ANNUAL REPORT 2011

中金投集团
China Financial Services Holdings Ltd
(Stock code: 605)

China Financial Services Holdings Limited

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

Mr. Cheung Siu Lam *(Chairman)*
Mr. Chan Yuk Ming *(Vice-Chairman)*
Mr. Tao Ye

Non-Executive Directors

Mr. Liu Hui
Madam Lo Wan

Independent Non-Executive Directors

Mr. Wang Jian Sheng
Mr. Chan Chun Keung
Mr. Tsang Kwok Wai

COMPANY SECRETARY

Mr. Chung Chin Keung FCCA, FCPA, ACA

AUDITOR

CCIF CPA Limited

AUDIT COMMITTEE

Mr. Tsang Kwok Wai *(Chairman)*
Mr. Wang Jian Sheng
Mr. Chan Chun Keung

REMUNERATION COMMITTEE

Mr. Tsang Kwok Wai
(Chairman since 28 March 2012)
Madam Lo Wan
Mr. Wang Jian Sheng
Mr. Chan Chun Keung

NOMINATION COMMITTEE

Mr. Cheung Siu Lam *(Chairman)*
Mr. Wang Jian Sheng
Mr. Chan Chun Keung
Mr. Tsang Kwok Wai

PRINCIPAL BANKERS

Bank of Communications
Bank of Beijing

SHARE REGISTRARS

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Suite 5606
56th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

STOCK CODE: 605

WEBSITE

www.cfsh.com.hk

Chairman's Statement

Cheung Siu Lam
Chairman

The year 2011 witnessed new heights of achievement for China Financial Services Holdings Limited. The solid foundation we have built in the past has propelled our performance full speed ahead. On behalf of the board of directors (the "Board"), I am pleased to present to the shareholders the annual report of China Financial Services Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2011. This is the first year the company use its new name to publish its annual report and the performance delivered by the Group is promising.

For the year ended 31 December 2011, the Group recorded a turnover of HK$382.1 million, a surge of 76.1% against the previous year (2010: HK$217.0 million). Profit attributable to owners of the Company grew by 125.6% to HK$57.3 million, compared to HK$25.4 million in 2010. The short-term financing business has offered a solid foundation for the business transformation of the Group.

During the year, the Company has completed the acquisition of several companies which engaging in short-term financing, loan guarantee and provision of financial consultancy services from me and the business direction of the Group has become focus on providing financing services to small and medium-sized enterprises. With the impact of the weak recovery of the world economy and the continuous tightening of domestic monetary policy, it is expected that the economic growth of PRC will slow down. This will be beneficial to our Group as tight liquidity will generate massive demand for loan financing services in the PRC. The Board remains optimistic about the prospect of our short-term financing business.

For the year 2012, we plan to obtain at least an extra RMB300 million credit from different banks. For business development, we will subdivide loans and financing structures and capital layout, and promote the development and establishment of professional markets and special channels. We will also advocate the principle of rational funding distribution and risk diversification, and provide clear guidelines for risk management in terms of size, term, percentage on security for loans to individual customers. We also intend to establish a foreign joint venture in Beijing engaging in micro loan business.

Chairman's Statement

Looking ahead, we plan to double our revenue and increase our loan portfolio to about RMB1.5 billion and exceed RMB7 billion by 2014, which enable the Company to become a leading premier services provider offering comprehensive financing services for SME in the Bohai Gulf Region. We are confident that we are on track to continue achieving high growth performance in 2012 and beyond. Our ability to leverage our extensive industry experience and develop our intellectual assets to expand our solution offerings to our clients will continue to be our key to success.

On behalf of the Board, I would like to thank our shareholders for their continued confidence and support, our board of directors, management team and every member of the dedicated staff for their hard work and significant contribution in the past years.

Cheung Siu Lam
Chairman

Hong Kong, 28 March 2012

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Board of the Company considers good corporate governance practices to be essential to the promotion of shareholder value and investor confidence.

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

Throughout the year under review, the Company has complied with the code provisions as set out in the CG Code, save for the deviations from code provisions A.1.1 and A.5.1, which deviations are explained in the relevant paragraphs in this Report.

