilised approximately RMB110,000 (equivalent to HK$126,000) on relevant purchase.

31. OPERATING LEASES

The Group as lessee

During the year, the Group made minimum lease payments of HK$2,829,000 (2010: HK$1,993,000) paid under operating leases in respect of office premises.

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	**2,067**	1,609
In the second to fifth year inclusive	**2,197**	2,889
	4,264	4,498

Leases for office premises are negotiated for a range of two to four years and rentals are fixed for an average of two years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

32. CAPITAL COMMITMENTS

	2011 HK$'000	2010 HK$'000
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**26**	25

33. SHARE-BASED PAYMENT TRANSACTIONS

Share options granted

Effective from 26 April 2002, the Company operates a share option scheme ("Share Option Scheme") for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include (i) any employee or proposed employee (whether full time or part time, including any Executive Director but not any Non-executive Director) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which any member of the Group holds any equity interest; (ii) any Non-executive Director or proposed Non-executive Director (including Independent Non-executive Director) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier or potential supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer or potential customer of the Group or any Invested Entity; (v) any person or entity that provides or will provide research, development or other technological support to the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; and (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (viii) any joint venture partner or business alliance that co-operates with any member of the Group or any Invested Entity in any area of business operation or development.

The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Company to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share options granted (Continued)

The following tables disclose the movements of the Company's share options granted under the Share Option Scheme. There is no share option granted prior to 18 August 2006.

Options granted on 18 August 2006

Category	Adjusted exercise price per share HK$ note (iii)	Estimated fair value per share option at the date of grant HK$	Exercisable period	Number of share options outstanding at 1 January 2010	Lapsed during the year	Adjustment note (iii)	Number of share options outstanding at 31 December 2010	Lapsed during the year	Number of share options outstanding at 31 December 2011
Directors	0.114	0.0319	note (i)	1,064,516	–	99,798	1,164,314	–	**1,164,314**
Employees	0.114	0.0330	note (ii)	4,032,254	–	378,025	4,410,279	**(352,822)**	**4,057,457**
				5,096,770	–	477,823	5,574,593	**(352,822)**	**5,221,771**
Exercisable at the end of the year							5,574,593		**5,221,771**

Notes:

(i) The share options are exercisable one year after 18 August 2006 to 10 April 2012.

(ii) One-fifth of the share options granted to the employees will be vested annually in the next five years from 18 August 2006. Upon the lapse of vesting period, the share options are exercisable until 10 April 2012.

(iii) The number and exercise price of the share options were adjusted as a result of the completion of Rights Issue held on 10 August 2010.

Options granted on 10 January 2008

Category	Adjusted exercise price per share HK$ note (ii)	Estimated fair value per share option at the date of grant HK$	Exercisable period	Number of share options outstanding at 1 January 2010	Lapsed during the year	Adjustment note (ii)	Number of share options outstanding at 31 December 2010	Lapsed during the year	Number of share options outstanding at 31 December 2011
Employee	0.477	0.4648	note (i)	16,161,228	–	1,515,115	17,676,343	–	**17,676,343**
Exercisable at the end of the year							17,676,343		**17,676,343**

Notes:

(i) The first 5,000,000 share options will be vested one year after 10 January 2009. The remaining balance of 5,000,000 share options will be vested two years after 10 January 2009. Upon the lapse of vesting period, the share options are exercisable until 9 January 2018.

(ii) The number and exercise price of the share options were adjusted as a result of the completion of Rights Issue held on 10 August 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share options granted (Continued)

Options granted on 7 March 2008

Category	Adjusted exercise price per share HK$ note (ii)	Estimated fair value per share option at the date of grant HK$	Exercisable period	Number of share options outstanding at 1 January 2010	Lapsed during the year	Adjustment note (ii)	Number of share options outstanding at 31 December 2010	Lapsed during the year	Number of share options outstanding at 31 December 2011
Employees	0.261	0.285	note (i)	7,585,960	(161,403)	696,052	8,120,609	**(1,235,745)**	**6,884,864**
Exercisable at the end of the year							8,120,609		**6,884,864**

Notes:

(i) One-fifth of the share options granted to the employees will be vested annually in the next five years from the date of grant. Upon the lapse of vesting period, the share options are exercisable until 6 March 2018.

