中國東方文化集團有限公司

China Oriental Culture Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2371)

2011

ANNUAL REPORT

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CORPORATE INFORMATION

Executive Directors

Mr. CHEN Fu Ju
Mr. LI Qing
Mr. YAN Dake

Non-executive Director

Ms. NG Siu Lai

Independent Non-executive Directors

Mr. LEUNG Siu Kee
Mr. LI Zhong
Mr. ZHAO Yong

Company Secretary

Mr. TING Pong Ming

Audit Committee

Mr. LEUNG Siu Kee
(Chairman of the Audit Committee)
Mr. LI Zhong
Mr. ZHAO Yong

Remuneration Committee

Mr. ZHAO Yong
(Chairman of the Remuneration Committee)
Mr. LEUNG Siu Kee
Mr. LI Zhong

Nomination Committee

Mr. LI Zhong
(Chairman of the Nomination Committee)
Mr. LEUNG Siu Kee
Mr. ZHAO Yong

Authorised Representatives

Mr. CHEN Fu Ju
Mr. TING Pong Ming

Auditor

SHINEWING (HK) CPA Limited

Principal Bankers

Hang Seng Bank Limited

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Suites 1205-1207
12th Floor
Dah Sing Financial Centre
108 Gloucester Road
Wanchai, Hong Kong

Principal Share Registrar and Transfer Office

HSBC Trustee (Cayman) Limited
P.O. Box 484, HSBC House
68 West Bay Road
Grand Cayman KY1-1106
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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Tesbury Centre
28 Queen's Road East
Hong Kong

Website

www.chinaoc.com.hk

Stock Code

2371

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years:

Results

	2011 RMB	2010 RMB	2009 RMB	2008 RMB	2007 RMB
Turnover	**58,168,536**	30,969,638	31,334,168	23,966,337	85,117,959
Gross (loss) profit	**(43,654,663)**	(33,766,507)	424,481	4,993,103	20,352,220
(Loss) profit for the year	**(146,841,147)**	(105,290,637)	(9,232,699)	(33,040,453)	(19,457,177)
(Loss) profit for the year attributable to:					
Owners of the Company	**(145,840,363)**	(105,150,324)	(9,232,699)	(33,040,453)	(19,457,177)
Non-controlling interests	**(1,000,784)**	(140,313)	–	–	–
	(146,841,147)	(105,290,637)	(9,232,699)	(33,040,453)	(19,457,177)
Basic (loss) earnings per share (RMB cents)	**(8.30)**	(8.50)	(2.24)	(8.19)	(4.93)

Assets and Liabilities

	2011 RMB	2010 RMB	2009 RMB	2008 RMB	2007 RMB
Non-current assets	**684,786,497**	674,586,991	33,966,548	46,612,083	25,101,847
Current assets	**66,849,978**	110,074,793	149,585,576	48,992,824	127,219,620
Current liabilities	**(40,315,466)**	(25,601,099)	(13,903,116)	(10,826,104)	(32,934,597)
Net current assets	**26,534,512**	84,473,694	135,682,460	38,166,720	94,285,023
Non-current liabilities	**(37,702,948)**	(73,129,236)	–	–	–
Non-controlling interests	**(794,734)**	(815,520)	–	–	–
Equity	**672,823,327**	685,115,929	169,649,008	84,778,803	119,386,870

Financial Review

For the year ended 31 December 2011, China Oriental Culture Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") recorded a turnover of approximately RMB58,169,000 (2010: approximately RMB30,970,000), representing an increase of 87.8% as compared to that of last year. Of these, turnover derived from advertising service income and consultancy service income were approximately RMB38,078,000 and RMB142,000 respectively (2010: nil). Turnover derived from sales of third party software and hardware was nil for the year ended 31 December 2011 (2010: approximately RMB13,800,000). The Group holds financial assets at fair value through profit or loss and had a turnover and segment loss amounted to approximately RMB19,949,000 (2010: approximately RMB17,170,000) and approximately RMB1,211,000 (2010: approximately RMB8,962,000) respectively during the year.

Administrative expenses for the year ended 31 December 2011 was approximately RMB67,411,000 (2010: approximately RMB36,888,000), representing an increase of 82.7% as compared to that of last year. The increase in expenses was mainly due to consultancy and professional fee related to the advertising media business.

The loss for the year attributable to owners of the Company aggregated at approximately RMB145,840,000 (2010: approximately RMB105,150,000). The basic loss per share for the year ended 31 December 2011 was RMB8.30 cents (2010: RMB8.50 cents).

Business Review

The Group is principally engaged in the provision of advertising and consultancy services in respect of placing advertisements on the outdoor billboards and LED screens of the Group to advertisers and advertising agencies.

Continuing the course of the advertising media business, during the year ended 31 December 2011, the operation of outdoor advertising media on the external walls and roofs of renowned commercial buildings, roads and highway in Beijing and the advertising billboards located along Baojin Highway and Shihuang Highway in Heibei Province generated one substantial part of the revenue for the Company.

Besides, the operation of the outdoor mega LED displays located along the Olympic Axis at the main venues of the Olympic Games in Beijing and the four new mega LED displays situated at the South Square of the Shanghai North Railway Station in Shanghai has started bringing income to the Company.

On the other hand, segmental turnover and loss of the securities division were approximately RMB19,949,000 and RMB1,211,000 respectively. The loss recorded was mainly due to the loss of disposal of financial assets at fair value through profit or loss in the first 6 months of 2011. In view of the volatility in the securities trading market, the trading of securities has ceased since the second half of this year 2011.

Business Outlook

The Group is optimistic about expanding other media resources and will take an active approach to seek opportunities to expand the Group's cross-media services. During the year, the Group has entered into the Acquisition Agreement to acquire the entire issued share capital of Sino Mind Holdings Limited ("Sino Mind"), which leads to the control of interests of 49% in 湖南廣電移動電視有限責任公司 (Hunan Mobile Television Company Limited*) ("Hunan Mobile TV") and 95% in 北京嘉華新廣文化傳媒有限公司 (Beijing Jia Hua Xin Guang Cultural

* *for identification purpose only*

Media Company Limited*) ("Beijing Jiahua"). The acquisition and the scope of business of Hunan Mobile TV would provide the Company with an unique opportunity to participate in terrestrial digital television industry (地面數字電視產業) and related business activities in the PRC with lucrative potential. The directors of the Company (the "Directors") are of the view that the acquisition provides synergies to the Group's existing capabilities in the outdoor advertising and TV drama production businesses in the PRC, and gives an excellent opportunity to the Group to expand its cross-media platform.

On the other hand, the Group has been granted an exclusive operating right of the advertising media of the weekly direct mail magazine《新乘坐》by 北京軌道傳媒廣告有限公司 which is distributed free of charge in the subway in Beijing. This weekly direct mail magazine has begun generating profits for the Company in the year 2011.

The Group intends to employ an active, steady and prudent manner in its development of cross-media platform. With the smooth progression of the Group's core businesses of advertising and media, all diversified cultural businesses under the Group's cross-media platform will benefit from unique synergy.

Advance to an Entity

On 10 July 2009, Smart Century Investment Limited, a wholly-owned subsidiary of the Company, provided financial assistance in the sum of HK$20,000,000 to Apex One Enterprises Limited ("Apex One"), a 49%-owned and affiliated company of the Company. The principal activity of Apex One is securities trading. For more details, please refer to the Company's announcements dated 10 July 2009 and 13 July 2009.

At 31 December 2011, the amount due from Apex One was approximately RMB10,843,000.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and the bank balances.

As at 31 December 2011, the Group had bank balances and cash of approximately RMB18,194,000 as compared o the bank balances and cash of approximately RMB41,657,000 as at 31 December 2010.

The Group's net current assets totalled approximately RMB26,534,000 as at 31 December 2011, against approximately RMB84,474,000 as at 31 December 2010. The Group's current ratio was approximately 1.66 as at 31 December 2011 as compared with 4.3 as at 31 December 2010.

Gearing Ratio

The gearing ratio of the Group (measured as total liabilities to total assets) was 10.4% as at 31 December 2011 (2010: 12.6%).

Capital Structure

As at 31 December 2011, the Company's issued share capital was approximately HK$193,944,000 (2010: approximately HK$157,544,000) and the number of its issued ordinary shares was 1,939,435,768 shares of HK$0.10 each ("Shares").

During the year, the Company has issued 100,000,000 consideration shares at an issue price of HK$0.7 per share and 264,000,000 ordinary shares by means of conversion of convertible loan notes respectively.

Material Acquisitions and Disposals

Acquisition of 100% Equity Interests in Bold Champion International Limited ("Acquisition of Bold Champion")

On 11 February 2010, the Company, Champ Zone Limited (the purchaser and a wholly-owned subsidiary of the Company), Day Fortune Limited and Sure Choice Holdings Limited (the "Vendors"), and the guarantors entered into an acquisition agreement (the "Acquisition Agreement of Bold Champion") pursuant to which Champ Zone Limited conditionally agreed to acquire and the Vendors conditionally agreed to dispose of 100% of the issued and paid-up capital of Bold Champion International Limited.

On 3 March 2011, the contracting parties entered into the fourth supplemental agreement whereby all contracting parties agreed to adjust the consideration from HK$110 million (as initially agreed under the Acquisition Agreement of Bold Champion) to HK$80 million. The issue price for the consideration shares has been adjusted from HK$1.00 to HK$0.70 per share.

The consideration for the Acquisition of Bold Champion was satisfied by (i) cash consideration of HK$10,000,000 payable at completion of the Acquisition of Bold Champion; and (ii) issue and allotment of 100,000,000 consideration shares at the issue price of HK$0.70 per share by the Company to the Vendors or their respective nominees at completion of the Acquisition of Bold Champion.

On 25 March 2011, the Acquisition of Bold Champion was completed and 100,000,000 consideration shares at an issue price of HK$0.70 per share were allotted and issued to the Vendors. Details are set out in the announcement made by the Company dated 24 February 2010, 30 July 2010, 29 October 2010, 31 January 2011, 3 March 2011 and 25 March 2011.

Major Transaction in Relation to the Acquisition of the Entire Issued Share Capital of Sino Mind

On 24 November 2011, Top Succeed Holdings Limited (the "Purchaser"), being a wholly-owned subsidiary of the Company), the vendors and the guarantors entered into an acquisition agreement (the "Acquisition Agreement of Sino Mind") pursuant to which the Purchaser conditionally agreed to acquire and the vendors conditionally agreed to dispose of 50,000 ordinary shares of Sino Mind Holdings Limited ("Sino Mind") to the Purchaser at an aggregate total consideration of HK$218 million which shall be satisfied as to an aggregate amount of HK$30 million by cash within six months after completion and as to an aggregate amount of HK$188 million by the issue of the First Tranche Consideration Shares (being 400,000,000 consideration shares) at the issue price of HK$0.47 per consideration share upon completion. The total consideration is subject to upward adjustments by a maximum amount of HK$658 million upon fulfillment of the consideration adjustments which shall be satisfied by the further issue of (i) the Second Tranche Consideration Shares in an aggregate amount of HK$47 million (being 100,000,000 consideration shares) at the issue price of HK$0.47 per consideration share; and (ii) the convertible bonds in an aggregate principal amount of HK$611 million (convertible into 1,300,000,000 conversion shares) at the conversion price of HK$0.47 per conversion share. Accordingly, upon fulfilling the consideration adjustments, the maximum aggregate amount of the total consideration shall be adjusted upwards to an aggregate amount of HK$876 million.

Upon completion, Sino Mind will become an indirect wholly-owned subsidiary of the Company. The two main operating entities of the Sino Mind group comprise mainly the effective interests of 49% in Hunan Mobile TV and 95% in Beijing Jiahua hence, Hunan Mobile TV and Beijing Jiahua will become an indirect associated company and a non-wholly-owned subsidiary of the Company respectively upon completion.

As the applicable percentage ratios exceed 25% but are less than 100%, the Acquisition of Sino Mind constitutes a major transaction for the Company under Rule 14.06 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements.

Details are set out in the announcement made by the Company dated 2 September 2011 and 24 November 2011.

Foreign Exchange Exposure

Substantially all of the business transactions of the Group are denominated in Renminbi and Hong Kong dollars. The Group adopts a conservative financial policy. As at 31 December 2011, the Group did not have any bank liabilities, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to any material interest and exchange risks.

Charges on Group Assets

As at 31 December 2011, the Group did not have any charges on its assets (2010: Nil).

Contingent Liabilities

As at 31 December 2011, the Group did not have any material contingent liabilities (2010: Nil).

Capital Commitment

As at 31 December 2011, the Group had outstanding capital commitment in respect of the acquisition of 100% of the issued and paid-up capital of Sino Mind Holdings Limited of HK$218,000,000 (equivalent to approximately RMB176,885,000).

As at 31 December 2010, the Group had outstanding capital commitment in respect of the acquisition of 100% of the issued and paid-up capital of Bold Champion International Limited of HK$74,000,000 (equivalent to approximately RMB62,671,000).

Employee Information and Remuneration Policy

As at 31 December 2011, the Group has 60 employees (2010: 69 employees) in Hong Kong and the PRC. The total staff cost is approximately RMB18,672,000 for the year ended 31 December 2011 (2010: RMB19,724,000).

We offer competitive remuneration package, including medical and retirement benefits, to eligible employees. Apart from basic salary, employees are eligible to receive a discretionary bonus taking into accounts factors such as market conditions as well as corporate and individual's performance during the year.

In order to attract, retain and motivate eligible employees, including the directors of the Company, the Company has adopted a share option scheme. The scheme enables eligible persons to obtain an ownership interest in the Company and thus motivates them to optimise their continuing contributions to the Group. As at 31 December 2011, there are 141,000,000 share options remained outstanding.

We are confident that our employees will continue to provide a firm foundation for the success of the Group and will maintain high standard of service to our clients.

Executive Directors

Mr. CHEN Fu Ju ("Mr. Chen"), aged 43, is an executive Director. Mr. Chen graduated from International Economic and Trade College. He was engaged in the advertising, TV, broadcasting, outdoor broadcasting and media & entertainment sectors for more than 10 years. He held the positions of general manager and deputy general manager in various sizable media institutions and cultural, media & entertainment companies in China. He has over 10 years of management experience. Mr. Chen is primarily responsible for the management of overall operations and advertising operations of the media & entertainment companies, including media platform construction, team building, advertising operations, program content collection, media agency, customer comprehensive agency as well as planning and organization of large-scale activities. He is also the director of certain subsidiaries of the Company.

Mr. LI Qing ("Mr. Li"), aged 42, is an executive Director. Mr. Li graduated from 北京職業大學機電學院 (now integrated into Beijing Union University). Mr. Li has over 18 years of experience in computer banking system planning, design, implementation, integration and management in China and worked in several sizable enterprises in China, including China Construction Bank. He has been the marketing director of Visioncom Ltd. (北京華際信息系統有限公司) and vice general manager of Blue D Tech Ltd. (蘭迪科諾科技發展有限公司). Currently, Mr. Li is the general manager of ChuangZhi LiDe (Beijing) Technology Development Company Limited, an indirect non-wholly-owned subsidiary of the Company. Mr. Li is also a shareholder of a non-wholly-owned subsidiary of the Company.

Mr. YAN Dake ("Mr. Yan"), aged 45, is an executive Director. He is a director of Beijing Kery Media Culture Limited (北京柯瑞環宇傳媒文化有限公司), an indirect subsidiary of the Company ("Kery Media"). He graduated from Shanghai Theatre Academy China (上海戲劇學院). He has over 18 years of experience in the movie and television production industry and over 15 years of experience in corporate management. As a producer, Mr. Yan worked for several sizable movie and television production corporations. His serial drama productions such as The Prince of Han Dynasty (大漢天子), Concubines of Qing Emperor (大清後宮) and Morality Base Line (道德底線) were popular and well-received in China. Concubines of Qing Emperor was even selected and broadcasted through the Chinese channel of Asia Television Ltd. ("ATV") of Hong Kong. In 2010, Mr. Yan was honored as The Best Ten Producers at Macau TV Festival. In addition, Mr. Yan is a director of one of the subsidiaries of the Company.

Non-executive Director

Ms. NG Siu Lai ("Ms. Ng"), aged 48, is a non-executive Director. She has extensive experience in business management and investment in Mainland China. In addition, she has wide-ranging experience in cross-border trade and has acquired a wide business network over the years.

Independent Non-executive Directors

Mr. LEUNG Siu Kee ("Mr. Leung"), aged 35, is an independent non-executive Director. He is also the chairman of the audit committee of the Company and a member of the remuneration committee and nomination committee of the Company. Mr. Leung obtained his bachelor degree of Business Administration majoring in Accounting at the Hong Kong University of Science and Technology with first honour. He has extensive accounting knowledge as he had worked in two international accounting firms for more than 7 years, mainly to provide auditing and business assurance services. Afterwards, Mr. Leung has devoted to develop his career in corporate finance and corporate restructuring businesses. Currently, Mr. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants and has been qualified for practice.

Mr. ZHAO Yong ("Mr. Zhao"), aged 49, is an independent non-executive Director. He is also the chairman of the remuneration committee of the Company and a member of the audit committee and nomination committee of the Company. Mr. Zhao obtained his bachelor degree in Arts majoring in Chinese Language and Literature at Beijing Union University. Mr. Zhao has over 22 years of experience in communication and media industry in China. Since graduation, Mr. Zhao has worked for Beijing Business Today (北京商報) for 14 years processing to news reporting supervisor. Afterwards, Mr. Zhao has worked for Jinghua Inc. (京華時報) since 2001 and held the posts of photography director and publishing centre supervisor. Currently, Mr. Zhao is also the general manager of Beijing InSpace Culture Media Co., Ltd. (北京象度鋭思文化傳媒公司).

Mr. LI Zhong ("Mr. Li"), aged 42, is an independent non-executive Director. He is also the chairman of the nomination committee of the Company and a member of the audit committee and remuneration committee of the Company. He obtained the bachelor degree in accounting from Changsha Normal University of Water Conservancy and Electric Power (長沙水利電力師範學院) (currently known as Changsha University of Science and Technology (長沙理工大學)). Mr. Li has many years of experience in finance, audit and accounting both in the government and in corporations. He was the partner of Beijing Huajing Accounting Firm Limited (北京華京會計師事務所) from 2000 to 2009 and has been the partner of Zhongjianhua Accounting Firm Limited (中建華會計師事務所) since 2009.