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

THE BOARD

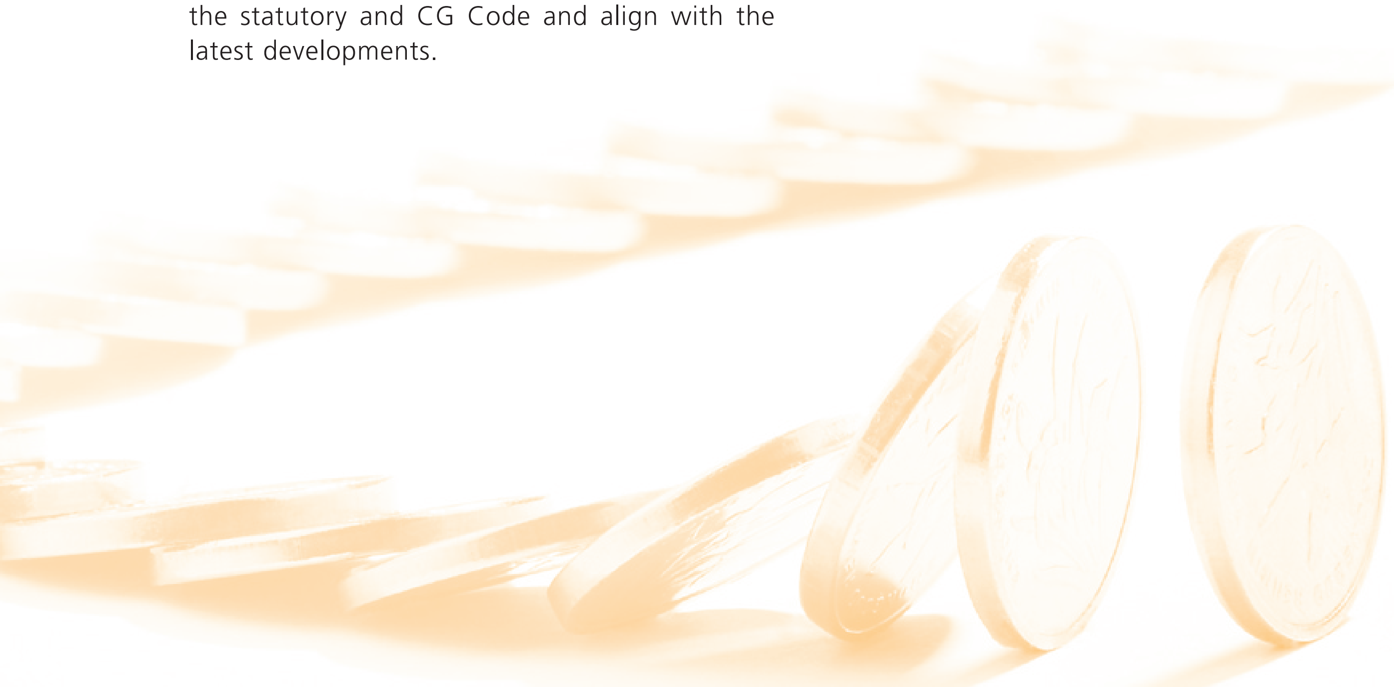
Responsibilities

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

All directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

Board Composition

As at 31 December 2011, the Board comprises eight members, consisting of three executive directors, two non-executive directors and three independent non-executive directors.



Corporate Governance Report

The Board of the Company comprises the following directors:

Executive directors:

Cheung Siu Lam *(Chairman)*
Chan Yuk Ming *(Vice Chairman)*
Tao Ye

Non-executive directors:

Lo Wan #
Liu Hui

Independent non-executive directors:

Tsang Kwok Wai ♦+
Wang Jian Sheng ★+
Chan Chun Keung ★+

♦ *Audit Committee Chairman*
★ *Audit Committee Members*
Remuneration Committee Chairman
+ *Remuneration Committee Members*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The relationships among the members of the Board are disclosed under "Biographical Details of Directors and Senior Management" on page 18.

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

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

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through the participation at Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

Chairman and Chief Executive Officer

The Chairman of the Board is Cheung Siu Lam, and the Chief Executive Officer is Luo Rui. With the support of the senior management, the Chairman is responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

Corporate Governance Report

The Board considers that the responsibilities of the Chairman and Chief Executive Officer respectively are clear and distinctive and hence written terms thereof are not necessary.

Appointment and Re-election of Directors

Each of the non-executive directors of the Company is engaged on a service contract for a term of one year. The appointment may be terminated by not less than two months' written notice.

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

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment of directors and assessing the independence of independent non-executive directors.

The Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. Where vacancies on the Board exist, the Board shall carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Madam Lo Wan, Mr Wang Jian Sheng and Mr Tao Ye shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting pursuant to the Company's Articles of Association.

The Board recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 25 April 2012 contains detailed information of the directors standing for re-election.

Corporate Governance Report

Training of Directors

Code provision A.5.1 stipulates that every newly appointed director of the issuer should receive a comprehensive, formal and tailored induction on his first appointment, and subsequently such briefing and professional development as is necessary to ensure that he has a proper understanding of operations and business of the issuer and his responsibilities under statute, common law, Listing Rules, applicable legal requirements and other regulatory requirements and the business/governance policies of the issuer.

There is currently no arrangement in place for providing professional briefings and training programmes to directors. Nevertheless, the directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company would consider to engage external legal and other professional advisers for providing professional briefings and training programmes to directors whenever necessary.

Board Meetings

Board Practices and Conduct of Meetings

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

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

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

The Chief Financial Officer and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

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

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

CORPORATE GOVERNANCE REPORT

Directors' Attendance Records

Code provision A.1.1 stipulates that at least 4 regular Board meetings a year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

The Company does not announce its quarterly results and hence not consider the holding of quarterly meetings as necessary. The Board met two times during the year ended 31 December 2011 for approving the final results for the year ended 31 December 2010 and interim results for the period ended 30 June 2011.

The attendance records of each director at the Board meetings during the year ended 31 December 2011 are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr Cheung Siu Lam	6/10
Mr Chan Yuk Ming	7/10
Madam Lo Wan	9/10
Mr Chan Chun Keung	6/10
Mr Wang Jian Sheng	6/10
Mr Tsang Kwok Wai	9/10
Mr Liu Hui	4/10
Mr Tao Ye*	0/2

* Appointed on 15 July 2011

Model Code for Securities Transactions

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

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

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DELEGATION BY THE BOARD

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

Corporate Governance Report

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

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

The Board has established two committees, namely, the Audit Committee and Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board Committees of the Company are established with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

The Board also has the full support of the Chief Executive Officer and the senior management for the discharge of its responsibilities.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2011 are set out on page 77 in note 7 to the financial statements.

Remuneration Committee

The Remuneration Committee comprises four members, namely Madam Lo Wan (Chairman), Mr Tsang Kwok Wai, Mr Wang Jian Sheng and Mr Chan Chun Keung, the majority of them are independent non-executive directors.

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

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult with the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee normally meets at least once a year for reviewing the remuneration policy and structure and determining the annual remuneration packages of the executive directors and the senior management and other related matters.

During the year under review, there had not been any changes to the remuneration packages of the existing directors and therefore the Remuneration Committee did not hold any meeting in 2011.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting

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

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

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

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Internal Controls

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

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

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group.

The Directors acknowledge their responsibility for the Group's internal control systems and confirm they have reviewed and are satisfied as to its effectiveness in managing risks.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr Tsang Kwok Wai (Chairman), Mr Wang Jian Sheng and Mr Chan Chun Keung (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the Chief Financial Officer or external auditors before submission to the Board.