(ii) The number and exercise price of the share options were adjusted as a result of the completion of Rights Issue held on 10 August 2010.

Options granted on 5 May 2008

Category	Adjusted exercise price per share HK$ note (ii)	Estimated fair value per share option at the date of grant HK$	Exercisable period	Number of share options outstanding at 1 January 2010	Lapsed during the year	Adjustment note (ii)	Number of share options outstanding at 31 December 2010	Lapsed during the year	Number of share options outstanding at 31 December 2011
Employees	0.183	0.1769	note (i)	5,635,000	–	528,281	6,163,281	**–**	**6,163,281**
Exercisable at the end of the year							6,163,281		**6,163,281**

Notes:

(i) The share options are exercisable immediately after 5 May 2009 to 4 May 2018.

(ii) The number and exercise price of the share options were adjusted as a result of the completion of Rights Issue held on 10 August 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share options granted (Continued)

Options granted on 6 November 2009

Category	Exercise price per share HK$	Estimated fair value per share option at the date of grant HK$	Exercisable period	Number of share options outstanding at 1 January 2010	Granted during the year	Adjustment note (ii)	Number of share options outstanding at 31 December 2010	Lapsed during the year	Number of share options outstanding at 31 December 2011
Directors	0.210	0.1487	note (i)	26,000,000	–	2,437,500	28,437,500	**–**	**28,437,500**
Employees	0.210	0.1487	note (i)	22,000,000	(3,281,250)	2,062,500	20,781,250	**(5,468,750)**	**15,312,500**
				48,000,000	(3,281,250)	4,500,000	49,218,750	**(5,468,750)**	**43,750,000**
Exercisable at the end of the year							49,218,750		**43,750,000**

Notes:

(i) One-third of the share options granted to the Directors and employees will be vested annually in the next three years from 6 November 2011. Upon the lapse of vesting period, the share options are exercisable until 5 November 2019.

(ii) The number and exercise price of the share options were adjusted as a result of the completion of Rights Issue held on 10 August 2010.

The Group recognised the total expense of HK$1,791,000 for the year ended 31 December 2011 (2010: HK$4,837,000) in relation to share options granted by the Company.

During the year ended 31 December 2011, 7,057,317 (2010: 3,442,653) share options of employees lapsed and no share options were exercised or cancelled during the year.

34. RETIREMENT BENEFITS SCHEMES

The Group operates retirement schemes covering their employees in Hong Kong. The Group has joined the MPF Scheme for qualifying employees of the Group in Hong Kong.

The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance which is 5% on the basic salary of the relevant employee subject to a specific ceiling of HK$1,000.

The Group's employees who are employed by subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Total contributions to retirement benefits schemes charged to the profit or loss in the consolidated statement of comprehensive income for the year ended 31 December 2011 amounted to HK$1,724,000 (2010: HK$1,180,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

35. RELATED PARTY TRANSACTIONS

Transactions and balances with related parties during the year are as follows:

(a) The Directors of the Company consider that the remuneration of key management personnel of the Group is set out in notes 11 and 12.

(b) Transaction and balances with related companies are set out in notes 27 and 29(b), respectively.

(c) During the year ended 31 December 2011, the Group entered into a rental agreement for an office premise with a related party, 上海曹峰置業有限公司, in which Mr. Wang, a controlling shareholder of the Company has controlling interest. The total rental expense paid by the Group under this agreement is approximately RMB821,000 (equivalent to HKD993,000) (2010: Nil).

At the end of the reporting period, the Group had commitments for future minimum lease payments to a related party under non-cancellable operating leases which fall due and included in note 31 as follows:

	2011	2010
	HK$'000	HK$'000
Within one year	**999**	–
In the second to fifth year inclusive	**998**	–
	1,997	–

36. PLEDGE OF ASSETS

At the end of the reporting period, the Group's bank borrowings and credit facilities from financial institution were secured by the followings:

	2011	2010
	HK$'000	HK$'000
Prepaid lease payments	**25,111**	24,526
Property, plant and equipment	**50,983**	59,504
Properties under development held for sales	**335,046**	366,763
	411,140	450,793

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries as at 31 December 2011 and 2010 are as follows:

Name of subsidiaries	Form of business structure	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Issued share capital/ registered capital effective held by the Company 2011	2010	Principal activities
Anhui Jinwang Development Investment Company Limited	WFOE	PRC	Registered capital RMB50,000,000	**100%**	100%	Investment holding
Delos International Trading Company	Corporation	PRC	Registered capital RMB3,000,000	**100%**	100%	Trading of power tools
Genvon Marketing Co. Ltd.	Corporation	Hong Kong	Ordinary share HK$1	**100%**	100%	Trading of power tools
Gerrards (Commercial Offshore de Macau) Ltd.	Offshore company	Macau	Quota capital MOP100,000	**100%**	100%	Trading of power tools
Jiangsu Golden Harbour Enterprises Ltd.	WFOE	PRC	Registered capital US$33,000,000	**100%**	100%	Manufacture and distribution of power tools
Jiangsu Newairy Technology Ltd.	WFOE	PRC	Registered capital US$2,600,000	**100%**	100%	Inactive
Jiangsu Zhengfeng Land and Building Development Company Limited	WFOE	PRC	Registered capital RMB56,000,000	**70%**	70%	Development of real estate properties
Shanghai Zhuanfeng Land and Building Development Company Limited	WFOE	PRC	Registered capital RMB10,000,000	**100%**	100%	Development of real estate properties
United Win International Corporation	Corporation	British Virgin Islands	Shares US$100	**100%**	100%	Investment holding

Note: Except for United Win International Corporation, all of the subsidiaries are indirectly owned subsidiaries of the Company.

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the reporting period.

Financial Summary

	For the year ended 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	226,544	186,331	104,963	108,760	**114,040**
Loss for the year attributable to the owners of the Company	(88,546)	(77,463)	(45,930)	(12,438)	**(41,669)**

	At 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Assets and liabilities					
Total assets	313,172	451,398	465,083	1,345,211	**1,534,867**
Total liabilities	(228,314)	(425,675)	(357,407)	(684,959)	**(854,997)**
	84,858	25,723	107,676	660,252	**679,870**
Equity attributable to owners of the Company	84,858	25,723	107,676	480,682	**475,150**
Non-controlling interest	–	–	–	179,570	**204,720**
	84,858	25,723	107,676	660,252	**679,870**

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Zheng Chun
(Chairman and Chief Executive Officer)
Mr. Zheng Wei Chong
Mr. Zhang Xiu He
Mr. Xu Wen Cong
Mr. Cheung Man
Mr. Liu Hoi Keung (appointed on 27 May 2011)

Non-executive Director

Mr. Ho Hao Veng

Independent Non-executive Directors

Mr. Ang Siu Lun, Lawrence
Mr. Ma Kwai Yuen
Mr. Law Wing Tak, Jack
(to retire at the next forthcoming annual general meeting)

AUTHORISED REPRESENTATIVES

Mr. Zheng Wei Chong
Mr. Lam Ka Tak

COMPANY SECRETARY

Mr. Lam Ka Tak

AUDIT COMMITTEE

Mr. Ma Kwai Yuen *(Chairman)*
Mr. Ho Hao Veng
Mr. Ang Siu Lun, Lawrence
Mr. Law Wing Tak, Jack
(to retire at the next forthcoming annual general meeting)

REMUNERATION COMMITTEE

Mr. Ho Hao Veng *(Chairman)*
Mr. Ang Siu Lun, Lawrence
Mr. Ma Kwai Yuen
Mr. Law Wing Tak, Jack
(to retire at the next forthcoming annual general meeting)
Mr. Zheng Wei Chong

NOMINATION COMMITTEE

Mr. Ang Siu Lun, Lawrence *(Chairman)*
Mr. Ma Kwai Yuen
Mr. Law Wing Tak, Jack
(to retire at the next forthcoming annual general meeting)
Mr. Wang Zheng Chun

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

STOCK CODE

2389

WEBSITE

www.genvon.com

PRINCIPAL BANKERS

Bank of Nanjing Co., Ltd.
Bank of China Limited
China Construction Bank Corporation
Hang Seng Bank Limited

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 1101, 11/F
Far East Finance Centre
16 Harcourt Road
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18/F., Fook Lee Commercial Centre
Town Place
33 Lockhart Road
Wanchai
Hong Kong