Senior Management

Mr. TING Pong Ming ("Mr Ting"), aged 44, graduated from The University of Hong Kong with a bachelor degree of Science. He obtained a master degree of Business Administration at the University of Strathclyde in the United Kingdom and a second bachelor degree in Law at Tsing Hua University in the PRC. Mr. Ting is an associate member of the Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants. Mr. Ting has more than 10 years of experience in accounting and finance. Mr. Ting is currently the chief financial officer and the company secretary of the Company.

Mr. LI Jia ("Mr Li"), aged 43, is the Advertising Operations Controller of the Company. Mr. Li has 12 years of experience in media operation and adverting business in the PRC. He graduated from Capital Medical University with a bachelor degree. From 2009 to 2010, he held the position of deputy general manager at Beijing CRI Glory Advertising Co., Ltd. (北京國廣光榮廣告有限公司) where he was responsible for media promotion and advertising sales for the domestic channels of China Radio International (CRI). In 2008, Mr. Li served as the general manager of Mirror Media Limited where he was responsible for the national network construction and overall operation of exclusive functional mirror images. In 2006, he worked at Beijing ChinaIP. TV Advertising Co., Ltd. (北京寬視神州廣告有限公司) as executive deputy general manager and Asia Media Group (a company listed on the Tokyo Stock Exchange of Japan) as director of the business development department respectively. From 2004 to 2006, Mr. Li was the deputy general manager of Beijing Yunhong Advertising Co., Ltd. (北京韵洪廣告有限公司), a wholly-owned subsidiary of Hunan TV & Broadcasting Intermediary Co., Ltd. (TIK) and the media director and deputy general manager of Beijing Ai'erbeisi Broadcasting & Advertising Co., Ltd. (北京愛耳貝思廣播廣告有限公司) respectively.

Ms. LI Dan ("Ms. Li"), aged 51, is the director of the Literature Department of Kery Media. Ms. Li is currently head of the editorial department and editor-in-chief (professor) of China Film Press. She is a member of the Chinese Reportage Association. From 2001 to 2011, Ms. Li participated in the planning and publishing of a wide range of books covering over 130 topics. The collection of "2000 Cultural Basics You Must Know" released under her supervision was ranked among top ten in the List of the Bestsellers in China (全國圖書排行榜) for four consecutive years. In addition, Ms. Li was a reporter of the Politics and Breaking News section of the Elite Youth magazine (中華兒女雜誌) from 2000 to 2001. One of her articles published on Elite Youth has won an award of excellence from the General Administration of Press and Publication. Besides, Ms. Li was a reporter of the New Sports magazine (新體育雜誌) and deputy editor-in-chief of the China Volleyball magazine (中國排球雜誌) between 1999 and 2000, responsible for the news coverage of the national teams during the Olympic Games. Ms. Li was a correspondent on China Women's Volleyball Team and had published numerous communications on major foreign and domestic sports events, as well as communications on well-known sports figures. She had also been appointed as a special correspondent on major international competitions held in the U.S., Brazil, Japan and other countries.

Mr. WU Xingze ("Mr. Wu"), aged 35, is the promotional director of Kery Media. He graduated from Beijing Broadcasting Institute majoring in cinema and television production. He was a reporter for CCTV News Broadcast Center(中央電視台新聞中心), "Oriental Cinema & Television", the cinema and television channel of Shanghai Television (上海電視台影視頻道《東方影視》), and other programs including "Oriental Night Tan" of Dragon Television (東方衛視《東方夜譚》) and "Entertainment News Daily" of Beijing Television (北京電視台《天天影視圈》). He was a planner of "Entertainment News" for the Travel Channel (旅遊衛視《娛樂任我行》) and had been a planner and promotional director of the television drama series "Secrets Among Three Women" (三個女人的秘密) and "Bays of Being Parents" (可憐天下父母心). He had been also the producer, planner and promotional director of "Military Salute" (軍禮). He has been the planner of the movies "Love Story in Dalinghe River Basin" (情定熬木倫) and "Story of Zhaixi Village" (寨西村的故事), the director of the documentary movie "Mulan" (花木蘭) and a member of the promotional team of the movie "Red Cliff" (赤壁).

Mr. WONG Xiaoping ("Mr. Wong"), aged 36, is the post-production director of Kery Media. He graduated from Harbin Institute of Technology majoring in international trade. Mr. Wong has been engaged in the movie and television industry over the years, and has participated in the various TV drama production, such as "The Prince of Han Dynasty" (大漢天子), "Hero" (風雲爭霸), "Hero II" (風雲II), "Concubine of Qing Emperor" (大清後宮), "Morality Base Line" (道德底線), "Couple Code" (夫妻密碼), "Home" (歸宿) and "Endless Love" (恩情無限).

The Directors hereby present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2011.

Principal Activities and Segment Information

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 46 to the consolidated financial statements. The Group is principally engaged in the provision of advertising and consultancy services in respect of placing advertisements on the outdoor billboards and LED screens of the Group to advertisers and advertising agencies.

An analysis of the Group's performance for the year by business segments is set out in note 8 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on pages 31 and 32.

Dividend

The Directors did not recommend payment of final dividend for the year ended 31 December 2011.

Plant and Equipment

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

Share Capital

Details of the movements in share capital of the Company are set out in note 34 to the consolidated financial statements.

Distributable Reserves

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 35 and page 36.

Pre-emptive Rights

There is no provision for pre-emptive rights under the articles of association of the Company (the "Articles of Association") requiring the Company to offer new shares to its existing shareholders in proportion to their share holdings and there is no restriction against such rights under the laws of the Cayman Islands.

Directors

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

Executive Directors

Mr. Chen Fu Ju	
Mr. Li Qing	
Mr. Yan Dake	(appointed on 29 April 2011)
Ms. Chan Shui Sheung Ivy	(resigned on 26 May 2011)
Ms. So Wai Lam	(resigned on 11 May 2011)
Mr. Liu Yong Fei	(retired on 27 May 2011)
Mr. Tin Ka Pak	(resigned on 14 June 2011)

Non-executive Director

Ms. Ng Siu Lai	(appointed on 9 June 2011)

Independent Non-executive Directors

Mr. Leung Siu Kee	
Mr. Li Zhong	(appointed on 29 April 2011)
Mr. Zhao Yong	
Mr. Chow Shiu Ki	(resigned on 11 May 2011)
Mr. Wu Xian	(resigned on 27 May 2011)

The Company has received from each of its 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 of Hong Kong Limited (the "Listing Rules") and the Company considers all its independent non-executive Directors independent.

In accordance with article 86(3) of the Articles of Association, Ms. Ng Siu Lai will hold office only until the forthcoming annual general meeting of the Company (the "AGM") and, being eligible, offer herself for re-election at the AGM.

In accordance with article 87(1) of the Articles of Association, Mr. Chen Fu Ju and Mr. Leung Siu Kee will retire from office by rotation, and being eligible, will offer themselves for re-election at the AGM.

Directors' Service Contracts

Each of Mr. Liu Yong Fei (retired during the year), Mr. Chen Fu Ju, Mr. Li Qing, Mr. Yan Dake, Ms. Ng Siu Lai, Mr. Leung Siu Kee, Mr. Li Zhong, Mr. Wu Xian (resigned during the year) and Mr. Zhao Yong has entered a service agreement with the Company for a term of three years. Ms. Chan Shui Sheung Ivy, Ms. So Wai Lam, Mr. Tin Ka Pak and Mr. Chow Shiu Ki, who have resigned during the year, did not enter into a service agreement with the Company.

None of the Directors being proposed for re-election at the forthcoming AGM has service agreement with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' Interests in Contracts

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

Share Options

Share Option Scheme

The Group operated an equity-settled share option scheme (the "Share Option Scheme") for the purpose of enabling the Company to grant options to Participants (as defined below) as incentives and rewards for their contribution to the Company or its subsidiaries. Under the Share Option Scheme, the board of Director (the "Board") might, at its discretion, offer any employees (whether full time or part time), executives or officers of the Company or any of its subsidiaries (including any executive Director), business consultants, agents or legal and financial advisers to the Company or its subsidiaries (the "Participants") whom the Board considered, in its sole discretion, as having contributed to the Company or any of its subsidiaries.

The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 31 October 2004 and will remain in force until 30 October 2014. The remaining life of the Share Option Scheme is 2 years. The Company may by resolution in general meeting or the Board may resolve to terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The consideration for the grant of option is HK$1.00. The subscription price shall be determined by the Board in its absolute discretion but in any event shall not be less than the highest of:

(i) The nominal value of the shares;

(ii) The closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the option; and

(iii) The average closing price per share as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of the grant of the option.

Under the Share Option Scheme, the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the number of Shares in issue at the date of approval of the Share Option Scheme (the "Scheme Limit") provided that, *inter alia*, the Company may seek approval of the shareholders at a general meeting to refresh the Scheme Limit. The maximum number of shares in respect of which options may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme may not exceed 30% of the share capital of the Company in issue from time to time.

During the year ended 31 December 2011, a total of 111,800,000 share options have been granted under the Scheme Limit. As at 31 December 2011, 141,000,000 share options entitling the holders of which to subscribe for the Company's securities were outstanding, representing approximately 7.27% of the issued share capital of the Company.

The maximum number of Shares issued upon exercise of the options granted to each grantee or of Shares to be issued upon the exercise of outstanding options under the Share Option Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its shareholders in accordance with the Share Option Scheme. The period within which the Company's securities must be taken up shall be in any event not later than 10 years from the offer date, subject to the provisions for early termination of the Share Option Scheme and there is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option.

During the year, 111,800,000 share options were granted under the Share Option Scheme. Movements of share options during the year ended 31 December 2011 under the Share Option Scheme is summarised as follows and details of which are set out in note 39 to the consolidated financial statements:

Movements of Share Option Scheme during the year

List of Grantees	Balance as at 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Balance as at 31 December 2011	Exercise Price HK$	Date of Grant	Exercise Period
Directors									
Mr. Chen Fu Ju	19,520,000	–	–	–	(19,520,000)	–	1.27	08/10/2009	23/11/2009–22/11/2012
	–	17,300,000	–	–	–	17,300,000	0.58	02/06/2011	02/06/2011–01/06/2014
Mr. Li Qing	980,000	–	–	–	(980,000)	–	1.464	12/03/2010	12/03/2010–11/03/2013
	3,000,000	–	–	–		3,000,000	0.96	08/10/2010	08/10/2010–07/10/2013
	–	980,000	–	–	–	980,000	0.58	02/06/2011	02/06/2011–01/06/2014
	–	5,000,000	–	–	–	5,000,000	0.55	05/09/2011	05/09/2011–04/09/2014
Mr. Yan Dake	–	5,000,000	–	–	–	5,000,000	0.58	02/06/2011	02/06/2011–01/06/2014
Mr. Leung Siu Kee	460,000	–	–	–	(460,000)	–	1.464	12/03/2010	12/03/2010–11/03/2013
	500,000	–	–	–	–	500,000	0.96	08/10/2010	08/10/2010–07/10/2013
	–	460,000	–	–	–	460,000	0.58	02/06/2011	02/06/2011–01/06/2014
Mr. Zhao Yong	1,500,000	–	–	–	–	1,500,000	0.96	08/10/2010	08/10/2010–07/10/2013
Mr. Li Zhong	–	1,500,000	–	–	–	1,500,000	0.58	02/06/2011	02/06/2011–01/06/2014
Mr. Liu Yong Fei (retired on 27 May 2011)	16,520,000	–	–	(16,520,000)	–	–	1.27	08/10/2009	23/11/2009–22/11/2012
Mr. Wu Xian	400,000	–	–	(400,000)	–	–	1.27	08/10/2009	23/11/2009–22/11/2012
(resigned on	60,000	–	–	(60,000)	–	–	1.464	12/03/2010	12/03/2010–11/03/2013
27 May 2011)	500,000	–	–	(500,000)	–	–	0.96	08/10/2010	08/10/2010–07/10/2013
Subtotal	43,440,000	30,240,000	–	(17,480,000)	(20,960,000)	35,240,000			

Movements of Share Option Scheme during the year (continued)

List of Grantees	Balance as at 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Balance as at 31 December 2011	Exercise Price HK$	Date of Grant	Exercise Period
Employees									
In aggregate	1,700,000	–	–	(1,100,000)	(600,000)	–	1.80	04/02/2010	04/02/2010–03/02/2013
	5,700,000	–	–	(500,000)	(5,200,000)	–	1.464	12/03/2010	12/03/2010–11/03/2013
	24,500,000	–	–	(300,000)	–	24,200,000	0.96	08/10/2010	08/10/2010–07/10/2013
	–	4,600,000	–	–	–	4,600,000	0.85	06/01/2011	06/01/2011–05/01/2014
	–	6,960,000	–	–	–	6,960,000	0.58	02/06/2011	02/06/2011–01/06/2014
	–	3,000,000	–	–	–	3,000,000	0.53	06/07/2011	06/07/2011–05/07/2014
	–	2,000,000	–	–	–	2,000,000	0.56	29/07/2011	29/07/2011–28/07/2014
	–	5,000,000	–	–	–	5,000,000	0.55	05/09/2011	05/09/2011–04/09/2014
	–	8,000,000	–	–	–	8,000,000	0.366	03/11/2011	03/11/2011–02/11/2014
Subtotal	31,900,000	29,560,000	–	(1,900,000)	(5,800,000)	53,760,000			
Consultants									
In aggregate	–	5,000,000	–	–	–	5,000,000	0.53	06/07/2011	06/07/2011–05/07/2014
	–	45,000,000	–	–	–	45,000,000	0.56	29/07/2011	29/07/2011–28/07/2014
	–	2,000,000	–	–	–	2,000,000	0.366	03/11/2011	03/11/2011–02/11/2014
Subtotal	–	52,000,000	–	–	–	52,000,000			
Total	75,340,000	111,800,000	–	(19,380,000)	(26,760,000)	141,000,000			

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or its Associated Corporations

As at 31 December 2011, the following Directors or chief executive of the Company had held the following interests or short positions in the shares, underlying shares (as defined in the Securities and Futures Ordinance (the "SFO")) and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules:

Long position in the Company:

Name of Directors	Nature of interests	Number of issued ordinary shares held	Number of underlying shares held pursuant to share options	Aggregate no. of shares in the Company	Approximate percentage of the issued share capital
Chen Fu Ju	Beneficial owner	3,036,000	17,300,000	20,336,000	1.04%
Li Qing	Beneficial owner	2,432,000	8,980,000	11,412,000	0.58%
Yan Dake	Beneficial owner	–	5,000,000	5,000,000	0.25%
Ng Siu Lai	Held by controlled corporation (Note)	161,687,861	–	161,687,861	8.33%
Leung Siu Kee	Beneficial owner	–	960,000	960,000	0.04%
Li Zhong	Beneficial owner	–	1,500,000	1,500,000	0.07%
Zhao Yong	Beneficial owner	–	1,500,000	1,500,000	0.07%

Note: This 161,687,861 shares are held by Perfect Will Limited, a company wholly-owned by Ms. Ng Siu Lai.

Save as disclosed above, as at 31 December 2011, none of the Directors or chief executive of the Company held any interests or short positions in the shares, underlying shares (as defined in the SFO) or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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.

Substantial Shareholders' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company

As at 31 December 2011, the following persons (other than Directors or chief executives of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in the Company

Name of substantial shareholders of the Company	**Nature of interests**	**No. of ordinary shares/ underlying shares in the Company**	**Aggregate no. of shares in the Company**	**Approximate aggregate percentage of the issued share in the Company**
Ho Wai Kong ("Mr. Ho")	Held by controlled corporation *(Note 1)*	382,639,306	432,639,306	22.30%
	Held by spouse *(Note 2)*	50,000,000		
Guo Binni	Beneficial owner *(Note 2)*	50,000,000	432,639,306	22.30%
	Held by controlled corporation *(Note 1)*	382,639,306		
Rotaland Limited	Beneficial owner *(Note 1)*	381,139,306	381,139,306	19.65%
Glorywide Group Limited	Beneficial owner *(Note 3 & 4)*	266,760,000	266,760,000	13.75%
Zhang Jie	Held by controlled corporation *(Note 3 & 4)*	266,760,000	266,760,000	13.75%
Victor Bell Limited	Beneficial owner *(Note 3 & 5)*	266,580,000	266,580,000	13.74%
Cheng Chun Tak	Held by controlled corporation *(Note 3 & 5)*	266,580,000	266,580,000	13.74%
Electoric-Rays Limited	Beneficial owner *(Note 3 & 5)*	266,580,000	266,580,000	13.74%
Cheung Yee Fong	Held by controlled corporation *(Note 3 & 5)*	266,580,000	266,580,000	13.74%
Western Gold International Ltd	Beneficial owner *(Note 3 & 5)*	266,580,000	266,580,000	13.74%
Wong Ka Chun	Held by controlled corporation *(Note 3 & 5)*	266,580,000	266,580,000	13.74%
Passion Win Limited	Beneficial owner *(Note 3 & 6)*	270,000,000	270,000,000	13.92%
Chan Che Kwan	Held by controlled corporation *(Note 3 & 6)*	270,000,000	270,000,000	13.92%
Luxury Play Group Limited	Beneficial owner *(Note 3 & 7)*	267,840,000	267,840,000	13.81%
Bing Zhaoshi	Held by controlled corporation *(Note 3 & 7)*	267,840,000	267,840,000	13.81%
Headway Capital Group Limited	Beneficial owner *(Note 3 & 8)*	195,660,000	195,660,000	10.08%
Tsui Dick Yee, Daisy	Held by controlled corporation *(Note 3 & 8)*	195,660,000	195,660,000	10.08%
Perfect Will Limited	Beneficial owner *(Note 9)*	161,687,861	161,687,861	8.33%
Ascher Group Limited	Beneficial owner *(Note 10)*	131,728,323	131,728,323	6.79%
Lu Xing	Held by controlled corporation *(Note 10)*	131,728,323	131,728,323	6.79%
Charmainder Enterprises Limited	Beneficial owner *(Note 11)*	97,291,907	97,291,907	5.01%
Cheung Man	Held by controlled corporation *(Note 11)*	97,291,907	97,291,907	5.01%

Notes:

1. Of these 382,639,306 shares, (i) 381,139,306 shares are held by Rotaland Limited which consist of convertible loan notes which can be converted into 28,939,306 shares of the Company; and (ii) 1,500,000 shares are held by Similan Limited. Rotaland Limited and Similan Limited are companies incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Ho.