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

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

Corporate Governance Report

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2010 and interim results and interim report for the six months ended 30 June 2011, the financial reporting and compliance procedures, internal control and risk management systems and processes, and the re-appointment of the external auditors.

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

Name of Directors	**Attendance/ Number of Meetings**
Mr Tsang Kwok Wai	2/2
Mr Wang Jian Sheng	2/2
Mr Chan Chun Keung	2/2

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 31.

During the year under review, the remuneration paid to the Company's auditors, is set out below:

Category of Services	**Fee Paid/ Payable** HK$
Audit service	950,000
Non-audit service	
– Services rendered in relation to the major acquisition completed on 21 June 2011	320,000
Total	HK$1,270,000

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Audit Committee and Remuneration Committee or, in their absence, other members of the respective committees and the Board, are available to answer questions at the shareholders' meetings.

To promote effective communication, the Company maintains a website at www.cfsh.com.hk where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. Investors may write directly to the Company at its registered office or via email to the Company's website for any inquiries.

Corporate Governance Report

SHAREHOLDER RIGHTS

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

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

On behalf of the Board
Cheung Siu Lam
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the provision of integrated short-term financing services, comprising short-term financing, loan guarantee services and related management and consultancy services and retail business.

MATERIAL ACQUISITIONS AND DISPOSALS

On 27 January 2011, K.P.B. Group Holdings Limited, a wholly-owned subsidiary of the Company, entered into an Acquisition Agreement with Mr. Cheung Siu Lam ("Mr. Cheung"), the Chairman of the Board, to acquire the entire issued capital of K.P. Financial Group Limited which indirectly has beneficial interests in 70% of the equity interests in Beijing Huifeng Rongjin Credit Finance Company Limited（北京惠豐融金小額貸款有限公司）, 100% of the equity interests in Beijing Zhong Jin Tou Management Consultancy Company Limited（北京中金投財務諮詢有限公司）(formerly known as Beijing Gangjia Huitong Management Consultancy Company Limited) and 100% of the equity interests in Beijing Huaxia Xingye Investment Guarantee Company Limited（北京華夏興業投資擔保有限公司）(collectively referred to as the "Target Group"), and the shareholder's loan at the consideration of HK$600 million. Pursuant to the Acquisition Agreement, the consideration shall be satisfied as to (i) HK$500 million by the allotment and issue of 1,250,000,000 shares to Mr. Cheung (or his nominee(s)) at an issue price of HK$0.40 per share, credit as fully paid, on the completion date, and (ii) the balance of HK$100 million in cash, either one-off or by such number of Instalments and amount as determined by Mr. Cheung, within six months after the completion date. The acquisition was completed on 21 June 2011. Further details of the acquisition were set out in the Company's circular dated 29 April 2011 to its shareholders in connection with the acquisition.

Mr. Cheung has guaranteed to the K.P.B. Group Holdings Limited that the audited net profit of the Target Group for the year ending 31 December 2011 should not be less than HK$80 million. During the year under review, the audit net profit after taxation (excluding non-controlling interest) of the Target Group was approximately HK$90.5 million and hence the profit guarantee given by Mr. Cheung was met.

On 30 November 2011, 海口港佳貿易有限公司 (Haikou K.P.I. Company Limited#), an indirect wholly-owned subsidiary of the Company, entered into an agreement with 北京嘉澤林物業管理有限公司 (Beijing Jia Ze Lin Property Management Company Limited#) to sell the whole block of a commercial building at 北京市海淀區西三環北路88號 (88 North Xi San Huan Road, Haidian District, Beijing#), the PRC together with the land use right for a cash consideration of RMB63 million. The Board considered that it is in the interests of the Company and the shareholders as a whole to devote more resources in the development of the short-term financing business which is promising and the return rate of which is more than the rental income generated from the property. The disposal represents a good opportunity for the Group to realize its investment in the property at a fair and reasonable price while the sales proceeds would be able to support the continuous growth of the short-term financing business, thereby generating a higher return for the Group in the future.

The English name is not an official name and is provided for reference only.

MANAGEMENT DISCUSSION AND ANALYSIS

Further details of the disposal of property were set out in the Company's announcement dated 30 November 2011.

Other than disclosed above, there was no material acquisition on disposal of subsidiaries during the year ended 31 December 2011.

BUSINESS REVIEW

After the acquisition of K.P. Financial Group Limited, the Group has become a total solutions provider which offers a wide range of short-term financing services to accommodate different customers' needs. The services provided to individual & small-to-medium-sized enterprise ("SME") customers include pawn loan services, entrusted loan services, loan guarantees, financial consultancy and loan management services. For the year ended 31 December 2011, the Group recorded a total revenue of approximately HK$382,127,000, representing a growth of 76.1% from HK$217,022,000 as compared with 2010. Net profit after tax attributable to owners of the Company was about HK$57,302,000, an increase of 126.0% over 2010.

As a result of the economic growth in the PRC, the private enterprise sector in the PRC has expanded rapidly in recent years and the demand for funding is on an increasing trend. The Group as a non-bank financial institution fills the funding gap for SMEs and individuals that banks are either unable to or unwilling to make loans to. Along with the steady growth of loans to SMEs and individuals in the PRC, the Board believes that there will be upside potential in the demand for financing services in the coming years.

If the acquisition of the Target Group had occurred on 1 January 2011, the revenue generated by the short-term financing business would have been approximately HK$203,135,000 and the net profit after taxation would have been approximately HK$120,622,000. The short-term financing business has offered a solid foundation for the growth of the Group. This proves the Board's accurate foresight as it decided to acquire the Target Group and allocate more resources to short-term financing business.

Our Beijing convenience chain stores (the "Hi-24") achieved a single store average daily turnover of approximately RMB4,900, representing a growth of approximately RMB700 or 17% over last year.