2. These 50,000,000 shares are held by Ms. Guo Binni who is the spouse of Mr. Ho.

3. According to the Acquisition Agreement entered into on 24 November 2011, the Company will allot a maximum of 500,000,000 consideration shares and will issue convertible bonds in an aggregate principal amount of a maximum of HK$611 million (convertible into 1,300,000,000 conversion shares) at the conversion price of HK$0.47, subject to the terms and conditions as stipulated in the Acquisition Agreement, to vendors in the Acquisition Agreement, including Glorywide Group Limited (wholly owned by Mr. Zhang Jie), Victor Bell Limited (wholly owned by Mr. Cheng Chun Tak), Electronic-Rays Limited (wholly owned by Ms. Cheung Yee Fong), Western Gold International Ltd (wholly owned by Mr. Wong Ka Chun), Passion Win Limited (wholly owned by Mr. Chan Che Kwan) and Luxury Play Group Limited (wholly owned by Mr. Bing Zhaoshi), Headway Capital Group Limited (wholly owned by Ms. Tsui Dick Yee, Daisy). As at the date of this report, the transaction has not yet completed and the above consideration shares and convertible bonds have not been issued.

4. These 266,760,000 shares consist of convertible bonds convertible into 192,660,000 shares of the Company.

5. These 266,580,000 shares consist of convertible bonds convertible into 192,530,000 shares of the Company.

6. These 270,000,000 shares consist of convertible bonds convertible into 195,000,000 shares of the Company.

7. These 267,840,000 shares consist of convertible bonds convertible into 193,440,000 shares of the Company.

8. These 195,660,000 shares consist of convertible bonds convertible into 141,310,000 shares of the Company.

9. Perfect Will Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Ms. Ng Siu Lai, a non-executive Director.

10. These 131,728,323 shares consist of convertible loan notes which can be converted into 1,728,323 shares of the Company and are held by Ascher Group Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Lu Xing.

11. Charmainder Enterprises Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Ms. Cheung Man.

Save as disclosed above, as at 31 December 2011, the Company had not been notified of any interest or short position being held by any substantial shareholder in the shares, underlying shares or debentures in the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Competing Interests

As at 31 December 2011, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

Major Suppliers and Customers

The percentage of purchases for the year ended 31 December 2011 attributable to the Group's major suppliers is as follows:

	Percentage of purchases
The largest supplier	51%
Five largest suppliers combined	81%

The percentage of sales for the year ended 31 December 2011 attributable to the Group's major customers is as follows:

	Percentage of sales
The largest customer	31%
Five largest customers combined	72%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

Related Party Transactions

Related party transactions during the year are disclosed in note 44 to the consolidated financial statements.

Events after the Reporting Period

Reset of Conversion Price of Convertible Bonds

In relation to an aggregate principal amount of RMB25,000,000 convertible bonds issued on 23 June 2011, on 3 January 2012, the Board announces the conversion price of the convertible bonds has been reset to HK$0.29 per share.

Purchase, Redemption or Sale of the Company's Listed Securities

During the year, the Company has issued 100,000,000 consideration shares at an issue price of HK$0.64 per share and 264,000,000 ordinary shares by means of conversion of convertible loan notes respectively.

Save as disclosed herein, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this report.

Corporate Governance

Please see the "Corporate Governance Report" set out on pages 22 to 28 of this annual report for details of its compliance with the Code on Corporate Governance Practices.

Auditor

A resolution to re-appoint SHINEWING (HK) CPA Limited as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
Chen Fu Ju
Executive Director

Hong Kong, 29 March 2012

Introduction

Maintaining high standards of business ethics and corporate governance practices have always been one of the Company's goals. This report describes its corporate governance practices, explains the applications of the principles of the Code on Corporate Governance (the "CG Code") (amended to "Corporate Governance Code and Corporate Governance Report" on 1 April 2012) as set out in Appendix 14 of the Listing Rules and the deviations, if any.

Corporate Governance Practices

During the year, the Company has complied with the provisions of the CG Code except the deviations stated in the following paragraphs. The Company believes that by achieving high standard of corporate governance, the corporate value and accountability of the Company can be enhanced and the shareholders' interests can be maximised. The Directors acknowledge their responsibility for preparing the Company's accounts. The Board has continued to monitor and review the Company's progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to Directors and senior management of the Company to ensure awareness to issues regarding corporate governance practices.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exactly than the required standard in the Model Code as set out in Appendix 10 of the Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard in the Model Code and its code of conduct regarding Directors' securities transactions.

The Board of Directors

During the year, the Board comprises the following Directors:

Executive Directors

Mr. Chen Fu Ju	
Mr. Li Qing	
Mr. Yan Dake	(appointed on 29 April 2011)
Ms. Chan Shui Sheung Ivy	(resigned on 26 May 2011)
Ms. So Wai Lam	(resigned on 11 May 2011)
Mr. Liu Yong Fei	(retired on 27 May 2011)
Mr. Tin Ka Pak	(resigned on 14 June 2011)

Non-executive Director

Ms. Ng Siu Lai	(appointed on 9 June 2011)

Independent Non-executive Directors

Mr. Leung Siu Kee	
Mr. Zhao Yong	
Mr. Li Zhong	(appointed on 29 April 2011)
Mr. Chow Shiu Ki	(resigned on 11 May 2011)
Mr. Wu Xian	(resigned on 27 May 2011)

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to rules 3.13 of the Listing Rules and the Company considers all its independent non-executive Directors independent.

The Company has set out the respective functions and responsibilities reserved to the Board and those delegated to management. The Board delegates day-to-day operations of the Group to executive Directors and senior management while reserving certain key matters for its approval. The Board is responsible for the approval and monitoring of the Company's overall strategies and policies; approval of business plans; evaluating the performance of the Company and oversight of management. Decisions of the Board are communicated to the management through executive Directors who have attended the Board meetings.

To the best knowledge of the Company, there is no financial business, family or other material/relevant relationship among the Directors.

In the financial year ended 31 December 2011, 38 Board meetings were held. The list of Directors during the year and details of the attendance record of the Directors are as follows:

		Attendance
Executive Directors		
Mr. Chen Fu Ju		35/38
Mr. Li Qing		23/38
Mr. Yan Dake	(appointed on 29 April 2011)	13/26
Ms. Chan Shui Sheung Ivy	(resigned on 26 May 2011)	2/16
Ms. So Wai Lam	(resigned on 11 May 2011)	1/14
Mr. Liu Yong Fei	(retired on 27 May 2011)	13/16
Mr. Tin Ka Pak	(resigned on 14 June 2011)	4/20
Non-executive Director		
Ms. Ng Siu Lai	(appointed on 9 June 2011)	2/19
Independent Non-executive Director		
Mr. Leung Siu Kee		5/38
Mr. Zhao Yong		37/38
Mr. Li Zhong	(appointed on 29 April 2011)	12/26
Mr. Chow Shiu Ki	(resigned on 11 May 2011)	3/13
Mr. Wu Xian	(resigned on 27 May 2011)	9/16

Apart from the regular Board meetings, the Board meets on other occasions when a board-level decision on a particular matter is required. Sufficient notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special Board meetings. The Directors will receive details of agenda items for decision and minutes of the committee meetings in advance of each Board meeting.

Chairman and Chief Executive Officer

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

During the year ended 31 December 2011, the Company did not have a chairman or a chief executive officer. The Board will keep reviewing the current structure of the Board from time to time and should candidates with suitable knowledge, skill and experience be identified, the Company will make appointments to fill the posts as appropriate.

Non-executive Directors

According to the code provision A.4.1 of the CG Code, all non-executive Directors should be appointed for a specific term of service.

Except for the independent non-executive Director appointed in January 2008 and resigned on 11 May 2011, namely Mr. Chow Shiu Ki, was not appointed for a specific term, the other four independent non-executive Directors namely Mr. Leung Siu Kee, Mr. Li Zhong, Mr. Zhao Yong and Mr. Wu Xian were appointed on 22 December 2009, 29 April 2011, 1 October 2009 and 20 September 2010 respectively for a three-year term of service. Ms. Ng Siu Lai, the non-executive Director, was appointed on 9 June 2011 for a three-year term of service. All the non-executive Directors (including the independent non-executive Directors) are appointed and subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.

Remuneration Committee

The remuneration committee was established in 2005 with written terms of reference which complies with the Listing Rules. It is responsible for formulating and recommending the Board in relation to the remuneration policy, determining the remunerations of executive Directors and members of the senior management of the Company, and reviewing and making recommendations on the Company's share option scheme and other compensation related issues. The remuneration committee consults with the Board on its proposals and recommendations.

During the year and as at the date of this report, the remuneration committee comprises Directors including Mr. Zhao Yong, Mr. Leung Siu Kee, Mr. Li Zhong (appointed as member on 27 May 2011) and Ms. Chan Shui Sheung Ivy (resigned on 26 May 2011). Mr. Zhao Yong is the chairman of the remuneration committee.

During the year under review, the remuneration committee of the Company held 3 meetings and significant matters discussed are summarised as follows:

– To review the remuneration package of Directors and senior management; and

– To recommend the remuneration package of the newly appointed Directors to the Board for approval.

Details of the attendance of the Company's remuneration committee members are as follows:

Members		Attendance
Mr. ZHAO Yong *(Chairman)*		3/3
Mr. LEUNG Siu Kee		2/3
Mr. LI Zhong	(Appointed on 27 May 2011)	1/3
Ms. CHAN Shui Sheung Ivy	(Resigned on 26 May 2011)	1/2

Nomination Committee

The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy on or, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regards to the balance of skills and experience appropriate to the Group's business.

The nomination committee of the Company was established on 20 February 2008 with written terms of reference which complies with the Listing Rules. During the year and as at the date of this report, the nomination committee comprises Directors including Mr. Leung Siu Kee, Mr. Li Zhong (appointed as the chairman of the nomination committee on 27 May 2011), Mr. Zhao Yong, Ms. Chan Shui Sheung Ivy (resigned 26 May 2011) and Mr. Chow Shiu Ki (resigned on 11 May 2011 and is the former chairman of the nomination committee). Mr. Li Zhong is the current chairman of the nomination committee.

The nomination committee was discharged the following duties:

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

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

– assess the independence of independent non-executive Directors; and

– make recommendations to the board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer.

During the year, the nomination committee of the Company held 3 meetings and significant matters discussed are summarised as follows:

– To be involved in the assessment of the appointment of the Directors and made recommendation to the Board; and

– To review the structure, size and composition of the Board, including the balance of skills, knowledge and experience, and independence of the independent non-executive Directors and make recommendation to the Board accordingly.

Details of the attendance of the Company's nomination committee members are as follows:

Members		Attendance
Mr. LI Zhong *(Chairman)*	(Appointed as chairman of the nomination committee on 27 May 2011)	1/1
Mr. LEUNG Siu Kee		2/3
Mr. ZHAO Yong		3/3
Mr. CHOW Shiu Ki	(Resigned on 11 May 2011)	1/2
Ms. CHAN Shui Sheung Ivy	(Resigned on 26 May 2011)	1/2

Audit Committee

The primary duties of the audit committee of the Company include overseeing the relationship with the Company's external auditors, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted written terms of reference which complies with the Listing Rules.

During the year and as at the date of this report, the audit committee comprises Directors including Mr. Leung Siu Kee, Mr. Li Zhong (appointed on 29 April 2011), Mr. Zhao Yong, Mr. Chow Shiu Ki (resigned on 11 May 2011) and Mr. Wu Xian (resigned on 27 May 2011). Mr. Leung Siu Kee is the chairman of the audit committee.

The audit committee convened 2 meetings during the year and the individual attendance of each audit committee member is as follows:

Members		Attendance
Mr. LEUNG Siu Kee *(Chairman)*		2/2
Mr. ZHAO Yong		2/2
Mr. LI Zhong	(Appointed on 29 April 2011)	1/1
Mr. CHOW Shiu Ki	(Resigned on 11 May 2011)	1/1
Mr. WU Xian	(Resigned on 27 May 2011)	1/1

The audit committee formally meets two times during the year and other informal meetings were conducted as and when necessary. These meetings were held together with senior management and external auditors as and when necessary, and during the year, two audit committee meetings were held to consider the external auditors' proposed audit fees, their independence and scope of the audit; review the internal control and risk management systems; review the interim and annual financial statements, particularly judgemental areas, accounting principles and practice adopted by the Group; review the external auditors' management letter and management's response; and review the Group's adherence to the CG Code. The Group's unaudited interim results and audited annual results in respect of the year ended 31 December 2011 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

Auditor's Remuneration

During the year, the remuneration in respect of audit services paid/payable to the Company's external auditor, SHINEWING (HK) CPA Limited, is amounted to HK$498,000.

Directors' Responsibility for Financial Statements

Annual Report and Financial Statements

The Directors acknowledge their responsibilities to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to the shareholders of the Company, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

Accounting Period

The Directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

Accounting Records

The Directors are responsible for ensuring that the Group had kept the accounting records, which disclose with reasonable accuracy of the financial position of the Group, and also enable the preparation of the financial statements in accordance with the applicable accounting standards.

Going Concern

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Internal Controls

The Board is responsible for maintaining a sound and effective internal control system for the Company. The system aims at providing reasonable (but not absolute) guarantees for the prevention of material untrue statements or losses, as well as management on the interruption of the Company's management system and risks existing in the course of arriving at the Company's objectives.

The Directors have conducted an annual review of the effectiveness of the internal control system of the Company and its subsidiaries for the year ended 31 December 2011. The review covers all material controls including financial, operational and compliance controls and risk management functions. The audit committee and the Board have discussed the relevant results of review, and agreed that internal control procedures and risk management systems have been implemented in the various major operation sectors.

Investor Relations

To foster effective communications, the Company provided all necessary information to the shareholders in its annual report and interim report. The Directors host the annual general meeting each year to meet the shareholders and answer to their enquiries. Directors make efforts to attend the annual general meeting so that they may answer any questions from the Company's shareholders.

The Directors, the company secretary or other appropriate members of senior management will also respond to inquiries from shareholders and investors promptly.

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF CHINA ORIENTAL CULTURE GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Oriental Culture Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 128, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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 judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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.

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.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Chuen Fai
Practising Certificate Number: P05589

Hong Kong
29 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Continuing operations			
Turnover	7	**58,169**	30,970
Revenue	8	**38,220**	13,800
Cost of sales and services		**(81,875)**	(47,566)
Gross loss		**(43,655)**	(33,766)
Other income	9	**63**	355
Selling and marketing expenses		**(751)**	(179)
Administrative expenses		**(67,411)**	(36,888)
Gain on disposal of a subsidiary	43	**–**	8
Loss on disposal of held-for-trading investments		**(1,211)**	(14,969)
Impairment loss recognised on amount due from an associate		**(15,483)**	–
Decrease in fair value of derivative financial instruments		**(3,666)**	–
Increase in fair value of held-for-trading investments		**–**	6,007
Share of results of an associate		**(1,532)**	90
Finance costs	10	**(16,526)**	(23,487)
Loss before tax		**(150,172)**	(102,829)
Income tax expense	11	**–**	–
Loss for the year from continuing operations		**(150,172)**	(102,829)
Discontinued operations			
Profit (loss) for the year from discontinued operations	12	**3,331**	(2,461)
Loss for the year	13	**(146,841)**	(105,290)
Other comprehensive income			
Exchange differences arising on translation and other comprehensive income for the year		**756**	3,372
Total comprehensive expense for the year		**(146,085)**	(101,918)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
(Loss) profit for the year attributable to owners of the Company			
– from continuing operations		**(149,171)**	(102,689)
– from discontinued operations		**3,331**	(2,461)
Loss for the year attributable to owners of the Company		**(145,840)**	(105,150)
Loss for the year attributable to non-controlling interests			
– from continuing operations		**(1,001)**	(140)
– from discontinued operations		**–**	–
Loss for the year attributable to non-controlling interests		**(1,001)**	(140)
		(146,841)	(105,290)
Total comprehensive expense attributable to:			
Owners of the Company		**(145,084)**	(101,778)
Non-controlling interests		**(1,001)**	(140)
		(146,085)	(101,918)
(Loss) earnings per share	17		
From continuing operations			
Basic and diluted (RMB cents)		**(8.49)**	(8.30)
From discontinued operations			
Basic and diluted (RMB cents)		**0.19**	(0.20)
From continuing and discontinued operations			
Basis and diluted (RMB cents)		**(8.30)**	(8.50)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Plant and equipment	18	**11,271**	9,891
Intangible assets	20	**653,024**	646,304
Goodwill	21	**18,463**	–
Interest in an associate	22	**–**	1,590
Deposit paid for acquisition of an intangible asset	23	**–**	10,108
Prepayment for a mobile media project	24	**–**	5,000
Available-for-sale investments	25	**2,029**	1,694
		684,787	674,587
Current assets			
Trade and other receivables	26	**37,601**	22,889
Amount due from an associate	27	**10,843**	23,527
Amount due from non-controlling interest holder	27	**203**	–
Held-for-trading investments	28	**–**	21,960
Income tax recoverable		**9**	–
Restricted bank balance	29	**–**	42
Bank balances and cash	29	**18,194**	41,657
		66,850	110,075
Current liabilities			
Trade and other payables	30	**10,392**	19,584
Amount due to a shareholder	31	**–**	5,977
Amount due to a director	31	**12**	–
Income tax payable		**–**	40
Other borrowings	32	**18,325**	–
Derivative financial liabilities	36	**11,587**	–
		40,316	25,601
Net current assets		**26,534**	84,474
Total assets less current liabilities		**711,321**	759,061

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Capital and reserves			
Share capital	34	**171,828**	142,126
Reserves		**500,995**	542,990
Equity attributable to owners of the Company		**672,823**	685,116
Non-controlling interests		**795**	816
Total equity		**673,618**	685,932
Non-current liability			
Convertible loan notes	33	**37,703**	73,129
		711,321	759,061

The consolidated financial statements on pages 31 to 128 were approved and authorised for issue by the board of directors on 29 March 2012 and are signed on its behalf by:

Chen Fu Ju
Director

Li Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Translation reserve RMB'000	Convertible loan notes equity reserve RMB'000	Warrants reserve RMB'000	Capital redemption reserve RMB'000 (Note b)	Share options reserve RMB'000	Contribution from shareholders RMB'000 (Note c)	Other reserve RMB'000 (Note d)	Retained profits (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2010	47,749	76,497	15,536	(6,604)	–	–	502	20,839	1,927	–	13,203	169,649	–	169,649
Loss for the year	–	–	–	–	–	–	–	–	–	–	(105,150)	(105,150)	(140)	(105,290)
Other comprehensive income for the year	–	–	–	3,372	–	–	–	–	–	–	–	3,372	–	3,372
Total comprehensive income (expense) for the year	–	–	–	3,372	–	–	–	–	–	–	(105,150)	(101,778)	(140)	(101,918)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	–	11,381	–	–	–	11,381	–	11,381
Recognition of equity component of convertible loan notes	–	–	–	–	443,235	–	–	–	–	–	–	443,235	–	443,235
Issue of shares upon exercise of share options	297	5,081	–	–	–	–	–	(1,588)	–	–	–	3,790	–	3,790
Issue of shares upon conversion of convertible loan notes	94,173	404,342	–	–	(338,358)	–	–	–	–	–	–	160,157	–	160,157
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	717	717
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	(239)	–	(239)	239	–
Share repurchased and cancelled	(93)	–	–	–	–	–	93	–	–	–	(1,079)	(1,079)	–	(1,079)
At 31 December 2010	142,126	485,920	15,536	(3,232)	104,877	–	595	30,632	1,927	(239)	(93,026)	685,116	816	685,932

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company													
	Share capital	Share premium	Special reserve	Translation reserve	Convertible loan notes equity reserve	Warrant reserve	Capital redemption reserve	Share options reserve	Contribution from shareholders	Other reserve	Accumulated losses	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000	RMB'000	RMB'000	RMB'000 (Note b)	RMB'000	RMB'000 (Note c)	RMB'000 (Note d)	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2010	142,126	485,920	15,536	(3,232)	104,877	–	595	30,632	1,927	(239)	(93,026)	685,116	816	685,932
Loss for the year	–	–	–	–	–	–	–	–	–	–	(145,840)	(145,840)	(1,001)	(146,841)
Other comprehensive income for the year	–	–	–	756	–	–	–	–	–	–	–	756	–	756
Total comprehensive income (expense) for the year	–	–	–	756	–	–	–	–	–	–	(145,840)	(145,084)	(1,001)	(146,085)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	–	16,588	–	–	–	16,588	–	16,588
Issue of shares upon conversion of convertible loan notes	21,303	117,439	–	–	(75,977)	–	–	–	–	–	–	62,765	–	62,765
Acquisition of a subsidiary	8,399	45,357	–	–	–	–	–	–	–	–	–	53,756	–	53,756
Issue of non-listed warrants	–	–	–	–	–	5,061	–	–	–	–	–	5,061	–	5,061
Transaction costs attributable to issue of non-listed warrants	–	–	–	–	–	(318)	–	–	–	–	–	(318)	–	(318)
Release upon cancellation of non-listed warrants	–	–	–	–	–	(4,743)	–	–	–	–	(318)	(5,061)	–	(5,061)
Capital contribution by non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–	980	980
At 31 December 2011	171,828	648,716	15,536	(2,476)	28,900	–	595	47,220	1,927	(239)	(239,184)	672,823	795	673,618

Notes:

(a) Special reserve represents the difference between the nominal value of the ordinary share issued by the Company and Beijing Zhizhen Node Technology Development Co., Ltd. ("ZZNode (Beijing)") and the aggregate of share capital and share premium or net assets of the subsidiaries acquired by the Company and ZZNode (Beijing) through the exchange of share.

(b) Capital redemption reserve represents a non-distributable reserve created in accordance with Section 37.4(a) of the Cayman Islands Law when the Company repurchases its own shares out of retained profits. The reserve was created by transferring from the retained profits an amount equivalent to the nominal value of the share repurchased to the capital redemption reserve.

(c) Contribution from shareholders represented balances advanced from shareholders in prior years for the share options granted.

(d) Other reserve represents the difference between the consideration and the book value of the identifiable assets and liabilities attributable to the additional interest acquired in subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES			
Loss before tax from continuing operations		**(150,172)**	(102,829)
Profit (loss) before tax from discontinued operations	12	**3,331**	(2,461)
		(146,841)	(105,290)
Adjustments for:			
Finance costs		**16,526**	23,487
Interest income		**(31)**	(355)
Impairment loss (reversed) recognised on trade receivables		**(1,979)**	1,979
Written off of other payables		**(27)**	–
Amortisation of intangible assets		**37,338**	34,016
Depreciation for plant and equipment		**3,059**	1,282
Impairment loss recognised on deposit paid for acquisition of an intangible asset		**8,545**	–
Impairment loss recognised on prepayment for a mobile media project		**5,000**	–
Impairment loss recognised on intangible asset		**1,195**	–
Impairment loss on other receivables		**1,436**	–
Impairment loss recognised on amount due from an associate		**15,483**	–
Share-based payment expenses		**16,588**	11,381
Written off of plant and equipment		**527**	–
Gain on disposal of subsidiaries	43	**(1,647)**	(479)
Loss on disposal of held-for-trading investments		**1,211**	14,969
Decrease in fair value of derivative financial instruments		**3,666**	–
Increase in fair value of held-for-trading investments		**–**	(6,007)
Share of results of an associate		**1,532**	(90)
Loss on disposal of plant and equipment		**–**	12
Accruals for litigation claims		**–**	18
Operating cash flows before movements in working capital		**(38,419)**	(25,077)
Increase in trade and other receivables		**(15,480)**	(14,582)
Decrease in held-for-trading investments		**19,970**	5,023
(Decrease) increase in trade and other payables		**(7,724)**	2,072
Cash used in operations		**(41,653)**	(32,564)
Income tax paid		**(51)**	–
NET CASH USED IN OPERATING ACTIVITIES		**(41,704)**	(32,564)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
INVESTING ACTIVITIES			
Net cash (outflow) inflow from acquisition of subsidiaries	42	**(8,365)**	2,569
Purchase of plant and equipment		**(4,175)**	(6,050)
Advance to an associate		**(3,547)**	(3,268)
Acquisition of available-for-sale investment		**(395)**	(1,694)
Advance to non-controlling interest holder		**(203)**	–
Interest received		**31**	355
Decrease (increase) in restricted bank balance		**42**	(32)
Net cash inflow from disposal of subsidiaries	43	**493**	7,630
Proceeds from disposal of plant and equipment		**–**	257
Deposit paid for acquisition of an intangible asset		**–**	(10,108)
NET CASH USED IN INVESTING ACTIVITIES		**(16,119)**	(10,341)
FINANCING ACTIVITIES			
Proceeds on issue of convertible loan notes		**25,000**	–
Other new borrowings raised		**20,325**	–
Proceeds on issue of non-listed warrants		**5,061**	–
Advance from a director		**12**	–
Payment of transaction cost attributable to issue of non-listed warrants		**(318)**	–
Interest paid		**(415)**	–
Interest paid on convertible loan notes		**(1,000)**	–
Repayment of other borrowings		**(2,000)**	–
Payment upon cancellation of non-listed warrants		**(5,061)**	–
Repayment to a shareholder		**(5,765)**	–
Repurchase of shares		**–**	(1,079)
Proceeds on issue of shares upon exercise of share options		**–**	3,790
NET CASH FROM FINANCING ACTIVITIES		**35,839**	2,711
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(21,984)**	(40,194)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**41,657**	84,962
Effect of foreign exchange rate changes		**(1,479)**	(3,111)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		**18,194**	41,657

1. GENERAL

China Oriental Culture Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company is principally engaged in investment holding and securities trading. The principal activities of its principal subsidiaries are set out in Note 46.

Other than those major operating subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the remaining subsidiaries are Hong Kong dollars ("HK$").

The functional currency of the Company is HK$, which is different from the presentation currency, RMB. As the Company and its subsidiaries (hereinafter collectively referred to as the "Group") mainly operates in the PRC, the directors of the Company consider that it is appropriate to present the consolidated financial statements in RMB.

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 (the "HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
Hong Kong Accounting Standard ("HKAS") 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Interpretation ("Int") 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The directors of the Company anticipate that the application of the above new and revised HKFRSs has had no material impact on the Group's financial performance and position for the current and prior years and / or on the disclosures set out in these consolidated financial statements.

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

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

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans[2]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	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.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

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

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

HKFRS 9 Financial Instruments *(Continued)*

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

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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).

Key requirements of these fives standards are described below.

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

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK (SIC) – Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures (Continued)

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

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

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

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

HKFRS 13 Fair Value Measurement

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

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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

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

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the 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 except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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.

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. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS *5 Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss, if any.

Investment in an associate

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in an associate *(Continued)*

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

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

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

Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered and titles have 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.

Advertising media income and consultancy service income are recognised when services are provided.

Realised fair value gains or losses on securities trading are recognised on a trade date basis whilst unrealised fair value gains or losses are recognised on change in fair value at the end of the reporting period.

3. *SIGNIFICANT ACCOUNTING POLICIES* (Continued)

Revenue recognition (Continued)

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

Plant and equipment

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 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.

Construction in progress includes plant and equipment in the course of construction for production. Construction in progress is carried at cost less any recognised impairment loss. Such construction in progress is classified to the appropriate categories of 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 their intended use.

An item of 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 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.

Investment properties

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessee

Operating leases payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

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

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 period in which they are incurred.

Retirement benefit costs

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

Taxation

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

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

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

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

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 is recognised in profit or loss.

Intangible assets

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. (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

3. *SIGNIFICANT ACCOUNTING POLICIES* *(Continued)*

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

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

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

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, amount due from an associate, amount due from non-controlling interest holder, restricted bank balance 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 of financial assets below).

Available-for-sale financial assets

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

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

3. *SIGNIFICANT ACCOUNTING POLICIES* *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as 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 market because of financial difficulties.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, 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 average credit period of 30 to 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, amount due from an associate and amount due from non-controlling interest holder, 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 and other receivable, an amount due from an associate and an amount due from non-controlling interest holder is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets (Continued)

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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

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

Financial liabilities and equity instruments

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Warrants

Warrants issued by the Company that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are classified as an equity instrument.

The fair value of warrants on the date of issue is recognised in equity (warrants reserve). The warrants reserve will be transferred to share capital and share premium upon exercise of the warrants. Where the warrants remain unexercised at the expiry date, the amount initially recognised in warrants reserve will be released to the accumulated losses. Where the warrants cancelled before the expiry date and the proceeds received upon the issue of warrants are recognised to return in cash, the amount initially recognised in warrants reserve will be resulted in a reduction of equity, while the excess amount of cash paid over the net proceeds on issue will be released to the accumulated losses.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a shareholder, amount due to a director and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible loan notes

Convertible loan notes contains liability and equity components

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible loan notes *(Continued)*

Convertible loan notes contains liability and equity components *(Continued)*

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

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

Convertible loan notes contains liability component and conversion option derivative

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

In subsequent periods, the liability component of the convertible loan 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.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

3. *SIGNIFICANT ACCOUNTING POLICIES* *(Continued)*

Financial instruments *(Continued)*

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 liabilities 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.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees under share option scheme and share incentive scheme

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

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 or cancelled after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions (Continued)

Equity-settled share-based payment transactions *(Continued)*

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 immediately in profit or loss.

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

4. *CRITICAL ACCOUNTING JUDGEMENT AND 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.

Critical judgement in applying the entity's accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Litigation claim

The Group has been brought a claim for alleged breach of contractual undertakings in relation to the construction of a light-emitting diode ("LED") display panel located in the PRC. With reference to the PRC legal advisor, the Group is not liable to the claim as no commitment has been contracted by the Group. The directors of the Company considered the Group has valid defences against such claims and any resulting liabilities would not have any probable material adverse impact on the Group's financial position. As a result, no provision in respect of such claims was made in the consolidated financial statements for both years.

Key sources of estimation uncertainty

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

Depreciation of plant and equipment and amortisation of intangible assets

Plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values, while intangible assets are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual values and the useful lives of the plant and equipment and intangible assets and if the expectation differs from the original estimates, such a difference may impact the depreciation and amortisation in the year and the estimate will be changed in the future period.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated impairment loss on plant and equipment

The impairment loss on plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment loss was provided for both years.

Estimated impairment loss on intangible assets

At the end of the reporting period, the Group performs testing on whether there has been impairment of intangible assets in accordance with the accounting policy as stated in Note 3. The recoverable amounts of cash generating units are determined based on value-in-use calculations. The directors of the Company assess the potential impairment of intangible assets if any, by reference to the work of independent professional qualified valuer who performs calculations which use estimates and assumptions of the future operation of the business applying appropriate discount rates, and other assumptions underlying the value-in-use calculations. As at 31 December 2011, the carrying value of intangible assets was approximately RMB653,024,000 (2010: RMB646,304,000). Impairment loss of approximately RMB1,195,000 (2010: Nil) was recognised during the year ended 31 December 2011.

Estimated impairment loss on goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of goodwill is approximately RMB18,463,000 (2010: Nil). No impairment loss was provided for both years. Details of the assumption used are disclosed in Note 21.

Impairment loss on prepayment for a mobile media project / deposit paid for acquisition of an intangible asset

In determining whether an impairment is required for the amount prepaid for a mobile media project and deposit paid for acquisition of an intangible asset, the directors of the Company take into consideration the possibility of completion of the respective project successfully. Provision is made if the management considers that the respective project is uncertain and unlikely to be completed based on the present progress and future business plan. During the year ended 31 December 2011, impairment loss of RMB5,000,000 (2010: Nil) and HK$10,472,000 (equivalent to approximately RMB8,545,000) (2010: Nil) was recognised on prepayment for a mobile media project and deposit paid for acquisition of an intangible asset respectively. As at 31 December 2011, the carrying amount of the prepayment and the deposit was fully impaired. As at 31 December 2010, the carrying amount of the prepayment and deposit was RMB5,000,000 and HK$11,936,000 (equivalent to approximately RMB10,108,000) respectively.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty (Continued)

Estimated impairment loss on available-for-sale investments

The Group follows the guidance of HKAS 39 to determine when an available-for-sale investment is impaired. This determination requires significant judgement by evaluating among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in the value below cost were considered significant or prolonged, impairment loss would be recognised. No impairment loss was provided for both years.

Estimated impairment loss on trade and other receivables and amount due from an associate

The policy for impairment of trade and other receivables and amount due from an associate of the Group is based on the evaluation of collectability and ageing analysis of these receivables and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional impairment may be required. As at 31 December 2011, the carrying amount of trade and other receivables was approximately RMB37,601,000 (2010: RMB22,889,000) (net of accumulated impairment loss of RMB1,436,000 (2010: RMB1,979,000)). While the carrying amount of the amount due from an associate as at 31 December 2011 was approximately RMB10,843,000 (2010: RMB23,527,000) (net of impairment loss of RMB15,483,000 (2010: Nil)).

Share-based payment expenses

The fair value of share options granted at the grant date to the directors, employees and consultants is recognised as an expense in full at grant date when the share options granted vest immediately, with a corresponding adjustment to the Group's share-based payments reserve. In assessing the fair value of the share options, the generally accepted option pricing models were used to calculate the fair value of the share options. The option pricing models require the input of subjective assumptions, including the volatility of its own ordinary shares and the expected life of options etc. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty (Continued)

Fair value of derivative financial liabilities

The directors of the Company use their judgements in selecting an appropriate valuation technique to determine fair value of the conversion option derivative and the contingent consideration instrument which are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of these derivative financial liabilities are reassessed at the end of each reporting period with movement to the consolidated statement of comprehensive income. In estimating the fair values of these derivative financial liabilities, the Group uses independent valuations which are based on various inputs and estimates with reference to quoted market rates and adjusted for specific features of the instrument. If the inputs and estimates applied in the model are different, the carrying amounts of these derivative financial liabilities will be changed. As at 31 December 2011, the carrying value of the conversion option derivative and the contingent consideration instrument was approximately RMB7,247,000 (2010: Nil) and approximately RMB4,340,000 (2010: Nil) respectively.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes other borrowings and convertible loan notes, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debts.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011 RMB'000	2010 RMB'000
Financial assets		
FVTPL – held-for-trading investments	–	21,960
Loans and receivables (including cash and cash equivalents)	57,154	81,919
Available-for-sale investments	2,029	1,694
Financial liabilities		
At amortised cost	64,825	97,596
Derivative financial liabilities	11,587	–

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amount due from an associate, amount due from non-controlling interest holder, held-for-trading investments, restricted bank balance, bank balances and cash, trade and other payables, amount due to a shareholder, amount due to a director, other borrowings, derivative financial liabilities and convertible loan notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

As at 31 December 2011, certain other receivables, bank balances, other payables and liability component and conversion option derivative of convertible loan note of the Group are denominated in foreign currencies other than the respective functional currencies of the relevant group entities, i.e. RMB and HK$. The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging the potential foreign currency exposure should the need arise.

As at 31 December 2010, bank balance was denominated in foreign currency other than the respective functional currency of the relevant group entity, i.e. HK$.

6. *FINANCIAL INSTRUMENTS* *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk *(Continued)*

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

	Assets		Liabilities	
	2011 **RMB'000**	2010 RMB'000	**2011** **RMB'000**	2010 RMB'000
RMB	**1,386**	–	**28,293**	–
HK$	**207**	5,004	**–**	–

Sensitivity analysis

The Group is mainly exposed to RMB and HK$.

The following table details the Group's sensitivity to a 10% (2010: 10%) increase and decrease in the functional currencies of the relevant group entities, RMB or HK$, against the relevant foreign currencies. 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 end of the reporting period for a 10% (2010: 10%) change in foreign currency rates.

A negative number below indicates an increase in loss for the year where the respective functional currency (HK$) strengthens 10% (2010: 10%) against the relevant foreign currency (RMB). For a 10% (2010: 10%) weakening of respective functional currency (HK$) against the relevant foreign currency (RMB), there would be an equal and opposite impact on the loss for the year and the balances below would be positive.

6. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

	Effect on profit or loss	
	2011 **RMB'000**	2010 RMB'000
RMB strengthen against HK$ by 10%	**(2,247)**	–
HK$ strengthen against RMB by 10%	**16**	375

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate other borrowings (see Note 32 for details) and convertible loan notes (see Note 33 for details). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 29 for details) carried at prevailing market rate.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate is mainly concentrated on the fluctuation of prevailing market rate arising from the Group's bank balances denominated in HK$ and RMB base deposit rate stipulated by the People's Bank of China arising from the Group's bank balances denominated in RMB.

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 100 basis points (2010: 100 basis points) increase or decrease in used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

(ii) Interest rate risk *(Continued)*

Sensitivity analysis (Continued)

If interest rates had been 100 basis points (2010: 100 basis points) higher / lower and all other variables were held constant, the Group's loss for the year ended 31 December 2011 would decrease / increase by approximately RMB88,000 (2010: RMB275,000).

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The directors of the Company manage this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange. In addition, the Group will consider hedging the risk exposure should the need arise.

The Group is also required to estimate the fair value of the conversion option derivative of one of the convertible loan notes issued by the Company at the end of each reporting period, which therefore exposed the Group to equity price risk. The fair value adjustments will be affected either positively or negatively, amongst others, by the changes in risk-free rate, share price of the Company and share price volatility. Details of the convertible loan notes issued by the Company are set out in Note 33.

Sensitivity analysis

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

If the prices of the respective equity instruments had been 10% (2011: Nil) higher / lower, the loss for the year ended 31 December 2010 would decrease / increase by approximately RMB1,834,000 (2011: Nil) as a result of the changes in the fair value of held-for-trading investments.

In addition, if the equity prices had been 50% higher / lower while all other input variables of the valuation models were held constant, the loss for the year ended 31 December 2011 would increase / decrease by approximately RMB3,342,000 (2010: Nil) as a result of the changes in the fair value of conversion option derivative of convertible loan notes.

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 is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue 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.

With respect to credit risk arising from amount due from non-controlling interest holder, the Group's exposure to credit risk arising from default of this counterparty is limited as this counterparty has sufficient net assets to repay its debts and a good history of repayment. The Group does not expect to incur a significant loss for uncollected amount due from this party.

Regarding to the amount due from an associate, an impairment loss of HK$18,974,000 (equivalent to approximately RMB15,483,000) was recognised as at 31 December 2011 (2010: Nil) having considered the financial position of the associate as at the end of the reporting period. The Group's exposure to credit risk arising from the default of the associate on the outstanding amount is limited as the associate has sufficient net assets to repay the remaining debts.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations mainly in the PRC, which accounted for 100% (2010: 100%) of the total trade receivables as at 31 December 2011.

As at 31 December 2011, the Group has concentration of credit risk as 59% of the total trade receivables was due from the Group's five largest customers within the advertising media and other media segments. No balance was due from the Group's largest customer as at 31 December 2011.

As at 31 December 2010, the Group has concentration of credit risk as 44% and 92% of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the sales of third party software and hardware and maintenance, training and other services segments.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

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.

The following table details the Group's remaining contractual maturity for its 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 maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

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

6. *FINANCIAL INSTRUMENTS* *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables

	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2011					
Non-derivative financial liabilities					
Trade and other payables	**8,785**	**–**	**–**	**8,785**	**8,785**
Amount due to a director	**12**	**–**	**–**	**12**	**12**
Other borrowings	**18,709**	**–**	**–**	**18,709**	**18,325**
Liability component of convertible loan notes	**1,579**	**1,705**	**90,391**	**93,675**	**37,703**
	29,085	**1,705**	**90,391**	**121,181**	**64,825**
As at 31 December 2010					
Non-derivative financial liabilities					
Trade and other payables	18,490	–	–	18,490	18,490
Amount due to a shareholder	5,977	–	–	5,977	5,977
Liability component of convertible loan notes	–	–	151,495	151,495	73,129
	24,467	–	151,495	175,962	97,596

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

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

- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their immediate or short-term maturities.

The directors of the Company consider the fair value of the non-current portion of other financial liabilities approximates to their carrying amounts as they are carried at amortised cost using the effective interest method.

Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. *FINANCIAL INSTRUMENTS* (Continued)

(c) *Fair value* (Continued)

Fair value measurements recognised in the statement of financial position (Continued)

	31 December 2011			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial liabilities at FVTPL				
Conversion option derivative component of convertible loan notes	–	–	7,247	7,247
Contingent consideration arising in relation to the acquisition of a subsidiary	–	–	4,340	4,340
	–	–	11,587	11,587

	31 December 2010			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL				
Held-for-trading investments	21,960	–	–	21,960

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

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

Reconciliation of Level 3 fair value measurements of financial liabilities

	Derivative financial liabilities RMB'000
Additions from acquisition of a subsidiary	1,692
Issued during the year	6,375
Total losses in profit or loss	3,666
Exchange realignment	(146)
At 31 December 2011	11,587

There were no transfers into or out of level 3 during the reporting period.

Of the total losses for the year included in profit or loss, approximately RMB3,666,000 (2010: Nil) relates to derivative component of convertible loan notes and contingent consideration arising in relation to the acquisition of a subsidiary outstanding during and at the end of the reporting period.

Significant assumptions used in determining fair value of financial liabilities

Conversion option derivative component of convertible loan notes

The fair value of the conversion option derivative component of convertible loan notes is determined by the inputs to option pricing model including stock price, risk-free rate, expected option period and expected volatility.

Contingent consideration arising in relation to the acquisition of a subsidiary

The fair value of the contingent consideration arising in relation to the acquisition of a subsidiary is determined by the inputs to Monte-Carlo simulation including remaining time to maturity, expected volatility and random simulation variables under standard normal distribution.

7. *TURNOVER*

Turnover represents the net amounts received and receivable for goods sold to customers and services rendered as well as gross proceeds from trading of securities. An analysis of the Group's turnover for the year from continuing operations is as follows:

	2011	2010
	RMB'000	RMB'000
Advertising service income	**38,078**	–
Consultancy service income	**142**	–
Sales of third party software and hardware	**–**	13,800
Gross proceeds from trading of securities	**19,949**	17,170
	58,169	30,970

8. *SEGMENT INFORMATION*

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. Advertising media – provision of advertising services in respect of placing advertisements on the outdoor billboards and LED screens of the Group to advertisers and advertising agencies;

2. Other media – provision of consultancy and media business operation services;

3. Sales of third party software and hardware – provision of third party operational supporting system (OSS) software and hardware; and

4. Securities trading – trading of financial assets at fair value through profit or loss.

During the year ended 31 December 2011, there is a new reportable and operating segment regarding other media business upon the acquisition of a subsidiary as disclosed in Note 42.

Operating segments regarding the sales of self-developed software and maintenance, training and other services were discontinued in the current year. The segment information reported on the next pages does not include any amounts for these discontinued operations, which are disclosed in more detail in Note 12.

8. *SEGMENT INFORMATION* *(Continued)*

Segment revenue and results

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

For the year ended 31 December 2011

Continuing operations

	Advertising media RMB'000	Other media RMB'000	Sales of third party software and hardware RMB'000	Securities trading RMB'000	Total RMB'000
REVENUE					
External sales	38,078	142	–	–	38,220
Segment (loss)	(58,060)	(3,180)	–	(1,211)	(62,451)
Share of result of an associate					(1,532)
Impairment loss recognised on amount due from an associate					(15,483)
Decrease in fair value of derivative financial instruments					(3,666)
Unallocated other income					63
Unallocated corporate expenses					(50,577)
Finance costs					(16,526)
Loss before tax (continuing operations)					(150,172)

8. SEGMENT INFORMATION *(Continued)*

Segment revenue and results (Continued)

For the year ended 31 December 2010

Continuing operations

	Advertising media RMB'000	Other media RMB'000	Sales of third party software and hardware RMB'000	Securities trading RMB'000	Total RMB'000
REVENUE					
External sales	–	–	13,800	–	13,800
Segment (loss) profit	(39,694)	–	250	(8,962)	(48,406)
Share of result of an associate					90
Unallocated other income					355
Gain on disposal of a subsidiary					8
Unallocated corporate expenses					(31,389)
Finance costs					(23,487)
Loss before tax (continuing operations)					(102,829)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit / loss represents the profit earned by / loss from each segment without allocation of central administration costs, directors' emoluments, interest income, share of result of an associate, impairment loss recognised on amount due from an associate, decrease in fair value of derivative financial instruments, finance costs, gain on disposal of a subsidiary, loss on disposal of plant and equipment and depreciation of certain plant and equipment. This is the measure reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and performance assessment.

8. *SEGMENT INFORMATION* *(Continued)*

Segment assets and liabilities

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

	2011 **RMB'000**	2010 RMB'000
Segment assets		
Continuing operations		
Advertising media	**632,714**	684,914
Other media	**59,207**	–
Sales of third party software and hardware	**–**	11,247
Securities trading	**–**	21,960
Total segment assets	**691,921**	718,121
Assets relating to discontinued operations	**–**	2,656
Unallocated corporate assets	**59,716**	63,885
Consolidated assets	**751,637**	784,662
Segment liabilities		
Continuing operations		
Advertising media	**4,923**	–
Other media	**–**	–
Sales of third party software and hardware	**–**	6,082
Securities trading	**–**	–
Total segment liabilities	**4,923**	6,082
Liabilities relating to discontinued operations	**–**	5,492
Unallocated corporate liabilities	**73,096**	87,156
Consolidated liabilities	**78,019**	98,730

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

- all assets are allocated to operating segments other than certain plant and equipment, interest in an associate, amount due from an associate, amount due from non-controlling interest holder, certain other receivables and certain bank balances and cash; and
- all liabilities are allocated to operating segments other than certain other payables, amount due to a shareholder, amount due to a director, income tax payable, other borrowings, derivative financial liabilities and convertible loan notes.

8. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2011

Continuing operations

	Advertising media RMB'000	Other media RMB'000	Sales of third party software and hardware RMB'000	Securities trading RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:						
Additions to non-current assets	3,915	64,713	–	–	1,815	70,443
Depreciation and amortisation	35,724	3,326	–	–	1,347	40,397
Impairment loss on an intangible asset	1,195	–	–	–	–	1,195
Impairment loss recognised on deposit paid for acquisition of an intangible asset	8,545	–	–	–	–	8,545
Impairment loss on prepayment for a mobile media project	5,000	–	–	–	–	5,000
Impairment loss on other receivables	1,000	–	–	–	436	1,436
Loss on disposal of held-for-trading investments	–	–	–	1,211	–	1,211
Loss on written off of plant and equipment	490	–	–	–	37	527
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss and segment assets:						
Interest in an associate	–	–	–	–	–	–
Share of result of an associate	–	–	–	1,532	–	1,532
Interest income	–	–	–	–	(31)	(31)
Interest expenses	–	–	–	–	16,526	16,526
Share-based payment expenses	–	–	–	–	16,588	16,588
Impairment loss recognised on amount due from an associate	–	–	–	–	15,483	15,483
Decrease in fair value of derivative financial liabilities	–	–	–	–	3,666	3,666

8. SEGMENT INFORMATION *(Continued)*

Other segment information (Continued)

For the year ended 31 December 2010

Continuing operations

	Advertising media RMB'000	Other media RMB'000	Sales of third party software and hardware RMB'000	Securities trading RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:						
Additions to non-current assets	701,293	–	–	–	3,509	704,802
Depreciation and amortisation	34,485	–	–	–	813	35,298
Loss on disposal of held-for-trading investments	–	–	–	14,969	–	14,969
Increase in fair value of held-for-trading investments	–	–	–	(6,007)	–	(6,007)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss and segment assets:						
Interest in an associate	–	–	–	–	1,590	1,590
Share of result of an associate	–	–	–	–	(90)	(90)
Interest income	–	–	–	–	(355)	(355)
Interest expenses	–	–	–	–	23,487	23,487
Share-based payment expenses	–	–	–	–	11,381	11,381
Gain on disposal of a subsidiary	–	–	–	–	(8)	(8)

8. SEGMENT INFORMATION *(Continued)*

Revenue from major product and services

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

	2011 RMB'000	2010 RMB'000
Advertising service income	**38,078**	–
Consultancy service income	**142**	–
Sales of third party software and hardware	**–**	13,800
	38,220	13,800

Geographical information

The Group's operations are located in the PRC and Hong Kong.

Information about the Group's revenue from continuing operations from external customers is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
PRC	**38,220**	13,800	**677,376**	666,805
Hong Kong	**–**	–	**5,382**	4,498
	38,220	13,800	**682,758**	671,303

Note: Non-current assets excluded those relating to discontinued operations and interest in an associate and available-for-sale investments.

8. SEGMENT INFORMATION (Continued)

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2011 RMB'000	2010 RMB'000
Customer A[1]	11,587	N/A[3]
Customer B[1]	8,116	N/A[3]
Customer C[1]	4,008	N/A[3]
Customer D[2]	N/A[3]	6,536
Customer E[2]	N/A[3]	3,668
Customer F[2]	N/A[3]	2,474

1 Revenue from advertising media.
2 Revenue from sales of third party software and hardware.
3 The corresponding revenue did not contribute over 10% of the total revenue of the Group in the respective year.

9. OTHER INCOME

	2011 RMB'000	2010 RMB'000
Continuing operations		
Written off of other payables	27	–
Interest income	31	355
Others	5	–
	63	355

10. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Continuing operations		
Interest on other borrowings wholly repayable within five years	415	–
Effective interest expenses on convertible loan notes (Note 33)	16,111	23,487
	16,526	23,487

11. *INCOME TAX EXPENSE*

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% for both years.

No provision for PRC Enterprise Income Tax was made for in the consolidated financial statements for the two years ended 31 December 2011 as there was no estimated assessable profit derived from the PRC.

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made for the two years ended 31 December 2011 as the Group did not have any assessable profit subject to Hong Kong Profits Tax for both years.

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

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

	2011 **RMB'000**	2010 RMB'000
Loss before tax (from continuing operations)	**(150,172)**	(102,829)
Tax at the domestic income tax rate of 25% (2010: 25%)	**(37,543)**	(25,707)
Tax effect of share of results of an associate	**253**	(14)
Tax effect of expenses not deductible for tax purpose	**20,359**	13,333
Tax effect of income not taxable for tax purpose	**(2)**	(993)
Tax effect of tax losses not recognised	**6,277**	5,252
Effect of different tax rates of subsidiaries operating in other jurisdictions	**10,656**	8,129
Income tax expense for the year (relating to continuing operations)	**–**	–

Note:

The domestic tax rate of 25% (2010: 25%) in the jurisdiction where the operation of the Group is substantially based is used.

As at 31 December 2011, the Group has unused tax losses of approximately RMB59,674,000 (2010: RMB35,048,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

As at 31 December 2011, included in the unused tax losses were an amount of approximately RMB296,000 (2010: RMB823,000) arising from the acquisition of subsidiaries in the respective years.

The tax losses of approximately HK$35,245,000 (equivalent to approximately RMB28,597,000) (2010: HK$33,702,000 (equivalent to approximately RMB28,542,000)) may be carried forward indefinitely while the tax losses of approximately RMB31,077,000 (2010: RMB6,506,000) will be expired in the next five years.

12. *DISCONTINUED OPERATIONS*

On 16 May 2011, the Group entered into a sale agreement to dispose of its entire equity interest in an indirectly wholly-owned subsidiary, ZZNode (Shanghai), to 北京惠澤驛祥信息技術有限公司, an independent third party, at a consideration of RMB495,000. ZZNode (Shanghai) was principally engaged in the sales of self-developed software and provision of maintenance, training and other services. The disposal was effected in order to realise its investment in ZZNode (Shanghai) and concentrate on the development of the current advertising operations. The disposal was completed on 3 June 2011, on which date control of ZZNode (Shanghai) passed to the acquirer.

On 25 June 2010 and 24 September 2010, the Group entered into a sale and purchase agreement and a supplemental sale and purchase agreement respectively to dispose of its entire equity interest in indirectly wholly-owned subsidiaries, Watson China Limited ("Watson") and Alpaco Company Limited ("Alpaco") to Mega Value Investment Limited ("Mega Value"), an independent third party at a consideration of HK$9,000,000 (equivalent to approximately RMB7,622,000). Watson and Alpaco were principally engaged in property investment. The disposal was effected in order to generate cashflows for the expansion of the Group's other businesses. The disposal was completed on 17 August 2010 and 19 October 2010 respectively, on which dates control of Watson and Alpaco passed to the Mega Value respectively.

The profit (loss) for the period/year from the discontinued operation is analysed as follows:

	Period ended 3/6/2011 RMB'000	Year ended 31/12/2010 RMB'000
Profit of sales of self-developed software operation	**1,684**	–
Loss of maintenance, training and other services operation	**–**	(2,886)
Loss of property investment operation	**–**	(46)
	1,684	(2,932)
Gain on disposal of sales of self-developed software and maintenance, training and other services operations (Note 43)	**1,647**	–
Gain on disposal of property investment operation (Note 43)	**–**	471
	1,647	471
	3,331	(2,461)

12. *DISCONTINUED OPERATIONS (Continued)*

The results of the discontinued operations for the period from 1 January 2011 to 3 June 2011, which have been included in the consolidated statement of comprehensive income, were as follows:

	Period ended 3/6/2011 RMB'000	Year ended 31/12/2010 RMB'000
Revenue	**–**	1,428
Cost of sales	**–**	(879)
Gross profit	**–**	549
Other income	**2,086**	18
Selling and marketing expenses	**–**	(20)
Administrative expenses	**(402)**	(3,479)
Profit (loss) before tax	**1,684**	(2,932)
Income tax expense	**–**	–
Profit (loss) for the period / year from discontinued operations	**1,684**	(2,932)

Profit (loss) for the period / year from discontinued operations including the following:

	Period ended 3/6/2011 RMB'000	Year ended 31/12/2010 RMB'000
Depreciation of plant and equipment	**–**	22
Impairment loss (reversed) recognised in respect of trade receivables	**(1,979)**	1,979

No charge or credit arose on gain / loss on discontinuance of the operations.

12. *DISCONTINUED OPERATIONS* *(Continued)*

The cash flows attributable to the discontinued operations are as follows:

	Period ended 3/6/2011 RMB'000	Year ended 31/12/2010 RMB'000
Net cash from operating activities	**2,958**	651
Net cash from investing activities	**46**	225
Net cash used in financing activities	**(3,002)**	(887)
Net cash inflow (outflow)	**2**	(11)

The carrying amounts of the assets and liabilities of the disposed subsidiaries are disclosed in Note 43.

13. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2011 RMB'000	2010 RMB'000
Continuing operations		
Directors' emoluments (Note 14)	**7,723**	5,503
Other staff costs (excluding directors' emoluments)	**6,346**	4,570
Share-based payment expenses (excluding directors' emoluments)	**4,263**	9,400
Retirement benefits scheme contributions (excluding directors' emoluments)	**340**	251
Total staff costs	**18,672**	19,724
Auditor's remuneration	**498**	474
Share-based payment expenses granted to consultants (Note)	**7,676**	–
Depreciation for plant and equipment	**3,059**	1,282
Amortisation of intangible assets	**37,338**	34,016
Accruals for litigation claims	**–**	18
Impairment loss recognised on other receivables	**1,436**	–
Cost of inventories recognised as an expense	**–**	13,551
Foreign exchange losses	**234**	460
Loss on disposal of plant and equipment	**–**	12
Impairment loss on an intangible asset	**1,195**	–
Impairment loss on deposit paid for acquisition of an intangible asset	**8,545**	–
Impairment loss on prepayment for a mobile media project	**5,000**	–
Written off of plant and equipment	**527**	–
Operating lease rentals in respect of rented premises	**6,636**	3,988

Note:

It represents share options granted to external consultants in exchange for services rendered to the Group.

14. *DIRECTORS' EMOLUMENTS*

The emoluments paid or payable to each of the thirteen (2010: twelve) directors were as follows:

For the year ended 31 December 2011

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Share-based payment expenses RMB'000	Total RMB'000
Executive directors:					
Liu Yong Fei (retired on 27 May 2011)	–	479	13	–	492
Chan Shui Sheung, Ivy (resigned on 26 May 2011)	–	233	9	–	242
So Wai Lam (resigned on 11 May 2011)	–	119	4	–	123
Tin Ka Pak (resigned on 14 June 2011)	–	138	5	–	143
Chen Fu Ju	–	685	19	2,661	3,365
Li Qing	–	542	19	917	1,478
Yan Dake (appointed on 29 April 2011)	–	357	6	769	1,132
Non-executive director:					
Ng Siu Lai (appointed on 9 June 2011)	55	–	–	–	55
Independent non-executive directors:					
Chow Shiu Ki (resigned on 11 May 2011)	89	–	–	–	89
Li Zhong (appointed on 29 April 2011)	66	–	–	231	297
Wu Xian (resigned on 27 May 2011)	40	–	–	–	40
Zhao Yong	98	–	–	–	98
Leung Siu Kee	98	–	–	71	169
Total	446	2,553	75	4,649	7,723

14. DIRECTORS' EMOLUMENTS *(Continued)*

For the year ended 31 December 2010

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Share-based payment expenses RMB'000	Total RMB'000
Executive directors:					
Liu Yong Fei	–	1,101	10	–	1,111
Chan Shui Sheung, Ivy	–	381	16	–	397
So Wai Lam	–	220	10	–	230
Tin Ka Pak	–	254	10	–	264
Chen Fu Ju	–	661	10	–	671
Li Qing (appointed on 20 September 2010)	–	155	3	1,135	1,293
Independent non-executive directors:					
Chow Shui Ki	152	–	–	–	152
Lam Raymond Shiu Cheung (resigned on 30 September 2010)	152	–	–	–	152
Lam Ka Wai, Graham (resigned on 6 October 2010)	154	–	–	–	154
Wu Xian	102	–	–	155	257
Zhao Yong (appointed on 20 September 2010)	29	–	–	402	431
Leung Siu Kee	102	–	–	289	391
Total	691	2,772	59	1,981	5,503

None of the directors waived or agreed to waive any emoluments paid by the Group during the two years ended 31 December 2011. No emoluments were paid or payable by the Group to any directors as an inducement to join or upon joining the Group, or as compensation for loss of the office during the two years ended 31 December 2011.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2010: four) were directors of the Company whose emoluments are included in the disclosures in Note 14 above. The emoluments of the remaining two (2010: one) individuals were as follows:

	2011 **RMB'000**	2010 RMB'000
Salaries and other benefits	**1,193**	748
Retirement benefits scheme contributions	**32**	10
Share-based payment expenses	**1,061**	–
	2,286	758

Their emoluments were within the following bands:

	Number of employees	
	2011	2010
Nil to HK$1,000,000 (equivalent to approximately RMB816,000 (2010: RMB846,900)	**1**	1
HK$1,500,001 to HK$2,000,000 (equivalent to approximately RMB1,224,000 to RMB1,632,000 (2010: RMB1,270,000 to RMB1,694,000)	**1**	–
	2	1

No emoluments have been paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the two years ended 31 December 2011.

16. *DIVIDEND*

No dividend was paid or proposed during the year ended 31 December 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

17. *(LOSS) EARNINGS PER SHARE*

For continuing and discontinued operations

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

Loss	**2011 RMB'000**	2010 RMB'000
Loss for the year attributable to owners of the Company	**(145,840)**	(105,150)

Number of shares	**2011 '000**	2010 '000
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,757,641**	1,236,674

From continuing operations

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

Loss figures are calculated as follows:

	2011 RMB'000	2010 RMB'000
Loss for the year attributable to owners of the Company	**(145,840)**	(105,150)
Less: profit (loss) for the year from discontinued operations	**3,331**	(2,461)
Loss for the purpose of basic and diluted loss per share from continuing operations	**(149,171)**	(102,689)

17. *(LOSS) EARNINGS PER SHARE* *(Continued)*

The computation of diluted loss per share does not assume the exercise of the Company's share options / non-listed warrants because the exercise price of those share options / non-listed warrants were higher than the average market price for shares; and does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in a decrease in loss per share from the continuing operation for 2011.

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in a decrease in loss per share from continuing operations; and does not assume the exercise of the Company's share options because the exercise price of those share options were higher than the average market price of shares for 2010.

From discontinued operations

Earnings (2010: loss) per share for the discontinued operation is RMB0.19 cents per share (2010: loss: RMB0.20 cents per share), based on the profit (loss) for the year from the discontinued operations of approximately RMB3,331,000 (2010: loss: RMB2,461,000) and the denominators detailed above for both basic and diluted earnings (loss) per share.

18. PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Computers and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2010	–	171	1,120	3,516	–	4,807
Exchange realignment	–	(2)	(6)	(128)	–	(136)
Additions	3,357	164	1,351	1,177	1	6,050
Disposals	–	(120)	(941)	–	–	(1,061)
Disposal of subsidiaries (Note 43)	–	(42)	–	–	–	(42)
Acquired on acquisition of a subsidiary (Note 41)	–	–	44	–	1,586	1,630
At 31 December 2010	**3,357**	**171**	**1,568**	**4,565**	**1,587**	**11,248**
Exchange realignment	**(54)**	**(7)**	**(13)**	**(165)**	**–**	**(239)**
Additions	**3,087**	**5**	**2,063**	**–**	**–**	**5,155**
Acquired on acquisition of a subsidiary (Note 42)	**–**	**–**	**5**	**–**	**–**	**5**
Written off	**–**	**–**	**(634)**	**–**	**–**	**(634)**
At 31 December 2011	**6,390**	**169**	**2,989**	**4,400**	**1,587**	**15,535**
DEPRECIATION						
At 1 January 2010	–	43	824	21	–	888
Exchange realignment	–	–	(2)	–	–	(2)
Provided for the year	638	32	124	488	–	1,282
Eliminated on disposals	–	(26)	(766)	–	–	(792)
Eliminated on disposal of subsidiaries (Note 43)	–	(19)	–	–	–	(19)
At 31 December 2010	**638**	**30**	**180**	**509**	**–**	**1,357**
Exchange realignment	**(14)**	**(2)**	**(6)**	**(23)**	**–**	**(45)**
Provided for the year	**1,930**	**34**	**500**	**595**	**–**	**3,059**
Eliminated on written off	**–**	**–**	**(107)**	**–**	**–**	**(107)**
At 31 December 2011	**2,554**	**62**	**567**	**1,081**	**–**	**4,264**
CARRYING VALUES						
At 31 December 2011	**3,836**	**107**	**2,422**	**3,319**	**1,587**	**11,271**
At 31 December 2010	2,719	141	1,388	4,056	1,587	9,891

18. PLANT AND EQUIPMENT *(Continued)*

The above items of plant and equipment are depreciated on a straight-line basis, after taking into account of their estimated residual values, at the following rates per annum:

Leasehold improvements	Over the term of the leases
Furniture and fixtures	20% – 33%
Computers and equipment	20% – 33%
Motor vehicles	12.5% – 20%

19. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUES	
At 1 January 2010	7,393
Exchange realignment	(270)
Disposal of subsidiaries (Note 43)	(7,123)
At 31 December 2010 and 31 December 2011	–

The Group's investment properties are situated in Hong Kong and are held under long-term leases. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation are measured using the fair value model and are classified and accounted for as investment properties.

As at 1 January 2010, the fair value of the Group's investment properties had been arrived at on the basis of a valuation carried out on that date by Jointgoal Surveyors Limited, independent qualified professional valuers not connected to the Group. Jointgoal Surveyors Limited are members of the Institute of Valuers and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Standards on Properties, was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

No property rental income was earned during the year ended 31 December 2010.

The above investment properties were disposed of upon the disposal of certain subsidiaries during the year ended 31 December 2010.

20. INTANGIBLE ASSETS

	LED displays advertising right RMB'000 Note (i)	Consultancy service contracts RMB'000 Note (ii)	Other advertising right RMB'000 Note (iii)	Total RMB'000
COST				
Acquired on acquisition of a subsidiary (Note 41)	680,320	–	–	680,320
At 31 December 2010	680,320	–	–	680,320
Acquired on acquisition of a subsidiary (Note 42)	–	45,589	–	45,589
Transfer from deposit paid for acquisition of an intangible asset (Note 23)	–	–	1,229	1,229
Exchange realignment	–	(1,550)	(41)	(1,591)
At 31 December 2011	680,320	44,039	1,188	725,547
AMORTISATION AND IMPAIRMENT				
Provided for the year	34,016	–	–	34,016
At 31 December 2010	34,016	–	–	34,016
Provided for the year	34,016	3,322	–	37,338
Impairment loss recognised	–	–	1,195	1,195
Exchange realignment	–	(19)	(7)	(26)
At 31 December 2011	68,032	3,303	1,188	72,523
CARRYING VALUES				
At 31 December 2011	612,288	40,736	–	653,024
At 31 December 2010	646,304	–	–	646,304

20. *INTANGIBLE ASSETS* *(Continued)*

Notes:

(i) LED displays advertising right represents the operating right to operate outdoor advertising LED displays business in the PRC. The operating right was acquired through acquisition of the entire issued share capital of Precious Luck Enterprises Limited ("Precious Luck") during the year ended 31 December 2010. Details of which are set out in Note 41.

The intangible asset is amortised on a straight-line basis over its estimated useful lives of 20 years.

As at 31 December 2011 and 2010, the management reviewed the recoverable amount of the intangible asset with reference to the valuation issued by an independent qualified professional valuer not connected to the Group.

The recoverable amount of the intangible asset is determined from the discounted cash flows value-in-use approach as extracted from the valuer's valuation report for the recoverable amount as at 31 December 2011 and 31 December 2010. The Group prepared cash flow forecasts derived from the most recent budgets approved by management and extrapolated over 18 years (2010: 19 years). The key assumptions for the discounted cash flow forecast were those regarding discount rates and anticipated future sales, as follows:

– Projected cash flows are based on sales and business plans derived from the advertising media business plans which is prepared by the directors of the Company based on their best knowledge and current situation of the industry. Expected cash inflows / outflows, which include budgeted sales and gross margin, have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying value to exceed the aggregate recoverable amount.

– Management used a discount rate which is derived as the Company's weighted average cost of capital, representing the expected return on the Company's capital, and assigned a discount rate of 21.60% (2010: 22%).

– The cash flows beyond 5-year (2010: 5-year) period are extrapolated using zero growth rate (2010: 4%). The growth rate is based on the relevant industry growth rate and does not exceed the average long-term growth rate for the relevant industry.

(ii) Consultancy service contracts represent exclusive consultancy service agreements for media business obtained through the acquisition of the entire issued share capital of Bold Champion International Limited ("Bold Champion") on 25 March 2011. Details of which are set out in Note 42.

The intangible asset is amortised on a straight-line basis over its estimated useful lives of 10 years according to the terms of the consultancy service contracts.

As at 31 December 2011, the management reviewed the recoverable amount of the intangible asset with reference to the valuation issued by an independent qualified professional valuer not connected to the Group.

The recoverable amount has been determined on the basis of value in use calculations, which use cash flow projections based on financial budgets approved by management covering a 10-year period and a discount rate of 15.39%. Cash flows beyond 4-year period are assumed constant with zero growth rate up to the end of service contracts. The forecast turnover is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period is also based on the budgeted consultancy service income and expected gross margins during the budget period. Expected cash inflows / outflows, which include budgeted consultancy service income and gross margin have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying value of intangible asset to exceed the recoverable amount of intangible asset. No impairment loss was provided for the year ended 31 December 2011.

20. INTANGIBLE ASSETS *(Continued)*

Notes: *(Continued)*

(iii) Other advertising right represents fees paid to obtaining the exclusive operating right for advertising billboards located on highways in Hebei Province, the PRC. Other advertising right is measured initially at purchase cost and amortised on a straight-line basis over their estimated useful lives of 10 years, less any impairment losses. During the year ended 31 December 2011, certain advertising billboards have been obtained and the corresponding deposit paid for acquisition of the intangible asset of HK$1,464,000 (equivalent to approximately RMB1,229,000) have been transferred to intangible asset upon obtaining the right.

The Group recognised an impairment loss of HK$1,464,000 (equivalent to approximately RMB1,195,000) in relation to other advertising right as the directors of the Company considered that the respective advertising business in Hebei Province is not carried on according to the designated schedule and losses were incurred without satisfactory income streams to the Group.

21. GOODWILL

	RMB'000
COST	
Arising on acquisition of a subsidiary (Note 42)	19,113
Exchange realignment	(650)
At 31 December 2011	18,463
CARRYING VALUE	
At 31 December 2011	18,463

Goodwill of RMB19,113,000 is arising on the acquisition of Bold Champion on 25 March 2011. The recoverable amount has been determined on the basis of value-in-use calculations, which use cash flow projections based on financial budgets approved by management covering a 4-year period and a discount rate of 15.39%. Cash flows beyond 4-year period are assumed constant with zero growth rate. The forecast turnover is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period is also based on the budgeted consultancy service income and expected gross margins during the budget period. Expected cash inflows / outflows, which include budgeted consultancy service income and gross margin have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying value of goodwill to exceed the recoverable amount of goodwill. No impairment loss was provided for the year ended 31 December 2011.

22. *INTEREST IN AN ASSOCIATE*

	2011 RMB'000	2010 RMB'000
Cost of investment in an associate		
Unlisted equity interest	**–**	–
Share of post-acquisition results and other comprehensive income	**58**	1,648
Exchange realignment	**(58)**	(58)
	–	1,590

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

Name of entity	Form of entity	Country of incorporation / registration	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group 2011	2010	Principal activity
Apex One Enterprises Limited	Incorporated	The BVI	Hong Kong	Ordinary	**49%**	49%	Trading of securities

22. *INTEREST IN AN ASSOCIATE* *(Continued)*

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

	2011 RMB'000	2010 RMB'000
Total assets	**14,441**	34,837
Total liabilities	**(29,999)**	(31,593)
Net (liabilities) assets	**(15,558)**	3,244
Group's share of net (liabilities) assets of the associate	**(7,623)**	1,589
Revenue	**4,102**	10,907
(Loss) profit for the year	**(18,772)**	184
Other comprehensive income	**–**	–
Group's share of (loss) profit and other comprehensive (expense) income of the associate for the year	**(9,198)**	90

The Group has discontinued recognition of its share of losses of the associate. The amounts of unrecognised share of the associate, extracted from the relevant audited financial statements of the associate, both for the year and cumulatively, are as follows:

	2011 RMB'000	2010 RMB'000
Unrecognised share of losses of associate for the year	**7,666**	–
Accumulated unrecognised share of losses of associate	**7,666**	–

23. DEPOSIT PAID FOR ACQUISITION OF AN INTANGIBLE ASSET

On 18 August 2010, the Group had entered into an agreement with 中廣國際廣告公司, an independent third party in relation to operating rights for advertising billboards located on highways in Hebei Province, the PRC. Details are set out in the announcement dated 18 August 2010.

As at 31 December 2010, the Group had paid HK$11,936,000 (equivalent to approximately RMB10,108,000). Such costs are recorded as deposit paid for acquisition of intangible asset as at 31 December 2010.

During the year ended 31 December 2011, the Group has transferred HK$1,464,000 (equivalent to approximately RMB1,229,000) to intangible asset upon obtaining the operating rights for certain advertising billboards. Regarding the remaining amount of HK$10,472,000 (equivalent to approximately RMB8,545,000) paid, an impairment loss was recognised on the full amount as the directors of the Company considered that the respective advertising business in Hebei Province is not carried on according to the designated schedule and losses were incurred without satisfactory income streams to the Group.

24. PREPAYMENT FOR A MOBILE MEDIA PROJECT

The prepayment for a mobile media project was acquired through the acquisition of the entire issued share capital of Precious Luck during the year ended 31 December 2010, details of which are set out in Note 41.

On 31 May 2008, 創智利德(北京)發展有限公司 ("Chuangzhi Lide"), a wholly-owned subsidiary of Precious Luck had entered into a co-operation agreement with Xinhua Media Centre, an independent third party for developing a mobile media project. Chuangzhi Lide had paid a non-refundable amount of RMB5,000,000 related to such agreement. The project was still not yet commenced as at 31 December 2011.

The directors of the Company take into consideration that there was no progress during the year ended 31 December 2011 and up to the end of the reporting period, the relevant project is uncertain to be launched and unlikely to be completed. As a result, the amount was fully impaired during the year ended 31 December 2011.

25. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2011 **RMB'000**	2010 RMB'000
Unlisted equity securities, at cost	**2,029**	1,694

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in Hong Kong. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

26. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	**5,045**	15,668
Less: impairment loss recognised	**–**	(1,979)
	5,045	13,689
Other receivables	**1,838**	1,430
Less: impairment loss recognised	**(1,436)**	–
	402	1,430
Deposits and prepayments	**32,154**	7,770
	37,601	22,889

The Group allows an average credit period of 30 to 60 days (2010: 90 days) to its trade customers. The following is an aged analysis of trade receivables net of impairment losses presented based on the invoice date at the end of reporting period.