After trial operation in 2010, during 2011, Hi-24 set up a specialized fast food department to conduct fast food research and development and to provide professional guidance and support to the stores. The food categories that Hi-24 offered are basically quite comprehensive with operating categories reaching 15. The annual sales amount reached RMB23 million, representing 10% of total sales of the retail business. In December, a monthly sales of RMB2.7 million were achieved, contributing to almost 10% of total sales of that month.

Hi-24 has started trial co-operation with a group shopping website since the second half of 2011 and has installed merchandise redemption devices inside the stores, gradually carrying out on-line group shopping activities. The purpose is to attract more consumers, enhance more Hi-24 awareness and drive higher customer flow. The Hi-24 membership cards have also achieved the purpose of attracting new customers, retaining old customers and enhancing customer loyalty.

MANAGEMENT DISCUSSION AND ANALYSIS

However, Hi-24 will also face a number of difficulties such as intensified market competition, and high rental and labour costs. Existing competitors are speeding up their store expansion and new competitors are emerging. Hi-24 will have to improve continuously at various levels such as enhancing merchandise features, increasing value added services and raising customer service standards.

In 2011, Hi-24 continued to maintain the mechanism of pegging staff income to sales growth and were able to share the growth with staff. However, labour costs of store outlets continued to accelerate and were up by about RMB4 million or 17% over last year. Labour costs of Hi-24 will continue to grow rapidly in 2012 and such impact can only be assimilated through sales growth. Hi-24 will also face higher rents which landlords will demand as convenience stores expand rapidly in Beijing and fewer and fewer shops are available in good locations. Currently, market rentals for shops with street frontage at relatively good locations are above RMB250,000 per year, which requires a higher daily sales volume to pay for the lease.

Despite the above adverse factors, after more than ten years' of development and accumulation of experience, the management is confident that Hi-24 will be able to achieve continuous high sales growth.

FINANCIAL REVIEW

Revenue and Net Profit

For the year under review, the Group's revenue amounted to approximately HK$382,127,000 (2010: HK$217,022,000), representing an increase of 76.1%. Net profit after tax attributable to owners of the Company was approximately HK$57,302,000 (2010: HK$25,355,000), an increase of about 126.0% compared with the corresponding figure last year.

Retail Business

Currently, the Group has about 186 convenience store outlets in Beijing city. Turnover generated from retail business

for the year amounted to approximately HK$264,450,000 (2010: HK$201,515,000), an increase of 31.2% as compared with the corresponding figure of the last year. Gross profit of retail business amounted to approximately HK$63,288,000 (2010: HK$45,389,000), increasing by about 39.4%. Merchandise sales gross margin was 23.9%. Profit before and after taxation of retail business contributed to the Group's results were approximately HK$8,558,000 and HK$6,418,000. Selling and administrative expenses of the retail business for the year 2011 were approximately HK$88,823,000.

FINANCING BUSINESS

The Group was engaged in the provision of non-bank financial services to SME customers with real estate as the most common form of collateral. The short-term loans offered were secured by tangible personal property of the customers. As at 31 December 2011, the Group had direct advances to customers of approximately HK$809,596,000.

Revenue generated from financing business includes interest income of approximately HK$20,166,000, financing consultancy service income of approximately HK$96,412,000 and loan guarantee service income of approximately HK$1,099,000.

As at 31 December 2011, the aggregate amount of loan guarantee provided by the Group was approximately HK$124,584,000. Guarantee income is recognized over the life of guarantee contracts. As at 31 December 2011, the deferred income was approximately

MANAGEMENT DISCUSSION AND ANALYSIS

HK$1,271,000 which would be recognized in the forthcoming 12 months. Profit before and after taxation of financing business contributed to the Group's results were approximately HK$81,622,000 and HK$58,876,000 respectively. Administrative expenses of the financing business for the year 2011 were approximately HK$37,418,000. Our unique multi-licence platform in Beijing allowed the Group to structure a more competitive product mix to customers. To sustain continuous business growth, the Group has increased its presence and enhanced public awareness through advertising and marketing activities in our convenience store outlets. The Group also began to expand its sales team to cater future business growth.

Finance Costs

Finance costs for the year under review were approximately HK$1,000,000, representing a decrease of 37.5% over HK$1,600,000 for 2010.

Financial Resources and Capital Structure

The Group maintains a healthy cash position and sufficient capital for business development. As at 31 December 2011, current assets of the Group comprised cash and bank balances of approximately HK$187,239,000, short term loans receivable of approximately HK$809,596,000, accounts and interests receivable of approximately HK$14,295,000, other receivables, deposits and prepayments of approximately HK$38,610,000, inventories of approximately HK$20,777,000 and financial assets at fair value through profit or loss of approximately HK$3,898,000. Non-current assets mainly comprised property, plant and equipment of about HK$11,368,000, goodwill of about HK$622,703,000, intangible assets of approximately HK$385,000 and available-for-sale investments of approximately HK$65,348,000. Current liabilities mainly comprised accounts payable of approximately HK$45,605,000, deferred income of about HK$16,275,000, other payables, deposits received and accrual of approximately HK$143,569,000, tax payable of approximately HK$35,011,000 and short-term bank loans of about HK$49,175,000.

LIQUIDITY AND GEARING RATIO

The Group maintains a healthy liquidity position. As at 31 December 2011, the current ratio of the Group was 4.0 times. The Group monitors capital on the basis of the gearing ratio, which is calculated as total borrowings divided by total equity. As at 31 December 2011, the gearing ratio was about 3.1%.

FAIR VALUE ESTIMATION

The carrying amounts less impairment provision of the financial assets and the carrying amounts of the financial liabilities are assumed to estimate their fair values.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2011, the Group had approximately 1,200 employees in Mainland China and Hong Kong. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualifications, experience and performance. The Group also sets up a share option scheme for the purpose of providing incentives to eligible employees. For the period under review, total staff costs were about HK$52,764,000.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR CHEUNG SIU LAM, aged 53, is a co-founder and Chairman of the Group. Before establishing the Group, Mr Cheung worked for Beijing Machinery Import & Export Company for many years. Mr Cheung has extensive experience in trading and retailing business in the People's Republic of China ("PRC"). Mr Cheung is responsible for the overall strategic planning and corporate development of the Group. Mr Cheung is the spouse of Madam Lo Wan. Mr. Cheung is the Chairman of the Nomination Committee of the Company.

MR CHAN YUK MING, aged 53, is the Vice-Chairman of the Group. Mr Chan graduated from the Hangzhou Institute of Business, following which he worked in the accounting department of the Ministry of Commerce. He joined the Group in 1985 and is responsible for business development of the Group.

Mr Chan does not have any relationship with any other directors, senior management, substantial shareholders, or controlling shareholders of the Company.

MR TAO YE, aged 39, joined the Group in January 2004. He was appointed as an executive director on 15 July 2011. Mr Tao graduated in Peking University in 1995 and obtained a Bachelor Degree in Science and a certificate in Law. Mr Tao further obtained a Master Degree in Science from Peking University in 1998 and a Master Degree in Business Administration from the Guanghua School of Management of Peking University in 2001. Mr Tao is also a director of K.P.I. Convenience Retail Company Limited, director and general manager of Beijing K.P.I. Hi-24 Convenience Stores Company Limited. He has extensive experience in strategic planning, business administration and corporate management and possesses unparalleled strength in the areas of overall corporate structuring as well as risk management over various business and operations.

Mr Tao does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

NON-EXECUTIVE DIRECTORS

MR LIU HUI, aged 55, is graduated from Beijing University of International Business and Economics and Westminster University of UK. Mr Liu has over 29 years of experience in advising and investing in the PRC, especially in the retail and consumer sectors. Mr Liu co-founded the US$165 million China Retail Fund, LDC with American International Group, Inc in 1996. He is currently an independent non-executive director of China-Hong Kong Photo Products Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited) and a non-executive director of ARC Capital Holdings Limited (a closed-end fund listed on the AIM market of the London Stock Exchange). Mr Liu joined the Group in October 2007.

Mr Liu does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

MADAM LO WAN, aged 50, joined the Group in 1989 and re-designated from executive Director to non-executive Director on 15 July 2011. Prior to joining the Group, she worked for a PRC trading company. Madam Lo is also a member of the Remuneration Committee of the Company.

Madam Lo is the spouse of Mr Cheung Siu Lam, the Chairman of the Group.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR WANG JIAN SHENG, aged 59, graduated from Luoyang Industrial Institution (currently known as Henan Technology University) with a degree in engineering. He has been involved in industrial businesses for more than 26 years and has worked in the Project Department of China Everbright Industrial Company for four years. Mr Wang is the chairman of Strong Petrochemical Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited). Mr Wang joined the Group in 1996. Mr Wang is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Mr Wang does not have any relationship with any other directors, senior management, substantial shareholders, or controlling shareholders of the Company.

MR CHAN CHUN KEUNG, aged 61, joined the Group in November, 2000. Mr Chan has extensive experience in trading and investment in PRC and is currently a committee member of the Chinese People's Political Consultative Conference of Fujian Province, PRC, the vice-chairman of the Fukien Chamber of Commerce in Hong Kong and a committee member of the Foreign Investment Enterprises Association in PRC. Mr Chan is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Mr Chan does not have any relationship with any other directors, senior management, substantial shareholders, or controlling shareholders of the Company.

MR TSANG KWOK WAI, aged 42, joined the Group in May 2007. He is a fellow member of the Hong Kong Institute of Certified Public Accountants; The Association of Chartered Certified Accountants; and The Taxation Institute of Hong Kong. Mr Tsang is also an independent non-executive director of Century Ginwa Retail Holdings Limited and ABC Communications (Holdings) Limited (from 18 September 2008 to 28 January 2011) (both companies listed on The Stock Exchange of Hong Kong Limited). Mr Tsang has over 19 years of experience in accounting and finance. At present, Mr Tsang runs his own firm and practices public accounting. He is also the chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company.

Mr Tsang does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

SENIOR MANAGEMENT

MR LUO RUI, aged 44, is the chief executive officer of the Group and is responsible for the overall business development and daily operation of the Group. Mr Luo graduated with a Bachelor and Master's degree in Building Construction of Xi'an University of Architecture and Technology（西安建築科技大學）. Mr Luo has over 15 years of experience and a proven track record in commercial real estate investment and financing, assets acquisition, project development, market development and corporate management. Mr Luo has been the chief architect and deputy general manager of a property developer in Hainan and the deputy general manager of a property management company in Beijing. Mr Luo has extensive networks with senior management of property developers, major commercial banks and local authorities in Beijing. He is currently a councilor of the Beijing Guarantee Association（北京市擔保協會）, the Beijing Association of Small and Medium Enterprises（北京市中小企業協會）, the Beijing Association of Pawn Business（北京市典當協會）and the Beijing Microcredit Association（北京市小額貸款協會）. He joined the Group in June 2011.

Biographical Details of Directors and Senior Management

MS GUAN XUE LING, aged 38, is the executive Vice President of the Group. Ms Guan has over 10 years of strategic decision making and practical experiences in listed companies auditing, corporate merger and acquisition, equity acquisition, transfer as well as project investment and financing.

Ms Guan joined the Group in June 2011, mainly responsible for risk management, accounting affairs and treasury management of the Group.

Ms Guan successively held the posts of quality control manager, auditing manager, assessment manager, chief auditor and head of the auditing department in domestic accounting firms, large state-owned enterprises, large private companies and foreign-invested companies. She is familiar with accounting and valuation standards. During her years with accounting firms, she had participated in the auditing work of a number of large state-owned enterprises, foreign-invested enterprises and private enterprises, such as China Resources Land, Sinobo Group and Suning Corporation. She also participated in various IPOs audit and internal audit, such as BBMG Corporation, Enlight Media and Ningxia Yellow River Rural Commercial Bank. She had led and participated in various auditing projects spanning across the real estate, manufacturing, media, retail, logistic and finance sectors and has extensive experiences in financial auditing and internal auditing.