	2011 RMB'000	2010 RMB'000
Within 30 days	**5,045**	3,752
31 to 60 days	**–**	3,513
61 to 90 days	**–**	4,111
91 to 180 days	**–**	2,313
	5,045	13,689

Included in the Group's trade receivables balances were approximately RMB2,272,000 (2010: Nil) which was due on contract terms and not yet due as at the end of the reporting period. Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

26. TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2010, included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB2,313,000 (2011: Nil) which were past due as at the reporting date for which the Group has not provided for impairment loss. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Ageing of trade receivables which are past due but not impaired

	2011	2010
	RMB'000	RMB'000
91 to 180 days	**–**	2,313

Movement in the impairment losses on trade and other receivables

	2011	2010
	RMB'000	RMB'000
1 January	**1,979**	–
Impairment losses recognised on receivables	**1,436**	1,979
Reversal of impairment losses recognised in previous year	**(1,979)**	–
31 December	**1,436**	1,979

As at 31 December 2011, included in the impairment loss on trade and other receivable are individually impaired trade receivables with an aggregate balance of RMB1,436,000 (2010: RMB1,979,000). The individually impaired receivables are recognised based on the credit history of its customer and current market conditions.

Included in deposits and prepayments is a guarantee deposit of HK$25,000,000 (equivalent to approximately RMB20,285,000) (2010: Nil) placed to the related party of the lender to secure an other borrowing of RMB18,000,000 as disclosed in Note 32.

27. AMOUNTS DUE FROM AN ASSOCIATE/NON-CONTROLLING INTEREST HOLDER

The amounts are unsecured, non-interest bearing and repayable on demand.

As at 31 December 2011, included in the amount due from an associate, an impairment loss of HK$18,974,000 (equivalent to approximately RMB15,483,000) (2010: Nil) has been recognised.

28. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments include:

	2011	2010
	RMB'000	RMB'000
Equity securities listed in Hong Kong, at fair value	**–**	21,960

The equity securities listed in Hong Kong are stated at fair values which are determined based on the quoted market prices and denominated in HK$. The Group disposed of all its equity securities during the year ended 31 December 2011.

29. RESTRICTED BANK BALANCE / BANK BALANCES AND CASH

As at 31 December 2010, the restricted bank balance amounting to approximately RMB42,000 (2011: Nil) represented deposit placed and restricted by Shanghai No.1 Intermediate People's Court for repayment of provision of litigation claim (Note 30). The deposit was released upon the settlement of the litigation claims following the finalisation of the respective court case during the year ended 31 December 2011. The restricted bank balance carried interest at market rate of 0.36% (2011: Nil) per annum.

Bank balances carry interest at market rates which range from 0.01% to 0.50% (2010: 0.01% to 0.36%) per annum.

30. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Trade payables	**3,316**	6,082
Other payables and accruals	**7,076**	13,502
	10,392	19,584

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

	2011 RMB'000	2010 RMB'000
Within 30 days	**–**	1,600
31 to 60 days	**3,316**	1,966
61 to 90 days	**–**	335
91 to 180 days	**–**	2,181
	3,316	6,082

The average credit period on purchases of goods ranged from 30 to 60 days (2010: 90 to 180 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

As at 31 December 2010, included in other payables was litigation claims of approximately RMB1,094,000 (2011: Nil) arising from dispute of technology transfer agreement with customer. The court case had been finalised and the litigation claims were settled during the year ended 31 December 2011.

31. AMOUNTS DUE TO A SHAREHOLDER / A DIRECTOR

The amounts are unsecured, non-interest bearing and repayable on demand.

32. OTHER BORROWINGS

	2011 RMB'000	2010 RMB'000
Secured	18,000	–
Unsecured	325	–
	18,325	–

The carrying amount of the borrowings is repayable within one year of which based on scheduled repayment dates set out in the loan agreements.

As at 31 December 2011, other borrowings included an amount of RMB18,000,000 (2010: Nil) loan from an independent third party, which bears interest at 2% per annum and repayable on or before 31 December 2012. The Group has placed a guarantee deposit of HK$25,000,000 (equivalent to approximately RMB20,285,000) to the related party of the lender regarding this borrowing.

In addition, included in other borrowings was HK$400,000 (equivalent to approximately RMB325,000) (2010: Nil) loan from an independent third party, which is unsecured, bears interest at 12% per annum and repayable on or before 12 August 2012.

During the year ended 31 December 2011, the Group obtained new borrowings in the amount of RMB20,325,000 (2010: Nil). The proceeds were used to finance the general working capital of the Group.

33. CONVERTIBLE LOAN NOTES

(i) On 2 January 2010, the Company issued zero-coupon convertible loan notes with an aggregate principal amount of HK$756,000,000 (equivalent to approximately RMB659,262,000) (the "2010 Convertible Loan Notes") as partial settlement for the acquisition consideration of Precious Luck. The 2010 Convertible Loan Notes are denominated in HK$ and entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the 2010 Convertible Loan Notes and their settlement date on 1 January 2015 at an initial conversion price of HK$0.519, subject to adjustments, per convertible loan note. If the 2010 Convertible Loan Notes have not been converted, it will be redeemed on 1 January 2015 at par.

The 2010 Convertible Loan Notes contain two components, liability and equity components. The equity component is presented in equity heading ("convertible loan notes equity reserve"). The effective interest rate of the liability component is 25% per annum.

The movement of the liability and equity components of the 2010 Convertible Loan Notes is set out below:

	Liability component	**Equity component**	**Total**
	RMB'000	RMB'000	RMB'000
Issue of convertible loan notes	216,027	443,235	659,262
Effective interest expenses (Note 10)	23,487	–	23,487
Conversion during the year	(160,157)	(338,358)	(498,515)
Exchange realignment	(6,228)	–	(6,228)
At 31 December 2010	73,129	104,877	178,006
Effective interest expenses (Note 10)	13,601	–	13,601
Conversion during the year	(62,765)	(75,977)	(138,742)
Exchange realignment	(5,995)	–	(5,995)
At 31 December 2011	17,970	28,900	46,870

33. CONVERTIBLE LOAN NOTES *(Continued)*

(ii) On 23 June 2011, the Company issued 8% convertible loan notes with an aggregate principal amount of RMB25,000,000 (the "2011 Convertible Loan Notes"). The 2011 Convertible Loan Notes are denominated in RMB and entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the 2011 Convertible Loan Notes and their settlement date on 23 June 2011 at an initial conversion price of HK$0.49, subject to adjustments, per convertible loan note. If the 2011 Convertible Loan Notes have not been converted, it will be redeemed on 23 June 2013 at par. Interest of 8% per annum will be paid up until the settlement date.

The 2011 Convertible Loan Notes contain two components, liability component and conversion option derivative. The conversion option is classified as conversion option derivative as the 2011 Convertible Loan Notes will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments. The effective interest rate of the liability component is 25.26% per annum. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

The movement of the liability component and conversion option derivative of the 2011 Convertible Loan Notes is set out below:

	Liability component RMB'000	**Conversion option derivative** RMB'000	**Total** RMB'000
Issue of convertible loan notes during the year	18,625	6,375	25,000
Imputed interest expenses (Note 10)	2,510	–	2,510
Interest paid during the year	(1,000)	–	(1,000)
Loss arising on changes of fair value	–	1,018	1,018
Exchange realignment	(402)	(146)	(548)
At 31 December 2011	19,733	7,247	26,980

34. SHARE CAPITAL

	Number of shares		Share capital		Equivalent nominal value of ordinary shares	
	2011 **'000**	2010 '000	**2011** **HK$'000**	2010 HK$'000	**2011** **RMB'000**	2010 RMB'000
Ordinary shares of HK$0.1 each						
Authorised:						
At beginning of the year and end of the year	**10,000,000**	10,000,000	**1,000,000**	1,000,000	**879,100**	879,100
Issued and fully paid:						
At beginning of the year	**1,575,436**	461,056	**157,544**	46,106	**142,126**	47,749
Issue of shares upon exercise of share options (a)	**–**	3,500	**–**	350	**–**	296
Issue of shares upon conversion of convertible loan notes (b) & (c)	**264,000**	1,111,980	**26,400**	111,198	**21,303**	94,174
Share repurchased and cancelled (d)	**–**	(1,100)	**–**	(110)	**–**	(93)
Issue of shares upon settlement of consideration in respect of acquisition of subsidiaries (e)	**100,000**	–	**10,000**	–	**8,399**	–
At end of the year	**1,939,436**	1,575,436	**193,944**	157,544	**171,828**	142,126

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's shares during the two years ended 31 December 2011.

Notes:

(a) During the year ended 31 December 2010, 3,000,000 ordinary shares of HK$0.1 each were issued at a price of HK$1.27 per share and 500,000 ordinary shares of HK$0.1 each were issued at a price of HK$1.464 per share upon exercise of share options granted on 8 October 2009 and 12 March 2010 respectively.

(b) During the year ended 31 December 2010, convertible loan notes with an aggregate principal amount of HK$577,117,500 were converted into 1,111,979,768 ordinary shares of HK$0.1 each at a conversion price of HK$0.519 per share.

(c) During the year ended 31 December 2011, convertible loan notes with an aggregate principal amount of HK$137,016,000 were converted into 264,000,000 ordinary shares of HK$0.1 each at a conversion price of HK$0.519 per share.

34. *SHARE CAPITAL (Continued)*

Notes: *(Continued)*

(d) During the year ended 31 December 2010, the Company repurchased its own shares through the Stock Exchange as follows:

Date of repurchase	**No. of ordinary shares of HK$0.1 each**	**Price per share**		**Aggregate consideration paid**	**Aggregate consideration paid**
	HK$	Highest	Lowest	HK$	RMB
4 June 2010	900,000	1.22	1.08	1,064,588	899,747
7 June 2010	108,000	1.19	1.15	127,750	107,218
23 June 2010	92,000	0.98	0.84	81,801	72,103

The above shares were cancelled upon repurchase.

(e) On 25 March 2011, the Group completed the acquisition a subsidiary of which the aggregate consideration was partially settled by way of issue of 100,000,000 new ordinary shares of HK$0.1 each at a quoted market price of HK$0.64 each at the date of completion of the acquisition as consideration shares.

All the ordinary shares issued during the two years ended 31 December 2011 rank pari passu with the then existing shares in all respects.

35. *NON-LISTED WARRANTS*

On 16 February 2011, the Company issued 120,000,000 warrants at a subscription price of HK$0.05 per warrant (the "Warrant 1"). On 18 April 2011, the Company entered into a deed of cancellation to cancel the Warrant 1 due to the fact that the price of shares decreased after the completion of the subscription of the Warrant 1, resulting in a gap between the current share price and the warrant exercise price. Details of the above are set out in the Company's announcement dated 18 April 2011. Upon cancellation of the Warrant 1, the Group has paid an amount of HK$6,000,000 (equivalent to approximately RMB5,061,000) to the subscribers. The remaining amount in the warrant reserve of HK$5,623,000 (equivalent to approximately RMB4,743,000) was recorded as a reduction of equity upon cancellation during the year ended 31 December 2011. The excess amount of cash paid over the net proceeds on issue of HK$377,000 (equivalent to approximately RMB318,000) was transferred to accumulated losses.

On 19 April 2011, the Company and the placing agent entered into a placing agreement in respect of the placement of 170,000,000 warrants of the Company to not less than six independent investors at a price of HK$0.042 per warrants. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.1 each at a subscription price of HK$0.71, subject to adjustment upon occurrence of certain events. The placement was terminated on 30 June 2011 before the completion of subscription. Details of the above are set out in the Company's announcement dated 30 June 2011.

36. *DERIVATIVE FINANCIAL LIABILITIES*

	Contingent consideration instrument RMB'000 (Note)	Derivative component of convertible loan notes RMB'000 (Note 33 (ii))	Total RMB'000
Additions from acquisition of a subsidiary (Note 42)	1,692	–	1,692
Issue of convertible loan notes (Note 33 (ii))	–	6,375	6,375
Decrease in fair value	2,648	1,018	3,666
Exchange realignment	–	(146)	(146)
At 31 December 2011	4,340	7,247	11,587

Note:

On 25 March 2011, the Group completed the acquisition of 100% equity interest in Bold Champion from certain independent third parties. The acquisition consideration is satisfied by an aggregate consideration of HK$74,000,000 (equivalent to approximately RMB62,156,000), which was satisfied by HK$10,000,000 (equivalent to approximately RMB8,400,000) in cash and 100,000,000 new shares of the Company. With the contingent consideration of HK$24,000,000 profit guarantee with a fair value of HK$2,014,000 (equivalent to approximately RMB1,692,000) at the date of acquisition. In the event that the mentioned profit target is not met, the vendors and guarantors of the acquisition shall be settled in cash of the actual shortfall.

As at 31 December 2011, the fair value of the contingent consideration was increased by approximately HK$3,305,000 (equivalent to approximately RMB2,648,000) as a result of the re-estimation of the fair value of the contingent consideration.

37. OPERATING LEASES

The Group as lessee

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

	2011	2010
	RMB'000	RMB'000
Within one year	**1,757**	723

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms ranged from one to five years with fixed rentals.

38. CAPITAL COMMITMENTS

	2011	2010
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of subsidiaries contracted for but not provided in the consolidated financial statements	**176,885**	62,671

Pursuant to the acquisition agreement dated 24 November 2011, the Group has entered with certain third parties to acquire the entire interest of Sino Mind Holdings Limited at an aggregate consideration of HK$218,000,000 (equivalent to approximately RMB176,885,000), which shall be satisfied as to an aggregate amount of HK$188,000,000 (equivalent to approximately RMB152,543,000) share consideration, being 400,000,000 new shares of the Company and HK$30,000,000 (equivalent to approximately RMB24,342,000) cash consideration. The details are set out in the announcements of the Company dated 2 September 2011 and 24 November 2011.

Pursuant to the acquisition agreement dated 11 February 2010, the Group had entered with certain third parties to acquire the entire interest of Bold Champion at an aggregate consideration of HK$74,000,000 (equivalent to approximately RMB62,671,000), which shall be satisfied by HK$10,000,000 (equivalent to approximately RMB8,469,000) in cash and an aggregate of 100,000,000 new shares of the Company. The cash consideration was paid on 1 April 2011 and 18 April 2011 respectively.

39. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes of the Company

(a) Share option scheme

Pursuant to a share option scheme approved by a resolution of the shareholders of the Company on 31 October 2004 (the "Share Option Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries who meet the relevant criteria set out in the Share Option Scheme (the "Participants") as incentives and rewards for their contributions to the Group, to subscribe for shares in the Company with a payment of HK$1.00 upon each grant of options offered and the options granted must be taken up within 30 days from the date of grant. The exercise price of the share option will be determined at the higher of (i) the average of closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant of the options, (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant and (iii) the nominal value of the shares.

The share options are exercisable at any time during a year of not more than 10 years from the date of grant, subject to the terms and conditions of the Share Option Scheme and any conditions of grant as my be stipulated by the board of the directors.

The maximum number of shares in respect of which options may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes shall not exceed 30% of the number of shares of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares of the Company in issue as at the date of approval of the Share Option Scheme unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme. No person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full would result in such person's maximum entitlement exceeding 1% of the number of shares of the Company in issue.

39. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option schemes of the Company (Continued)

(a) Share option scheme (Continued)

Details of specific categories of options granted under the Share Option Scheme are as follows:

Date of grant	Vesting period	Exercise period	Exercise price	Fair value at grant date
8 October 2009	8 October 2009 to 22 November 2009	23 November 2009 to 22 November 2012	HK$1.27	HK$0.59
4 February 2010	Note	4 February 2010 to 3 February 2013	HK$1.80	HK$0.51
12 March 2010	Note	12 March 2010 to 11 March 2013	HK$1.46	HK$0.40
8 October 2010	Note	8 October 2010 to 7 October 2013	HK$0.96	HK$0.32
6 January 2011	Note	6 January 2011 to 5 January 2014	HK$0.85	HK$0.28
2 June 2011	Note	2 June 2011 to 1 June 2014	HK$0.58	HK$0.19
6 July 2011	Note	6 July 2011 to 5 July 2014	HK$0.53	HK$0.14
29 July 2011	Note	29 July 2011 to 28 July 2014	HK$0.56	HK$0.19
5 September 2011	Note	5 September 2011 to 4 September 2014	HK$0.55	HK$0.19
3 November 2011	Note	3 November 2011 to 2 November 2014	HK$0.37	HK$0.11

Note:

In accordance with the terms of the share-based payment expenses, these share options were vested at the date of grant.

39. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option schemes of the Company (Continued)

(a) Share option scheme (Continued)

The following table discloses movements of the Company's share options held by directors, employees and consultants during the year:

For the year ended 31 December 2011

Date of grant	Outstanding at 1 January 2011	Granted during the year	Forfeited during the year	Cancelled during the year	Outstanding at 31 December 2011
Directors					
8 October 2009	36,440,000	–	(16,920,000)	(19,520,000)	–
12 March 2010	1,500,000	–	(60,000)	(1,440,000)	–
8 October 2010	5,500,000	–	(500,000)	–	5,000,000
2 June 2011	–	25,240,000	–	–	25,240,000
5 September 2011	–	5,000,000	–	–	5,000,000
Employees					
4 February 2010	1,700,000	–	(1,100,000)	(600,000)	–
12 March 2010	5,700,000	–	(500,000)	(5,200,000)	–
8 October 2010	24,500,000	–	(300,000)	–	24,200,000
6 January 2011	–	4,600,000	–	–	4,600,000
2 June 2011	–	6,960,000	–	–	6,960,000
6 July 2011	–	3,000,000	–	–	3,000,000
29 July 2011	–	2,000,000	–	–	2,000,000
5 September 2011	–	5,000,000	–	–	5,000,000
3 November 2011	–	8,000,000	–	–	8,000,000
Consultants					
6 July 2011	–	5,000,000	–	–	5,000,000
29 July 2011	–	45,000,000	–	–	45,000,000
3 November 2011	–	2,000,000	–	–	2,000,000
	75,340,000	111,800,000	(19,380,000)	(26,760,000)	141,000,000
Exercisable at the end of the year					141,000,000
Weighted average exercise price	HK$1.23	HK$0.56	HK$1.29	HK$1.33	HK$0.64

39. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option schemes of the Company (Continued)

(a) *Share option scheme (Continued)*

The following table discloses movements of the Company's share options held by directors and employees during the year:

For the year ended 31 December 2010

Date of grant	Outstanding at 1 January 2010	Granted during the year	Exercised during the year	Outstanding at 31 December 2010
Directors				
8 October 2009	39,440,000	–	(3,000,000)	36,440,000
12 March 2010	–	1,500,000	–	1,500,000
8 October 2010	–	5,500,000	–	5,500,000
Employees				
4 February 2010	–	1,700,000	–	1,700,000
12 March 2010	–	6,200,000	(500,000)	5,700,000
8 October 2010	–	24,500,000	–	24,500,000
	39,440,000	39,400,000	(3,500,000)	75,340,000
Exercisable at the end of the year				75,340,000
Weighted average exercise price	HK$1.27	HK$1.08	HK$1.30	HK$1.23

No share option was exercised during the year ended 31 December 2011.