Ms Guan graduated from Capital University of Economics and Business with a Postgraduate Degree in Business Administration. She is also a certified public accountant, a qualified asset appraiser in the PRC and a party member of China Democratic National Construction Association.

MR SUN YU, aged 43, is the executive Vice President of the Group. Mr Sun has more than 10 years of experiences in special project investment and over 5 years of experiences in bank credit guarantee and pawn business operation.

Mr Sun joined the Group in 2009, mainly responsible for daily management of the sales team. Mr Sun was the general manager of the business division of 北京寶瑞通典當行. He has extensive practical experiences in the extension of loans of non-bank financial institutions, especially in relation to loan using real estate as collateral. He had led his team successfully accomplished 70 loan transactions with aggregate size exceeding RMB1.5 billion. Before that, Mr Sun had participated in and led a number of investment projects in different industries, including investment and merger and acquisition in new energy, medical, pharmaceutical, catering, home appliance, electronic and environmental industries. In addition, Mr Sun also served as the sales manager of the Beijing branch of Shanghai Dalu Futures Company Limited, mainly to deal with futures and securities investment.

Mr Sun graduated from Tsinghua University in 1991.

Biographical Details of Directors and Senior Management

MR TANG ZHI YONG, aged 36, is the executive Vice President of the Group. Mr Tang has more than ten years of management experience in guarantee, investment and project financing, and has extensive connection with banks, trusts, guarantee associations and association of small-to-medium sized enterprises and institutions in the guarantee industry in Beijing.

Mr Tang joined the Group in June 2011, and was primarily responsible for strategic planning, marketing and products development and the operation of guarantee business. Mr Tang once served as General Manager of three guarantee companies and was an expert in designing products and operating model of guarantee business, integrating strategic resources as well as establishing business channels and risk management and control systems of guarantee institutions. In 2002, Mr Tang established Northern Credit Guarantee Company (北方信用擔保公司) and during his term of service as General Manager, Mr Tang suggested the business model of automobile credit services centers which focused on provision of loans services business to personal automobile consumer and automobile dealership enterprises. In 2005, Mr Tang was the first to launch the profiting model of guarantee institution notes business, which was a breakthrough to the profiting model of traditional guarantee business. While Mr Tang was engaged in guarantee business, Mr Tang devoted himself to business product design of guarantee institutions and realization of concepts of special guarantee financing platform. In developing the secured loan service platforms, Mr Tang has always been advocating building differentiated competitive power of guarantee platforms, which had revenues of individual business exceeding the market level while reducing business risks. These resulted in good operating efficiency.

As for social work, Mr Tang was responsible for the thematic study of Credit Evaluation and Market Supervision of Guarantor (擔保機構資信評價及市場行為監管) of the Ministry of Development in 2006. He was also appointed by the Beijing Municipal Bureau of Construction (北京市建設委員會) to participate in the drafting of documents regarding the norm of Beijing construction guarantee market, to design the Beijing Construction Guarantee Market Supervision System (北京市工程擔保市場監管系統), and, as an invited expert, to assess the first batch of qualified project guarantors in Beijing. He is currently acting as the Vice-chairman of the China Construction Guarantee Professional Committee and a general councilor of the Beijing Guarantee Association.

Mr Tang graduated from the School of International Studies, Peking University (北京大學國際關係學院), obtained a Graduate Diploma in Integrated Marketing Communications from the Hong Kong University, and is currently taking a research master study in the Liaoning University Philosophy and Public Management School (遼寧大學哲學與公共管理學院) in Public Administration.

REPORT OF THE DIRECTORS

The directors present herewith their report and the audited financial statements of the Company and the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries, are set out in note 17 to the financial statements respectively.

SEGMENT INFORMATION

An analysis of the Group's segment revenue, results, assets and liabilities for the year ended 31 December 2011 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 37. The directors do not recommend the payment of any dividend in this year (2010: NIL).

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 37 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT, LEASE PREMIUM FOR LAND AND INVESTMENT PROPERTY

Details of movements in property, plant and equipment, land lease premium and the investment property of the Group are set out in notes 13 to 15 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company during the year, together with the reasons therefore, are set out in notes 35 and 36 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

Profit for the year attributable to owners of the Company of HK$57,302,000 (2010: HK$25,355,000) has been transferred to reserves. As at 31 December 2011, the Company's reserve available for distribution to shareholders amounted to approximately HK$121,324,000 (2010: HK$76,659,000) in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

The Group is principally engaged in retail business and provision of short term financing services. The five largest customers and the five largest suppliers of the Group accounted for less than 30% of the Group's revenue and purchases respectively during the year.

As far as the directors are aware, neither the directors, their associates nor any shareholder of the Company (which, to the best of knowledge of the directors, owns more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

Report of the directors

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive Directors

Cheung Siu Lam *(Chairman)*
Chan Yuk Ming *(Vice-chairman)*
Tao Ye (appointed on 15 July 2011)

Non-Executive Directors

Liu Hui
Lo Wan (re-designated on 15 July 2011)

Independent Non-Executive Directors

Wang Jian Sheng
Chan Chun Keung
Tsang Kwok Wai

According to Article 105(A) of the Company's Articles of Association, Madam Lo Wan and Mr Wang Jian Sheng shall retire by rotation at the Annual General Meeting, and being eligible, will offer themselves for re-election at the Annual General Meeting. According to Article 96 of the Company's Articles of Association, Mr Tao Ye shall retire at the Annual General Meeting, and will offer himself for re-election at the Annual General Meeting. The directors of the Company, including the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

DIRECTORS' SERVICE CONTRACTS

The non-executive director, Mr Liu Hui and the independent non-executive director, Mr Tsang Kwok Wai, have entered into a service contract with the Company for one year commencing on 8 October 2007 and 28 May 2007 respectively and is subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

Other independent non-executive directors, namely Mr Wang Jian Sheng and Mr Chan Chun Keung entered into service contracts with the Company respectively for a term of one year commencing on 9 September 2004 and are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

Either party may terminate the contract by giving not less than two months' notice in writing or payment of remuneration in lieu of such notice or the unexpired part of such period. Their remuneration is determined by the board of directors on the anniversary of the dates of their appointments.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of 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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 December 2011, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies ("Model Code"), were as follows:

Long Positions in Shares and Underlying Shares of the Company

Name of Director	Capacity	Number of Ordinary Shares held	Underlying Shares Interested *(Note 1)*	Aggregate Long Position in Shares and Underlying Shares to Issued Share Capital
Cheung Siu Lam	Beneficial owner of 1,710,044,240 ordinary shares and 11,000,000 underlying shares, family interest of 225,802,000 ordinary shares and 11,000,000 underlying shares *(Note 2)* and interest in controlled corporation of 86,400,000 ordinary shares *(Note 3)*	2,022,246,240	22,000,000	68.21%
Lo Wan	Beneficial owner of 225,802,000 ordinary shares and 11,000,000 underlying shares, family interest of 1,710,044,240 ordinary shares and 11,000,000 underlying shares *(Note 4)* and interest in controlled corporation of 86,400,000 ordinary shares *(Note 3)*	2,022,246,240	22,000,000	68.21%
Chan Yuk Ming	Beneficial owner	10,000,000	12,000,000	1.26%
Tao Ye	Beneficial owner	0	7,000,000	0.23%

Notes:

1. The number of shares represents the shares in which the directors are deemed to be interested as a result of holding share options.

2. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 225,802,000 ordinary shares and 11,000,000 underlying shares held by Lo Wan.

3. Arbalice Holdings Limited is beneficially owned as to 60% by Cheung Siu Lam and 40% by Lo Wan. By virtue of the SFO, Cheung Siu Lam and Lo Wan are deemed to be interested in 86,400,000 shares held by Arbalice Holdings Limited.

4. By virtue of the SFO, Lo Wan is deemed to be interested in 1,710,044,240 ordinary shares and 11,000,000 underlying shares held by Cheung Siu Lam.

REPORT OF THE DIRECTORS

Long Positions in Shares and Underlying Shares of Associated Corporation

Name of Director	Name of Associated Corporation	Approximate Percentage
Cheung Siu Lam	K.P.I. Convenience Retail Company Limited	28%

Save as disclosed above, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations were recorded in the register required to be kept under Section 352 of Part XV of the SFO as at 31 December 2011.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings "Directors' Interests in Share Capital" above and "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS IN SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following companies and person were interested in more than 5% of the issued share capital of the Company according to the register kept by the Company under Section 336 of Part XV of the SFO:

Long Positions in Shares and Underlying Shares of the Company

Name	Capacity	Number of Ordinary Shares held	Underlying Shares Interested	Aggregate Long Position in Shares and Underlying Shares to Issued Share Capital
Cheung Siu Lam	Beneficial owner of 1,710,044,240 ordinary shares and 11,000,000 underlying shares, family interest of 225,802,000 ordinary shares and 11,000,000 underlying shares and interest in controlled corporation of 86,400,000 ordinary shares	2,022,246,240	22,000,000	68.21%

REPORT OF THE DIRECTORS

Name	Capacity	Number of Ordinary Shares held	Underlying Shares Interested	Aggregate Long Position in Shares and Underlying Shares to Issued Share Capital
Lo Wan	Beneficial owner of 225,802,000 ordinary shares and 11,000,000 underlying shares, family interest of 1,710,044,240 ordinary shares and 11,000,000 underlying shares and interest in controlled corporation of 86,400,000 ordinary shares	2,022,246,240	22,000,000	68.21%

Save as disclosed above, no person had registered an interest or a short position in the shares and underlying shares or debentures of the Company that was required to be recorded under Section 336 of Part XV of the SFO.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company adopted a new share option scheme on 7 June 2004 (the "New Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

A summary of the New Scheme of the Company is as follows:

Purpose	To provide incentives and rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (the "Invested Entity").
Participants	(i) any employee (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company, any of its subsidiaries or any Invested Entity; (ii) any supplier of goods or services to any member of the Group or any Invested Entity, any customer of the Group or any Invested Entity; any person or entity that provides technical, financial and legal support to the Group or any Invested Entity; and (iii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.
Total number of ordinary shares available for issue under the New Scheme and the percentage of the issued share capital that it represents as at the date of the annual report	172,590,233 ordinary shares and 5.76% of the existing issued share capital.
Maximum entitlement of each participant	Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting.

Report of the directors

Where any grant or further grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including exercised, cancelled and outstanding options) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the relevant class of shares in issue; and

(b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000,

such grant or further grant of options must be approved by the shareholders in a general meeting.

Period within which the securities must be taken up under an option	An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the New Scheme.
Minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.
Amount payable on acceptance of the option and the period within which such payment must be made	The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1.00 being payable by the grantee.
Basis of determining the exercise price	Determined by the directors but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant of options; and (iii) the nominal value of the Company's shares.
The remaining life of the New Scheme	The New Scheme remains in force until 6 June 2014.

Report of the directors

During the year under review, no share options were granted. Details of the share options granted under the New Scheme are as follows:

As at 31 December 2011, the executive directors, non-executive directors and employees of the Group have the following interests under the New Scheme.