In respect of the share options exercised during the year ended 31 December 2010, the weighted average share price at the dates of exercise was HK$1.75.

39. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option schemes of the Company (Continued)

(a) Share option scheme (Continued)

The fair values were calculated using the Black-Scholes Option Pricing Model. The inputs into the model were as follows:

	Date of grant									
	8 October 2009	4 February 2010	12 March 2010	8 October 2010	6 January 2011	2 June 2011	6 July 2011	29 July 2011	5 September 2011	3 November 2011
Share price on the date of grant	HK$1.27	HK$1.70	HK$1.45	HK$0.96	HK$0.85	HK$0.58	HK$0.48	HK$0.56	HK$0.55	HK$0.35
Exercise price	HK$1.27	HK$1.80	HK1.46	HK$0.96	K$0.85	HK$0.58	HK$0.53	HK$0.56	HK$0.55	HK$0.37
Expected volatility	96.70%	63.17%	58.52%	70.48%	69.54%	68.08%	69.73%	77.88%	72.07%	71.19%
Expected life	1.6 years	1.5 years	1.5 years	1.5 years	1.5 years	1.5 years	1.5 years	1.5 years	1.5 years	1.5 years
Risk-free rate	0.39%	0.44%	0.45%	0.45%	0.44%	0.32%	0.22%	0.20%	0.16%	0.21%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of approximately HK$20,328,000 (equivalent to approximately RMB16,588,000) for the year ended 31 December 2011 (2010: HK$13,438,000 (equivalent to approximately RMB11,381,000)) in relation to the above share options granted by the Company.

(b) Share incentive scheme

The share incentive scheme was established by three shareholders of the Company, representing 18,000,000 shares and 4.5% of the enlarged issued share capital of the Company after the listing of the Company ("Share Incentive Scheme"). The purpose of the Share Incentive Scheme is to issue options to selected employees, officers, consultants, agents and advisers of the Group who meet the relevant eligibility criteria set out in the Share Incentive Scheme (the "Eligible Participants"). The employee participants must have been employed by a member of the Group prior to the listing of the Company in November 2004.

39. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option schemes of the Company (Continued)

(b) *Share incentive scheme* (Continued)

The Share Incentive Scheme shall remain in full force and effect for so long as is necessary to give effect to the issue and exercise of options granted in accordance with its terms.

The exercise price per share under the Share Incentive Scheme is HK$0.20 and each tranche of option has a term of five years from the first exercise date, after which any unexercised portion of an option shall lapse.

Each option will be exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 20% each year, reaching 100%.

During the two years ended 31 December 2011, no options were granted and outstanding of options under the Share Incentive Scheme.

40. RETIREMENT BENEFITS SCHEME

Hong Kong

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, each of the Group companies (the "employer") in Hong Kong and its employees are required to make contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Legislation. The contributions from each of the employer and employees are subject to a cap of HK$1,000 per month. During the year ended 31 December 2011, the total amount contributed by the Group to this scheme and charged to the consolidated statement of comprehensive income was approximately RMB153,000 (2010: RMB158,000).

The PRC, other than Hong Kong

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-sponsored retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-sponsored retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. During the year ended 31 December 2011, the total amount contributed by the Group to this scheme and charged to the consolidated statement of comprehensive income was approximately RMB262,000 (2010: RMB152,000).

41. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On 2 January 2010, the Group acquired the entire issued share capital of Precious Luck from an independent third party for a total consideration of HK$780,000,000 (equivalent to approximately RMB680,191,000) satisfied by cash and issue of convertible loan notes. At the time of acquisition, Precious Luck was an inactive company and its major asset was an exclusive right to operate outdoor advertising LED displays business in the PRC. Accordingly, the transaction has been accounted for as the acquisition of an intangible asset through acquisition of a subsidiary.

	RMB'000
Consideration transferred	
Issue of convertible loan notes	659,262
Deposit paid for acquisition of subsidiaries	20,929
Total	680,191

	RMB'000
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Plant and equipment	1,630
Intangible asset	680,320
Prepayment for a mobile media project	5,000
Other receivables	1,040
Bank balances and cash	2,569
Other payables	(3,630)
Amount due to a shareholder	(6,021)
Non-controlling interests	(717)
	680,191
Net cash inflow arising on acquisition	
Cash and cash equivalent balances acquired	2,569

42. *ACQUISITION OF A SUBSIDIARY*

On 25 March 2011, the Group acquired 100% equity interest in Bold Champion for an aggregate consideration of HK$74,000,000 (equivalent to approximately RMB62,156,000), which was satisfied by HK$10,000,000 (equivalent to approximately RMB8,400,000) in cash and an aggregate of 100,000,000 new shares of the Company. This acquisition has been accounted for using purchase method. The fair value of the intangible asset at the date of acquisition was approximately HK$54,276,000 (equivalent to approximately RMB45,589,000). The amount of goodwill arising as a result of the acquisition was approximately HK$22,754,000 (equivalent to approximately RMB19,113,000).

	RMB'000
Consideration transferred	
Share consideration paid	53,756
Cash consideration paid	8,400
Contingent consideration arrangement (Note 36)	1,692
Total	63,848

As part of the consideration for the acquisition of Bold Champion, 100,000,000 ordinary shares of the Company with par value of HK$0.1 each were issued. The fair value of the ordinary shares of the Company, determined using the published price of HK$0.64 (equivalent to approximately RMB0.54) per share available at the date of the acquisition, amounted to HK$64,000,000 (equivalent to approximately RMB53,756,000).

	RMB'000
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Plant and equipment	5
Intangible asset (Note 20)	45,589
Other receivables	103
Bank balances and cash	35
Other payables	(997)
	44,735

Goodwill arising on acquisition:	RMB'000
Consideration transferred	63,848
Less: net assets acquired	(44,735)
	19,113

42. ACQUISITION OF A SUBSIDIARY *(Continued)*

Goodwill arose in the acquisition of Bold Champion. A subsidiary of Bold Champion, which is principally engaged in the provision of management and consultancy services to media enterprises, has entered several consultancy service agreements for media business with three independent third parties. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth and assembled workforce of Bold Champion as at the date of acquisition. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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

	RMB'000
Net cash inflow arising on acquisition	
Deposit paid for acquisition of an investment	(8,400)
Bank balances and cash acquired	35
	(8,365)

Included in the loss for the year is approximately RMB29,000 attributable to the additional business generated by Bold Champion. Revenue for the year includes approximately RMB142,000 generated from Bold Champion.

Had the acquisition been completed on 1 January 2011, total group revenue for the year would have been approximately RMB38,220,000, and loss for the year would have been approximately RMB150,219,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

In determining the pro-forma's revenue and profit of the Group had Bold Champion been acquired at the beginning of the current year, the directors of the Company have:

- calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt / equity position of the Group after the business combination.

43. DISPOSAL OF SUBSIDIARIES

(a) As referred to in Note 12, on 3 June 2011, the Group discontinued its self-developed software operation and supporting system (OSS) software and maintenance, training and other services operations at the time of disposal of its subsidiary, ZZNode (Shanghai). The net liabilities of ZZNode (Shanghai) at the date of disposal were as follows:

	RMB'000
Consideration received:	
Cash received	495

	RMB'000
Analysis of assets and liabilities over which control was lost:	
Trade and other receivables	601
Income tax recoverable	2
Bank balance and cash	2
Other payables	(1,757)
Net liabilities disposed of	(1,152)
Gain on disposal of a subsidiary:	
Consideration received	495
Net liabilities disposed of	1,152
Gain on disposal	1,647
Net cash inflow arising on disposal:	
Cash consideration	495
Less: bank balance and cash disposed of	(2)
	493

The impact of ZZNode (Shanghai) on the Group's results and cash flows in the current and prior periods is disclosed in Note 12.

43. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) As referred to in Note 12, on 17 August 2010 and 19 October 2010, the Group discontinued its property investment operations at the time of disposal of its subsidiaries, Watson and Alpaco. The net assets of Watson and Alpaco at the date of disposal were as follows:

Consideration received:

	Watson RMB'000	Alpaco RMB'000	Total RMB'000
Cash received	3,557	4,065	7,622

Analysis of assets and liabilities over which control was lost:

	Watson RMB'000	Alpaco RMB'000	Total RMB'000
Plant and equipment	23	–	23
Investment properties	3,303	3,820	7,123
Other receivables	2	3	5
Amount due to an immediate holding company	(3,354)	(4,297)	(7,651)
	(26)	(474)	(500)
Assignment of debt	3,354	4,297	7,651
Net assets disposed of	3,328	3,823	7,151

Gain on disposal of subsidiaries:

Consideration received	3,557	4,065	7,622
Net assets disposed of	(3,328)	(3,823)	(7,151)
Gain on disposal of subsidiaries	229	242	471

Net cash inflow arising on disposal:

Cash consideration	3,557	4,065	7,622

The impact of Watson and Alpaco on the Group's results and cash flows in the current and prior periods is disclosed in Note 12.

43. DISPOSAL OF SUBSIDIARIES *(Continued)*

(c) On 25 August 2010, the Group entered into a sale and purchase agreement with Honor Holdings Limited, an independent third party, to dispose of its 100% equity interest in Successcomm Limited ("Successcomm") at a consideration of HK$10,000 (equivalent to approximately RMB8,000). The disposal was completed on 25 August 2010. The net liabilities of Successcomm at the date of disposal were as follows:

	RMB'000
Consideration received:	
Cash received	8

	RMB'000
Analysis of assets and liabilities over which control was lost:	
Amount due to an immediate holding company	(1)
Assignment of debt	1
Net assets disposed of	–
Gain on disposal of a subsidiary:	
Consideration received	8
Net assets disposed of	–
Gain on disposal	8
Net cash inflow arising on disposal:	
Cash consideration	8

The disposal of Successcomm has no material impact on the Group's results and cash flows in the current and prior periods.

44. *RELATED PARTY TRANSACTIONS*

(a) Other than disclosed elsewhere in the consolidated financial statements, the Company had not entered into any transactions with related party during both years.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2011	2010
	RMB'000	RMB'000
Short-term benefits	**4,192**	4,211
Post-employment benefits	**107**	69
Share-based payment expenses	**5,710**	1,981
	10,009	6,261

The remuneration of directors and other members of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Plant and equipment		**1,963**	2,574
Investments in subsidiaries	(a)	**13**	13
		1,976	2,587
Current assets			
Other receivables		**20,932**	692
Held-for-trading investments		**–**	21,960
Amounts due from subsidiaries	(b)	**661,674**	697,834
Bank balances and cash		**9,552**	27,351
		692,158	747,837
Current liabilities			
Trade and other payables		**562**	1,228
Amounts due to subsidiaries	(b)	**–**	4,647
Derivative financial liabilities		**7,247**	–
		7,809	5,875
Net current assets		**684,349**	741,962
Total assets less current liabilities		**686,325**	744,549
Capital and reserves			
Share capital		**171,828**	142,126
Reserves	(c)	**494,764**	602,423
Total equity		**666,592**	744,549
Non-current liability			
Convertible loan notes		**19,733**	–
		686,325	744,549

45. *STATEMENT OF FINANCIAL POSITION OF THE COMPANY* *(Continued)*

Notes:

(a) Investments in subsidiaries are carried at cost less accumulated impairment losses, if any.

(b) The amounts are unsecured, non-interest bearing and repayable on demand.

(c)

	Share premium RMB'000	Special reserve RMB'000	Translation reserve RMB'000	Convertible loan notes equity reserve RMB'000	Warrant reserve RMB'000	Capital redemption reserve RMB'000	Share options reserve RMB'000	Contribution from shareholders RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2010	76,497	57,814	(101,512)	–	–	502	20,839	1,927	(6,406)	49,661
Loss for the year	–	–	–	–	–	–	–	–	(54,612)	(54,612)
Other comprehensive income for the year	–	–	83,188	–	–	–	–	–	–	83,188
Total comprehensive income (expense) for the year	–	–	83,188	–	–	–	–	–	(54,612)	28,576
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	11,381	–	–	11,381
Recognition of equity component of convertible loan notes	–	–	–	443,235	–	–	–	–	–	443,235
Issue of share upon exercise of share options	5,081	–	–	–	–	–	(1,588)	–	–	3,493
Issue of shares upon conversion of convertible loan notes	404,342	–	–	(338,358)	–	–	–	–	–	65,984
Share repurchased and cancelled	–	–	–	–	–	93	–	–	–	93
At 31 December 2010	485,920	57,814	(18,324)	104,877	–	595	30,632	1,927	(61,018)	602,423
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(231,493)**	**(231,493)**
Other comprehensive income for the year	**–**	**–**	**20,745**	**–**	**–**	**–**	**–**	**–**	**–**	**20,745**
Total comprehensive income (expense) for the year	**–**	**–**	**20,745**	**–**	**–**	**–**	**–**	**–**	**(231,493)**	**(210,748)**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**–**	**–**	**–**	**–**	**16,588**	**–**	**–**	**16,588**
Issue of shares upon conversion of convertible loan notes	**117,439**	**–**	**–**	**(75,977)**	**–**	**–**	**–**	**–**	**–**	**41,462**
Acquisition of a subsidiary	**45,357**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**45,357**
Issue of non-listed warrants	**–**	**–**	**–**	**–**	**5,061**	**–**	**–**	**–**	**–**	**5,061**
Transaction cost attributable to issue of non-listed warrants	**–**	**–**	**–**	**–**	**(318)**	**–**	**–**	**–**	**–**	**(318)**
Release upon cancellation of non-listed warrants	**–**	**–**	**–**	**–**	**(4,743)**	**–**	**–**	**–**	**(318)**	**(5,061)**
At 31 December 2011	**648,716**	**57,814**	**2,421**	**28,900**	**–**	**595**	**47,220**	**1,927**	**(292,829)**	**494,764**

46. *PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY*

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

Name of subsidiary	Place of incorporation / operation	Class of shares held	Issued and fully paid share capital / registered capital	Proportion ownership interest / held by the Company				Principal activities
				2011		2010		
				Directly	Indirectly	Directly	Indirectly	
Best Earning Development Limited	Hong Kong	Ordinary	HK$1	-	100%	–	100%	Investment holding
ZZNode (Shanghai) 上海直真節點科技開發有限公司 (Note)	The PRC	Registered capital	RMB5,000,000	-	-	–	98%	Provision of telecommunication OSS products and solutions
Chuangzhi Lide 創智利德(北京)科技發展有限公司	The PRC	Registered capital	RMB45,965,860	-	97.82%	–	97.82%	Operating and broadcasting across LED displays
新華色彩色(北京)文化傳播有限公司	The PRC	Registered capital	RMB2,000,000	-	100%	–	100%	Operating and broadcasting outdoor displays and other media
Precious Luck	The BVI	Ordinary	US$100	-	100%	–	100%	Investment holding
Watson (Note)	Hong Kong	Ordinary	HK$1	-	-	–	–	Investment property holding
Alpaco (Note)	The BVI	Ordinary	US$1	-	-	–	–	Investment property holding
北京柯瑞環宇傳媒文化有限公司	The PRC	Registered capital	RMB1,000,000	-	98%	–	–	Provision of management and consultancy services to media enterprises
上海晟彩文化傳播有限公司	The PRC	Registered capital	RMB2,000,000	-	51%	–	–	Inactive
Sino Advantage Asia Limited	The BVI	Ordinary	US$1,000	-	100%	–	–	Inactive
China Oriental Culture (Hong Kong) Limited	Hong Kong	Ordinary	HK$1	100%	-	100%	–	Inactive
Star Apex Investment Limited	The BVI	Ordinary	US$1,000	-	100%	–	100%	Inactive
Perfection Asia Limited	The BVI	Ordinary	US$1	-	100%	–	100%	Inactive

Note: The Group ceased to hold any equity interest in these companies upon the completion of the disposal as detailed in Note 43.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

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

None of the subsidiaries had any debt securities at the end of both years nor at any time during both years.

47. CONTINGENT LIABILITIES

On 12 June 2010, an indirectly-owned subsidiary of the Company has been brought to the first court hearing at 河北省廊坊經濟技術開發區人民法院 by 日本赤見電機株式會社 ("Japan Chijian"). Japan Chijian has brought a claim for alleged breach of contractual undertakings in relation to the construction of a LED display panel located in the PRC for an amount of approximately RMB12,378,000.

With reference to the PRC legal advisor, the subsidiary is not liable to the claim as no commitment has been contracted between the subsidiary and Japan Chijian. In the opinion of the directors of the Company, the subsidiary of the Group has valid defences against such claims and any resulting liabilities would not have any probable material adverse impact on the Group's financial position. As a result, no provision in respect of such claims was made in the consolidated financial statements.

Subsequent to the end of the reporting period, on 13 March 2012, the case was proceeded to 河北省石家莊中級人民法院 for further hearing. As at the date of approval of the consolidated financial statements, no decision had been made in the court proceedings.

48. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, on 3 January 2012, the conversion price in force of the 2011 Convertible Loan Notes has been reset to HK$0.29 per conversion share due to the closing prices per share of the Company as quoted on the Stock Exchange for any five consecutive trading days at any time after the first six months from the date of issue of 2011 Convertible Loan Notes are less than the conversion price in force (i.e. HK$0.49 per conversion share), then the conversion price of the 2011 Convertible Loan Notes shall be reset at 80.1% of the average of the closing prices (or the par value of the Share if it is higher). The conversion price of the 2011 Convertible Loan Notes shall only be reset once. Details are set out in the announcement of the Company dated 3 January 2012.

49. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* upon the disposal of a subsidiary which resulted in discontinued operations during the year.