Director	Date of Offer	Exercise Price HK$	Outstanding at 1.1.2011	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at 31.12.2011	Exercise Period	Closing Price of the Securities Immediately before the Date on Which the Options were Offered HK$
Cheung Siu Lam	04.10.07	0.479	10,000,000	–	–	–	10,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	1,000,000	–	–	–	1,000,000	22.10.10 – 21.10.20	0.360
Lo Wan	04.10.07	0.479	10,000,000	–	–	–	10,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	1,000,000	–	–	–	1,000,000	22.10.10 – 21.10.20	0.360
Chan Yuk Ming	04.10.07	0.479	10,000,000	–	–	–	10,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	2,000,000	–	–	–	2,000,000	22.10.10 – 21.10.20	0.360
Tao Ye	04.10.07	0.479	5,000,000	–	–	–	5,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	2,000,000	–	–	–	2,000,000	22.10.10 – 21.10.20	0.360
Employees in aggregate	04.10.07	0.479	28,000,000	–	–	–	28,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	29,000,000	–	1,000,000	–	28,000,000	22.10.10 – 21.10.20	0.360

REPORT OF THE DIRECTORS

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

The Company has not redeemed any of its listed securities during the year ended 31 December 2011. Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

RETIREMENT SCHEMES

The Group also operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, and participates in various defined contribution retirement plans organised by the relevant authorities for its employees in the PRC.

CORPORATE GOVERNANCE

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The financial statements have been audited by CCIF CPA Limited, Certified Public Accountants. A resolution for their re-appointment as the Company's auditor for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Cheung Siu Lam
Chairman

Hong Kong, 28 March 2012

Independent Auditor's Report

CCIF
CCIF CPA LIMITED
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA FINANCIAL SERVICES HOLDINGS LIMITED (FORMERLY KNOWN AS K. P. I. COMPANY LIMITED)

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Financial Services Holdings Limited (formerly known as K.P.I. Company Limited) (the "Company") and its subsidiaries (together the "Group") set out on pages 33 to 133 which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 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. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

Independent Auditor's Report

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

Opinion

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

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2012

Kwok Cheuk Yuen
Practising Certificate Number P02412

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Continuing operations			
Turnover	3	**382,127**	217,022
Cost of sales		**(197,862)**	(156,800)
Gross profit		**184,265**	60,222
Other revenue	3	**39,625**	32,598
Other net income	3	**9,463**	49,958
Change in fair value of investment property	15	**–**	8,066
Selling and distribution expenses		**(77,775)**	(73,054)
Administrative expenses		**(69,689)**	(44,683)
Profit from operations		**85,889**	33,107
Finance costs	6	**(1,018)**	(1,550)
Profit before taxation from continuing operations	5	**84,871**	31,557
Income tax	8(a)	**(25,496)**	(4,565)
Profit for the year from continuing operations		**59,375**	26,992
Discontinued operations			
Profit for the year from discontinued operations	9	**–**	5,154
Profit for the year		**59,375**	32,146
Other comprehensive income, net of income tax			
Exchange differences on translation of financial statements of overseas subsidiaries		**18,438**	8,571
Change in fair value of available-for-sale investments		**(5,041)**	(6,724)
Other comprehensive income for the year, net of income tax		**13,397**	1,847
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**72,772**	33,993

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	**2011 HK$'000**	2010 HK$'000
Profit for the year attributable to:			
Owners of the Company		**57,302**	25,355
Non-controlling interests		**2,073**	6,791
		59,375	32,146
Total comprehensive income attributable to:			
Owners of the Company		**70,430**	26,270
Non-controlling interests		**2,342**	7,723
		72,772	33,993
Earnings per share (in HK cent)	*12*		
From continuing and discontinued operations			
– Basic		**HK2.373 cents**	HK1.469 cents
– Diluted		**HK2.367 cents**	HK1.459 cents
From continuing operations			
– Basic		**HK2.373 cents**	HK1.553 cents
– Diluted		**HK2.367 cents**	HK1.542 cents

The notes on pages 41 to 133 form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	13	**11,368**	3,624
Investment property	15	**–**	73,959
Intangible assets	16	**385**	403
Goodwill	18	**622,703**	–
Available-for-sale investments	19	**65,348**	48,495
		699,804	126,481
Current assets			
Inventories	25	**20,777**	35,581
Accounts receivable	20	**8,012**	1,143
Interests receivable	21	**6,283**	–
Short-term loans receivable	22	**809,596**	186,209
Financial assets at fair value through profit or loss	24	**3,898**	35,558
Other receivables, deposits and prepayments	26	**38,610**	160,814
Security deposits	23	**18,503**	–
Tax recoverable	8(c)	**268**	–
Cash and cash equivalents	28	**187,239**	339,954
		1,093,186	759,259
Asset classified as held-for-sale	41	**73,959**	–
		1,167,145	759,259
Current liabilities			
Tax payable	8(c)	**35,011**	1,510
Accounts payable	29	**45,605**	54,365
Other payables, deposits received and accruals	30	**143,569**	9,440
Deferred income	33	**16,275**	–
Short term bank loans – secured	32	**49,175**	4,650
Short term bank loans – unsecured	32	**–**	21,153
Liabilities arising from loan guarantee contracts	31	**1,851**	–
		291,486	91,118
Net current assets		**875,659**	668,141
Total assets less current liabilities		**1,575,463**	794,622
Non-current liabilities			
Long-term bank loans – secured	32	**–**	16,277
Deferred tax liabilities	34	**8,185**	4,203
		8,185	20,480
NET ASSETS		**1,567,278**	774,142

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
EQUITY			
Share capital	*35*	**299,700**	174,600
Reserves	*37*	**1,236,648**	591,229
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**1,536,348**	765,829
Non-controlling interests	*37*	**30,930**	8,313
TOTAL EQUITY		**1,567,278**	774,142

Approved and authorised for issue by the board of directors on 28 March 2012.

On behalf of the board

Cheung Siu Lam
Director

Chan Yuk Ming
Director

The notes on pages 41 to 133 form an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	13	**91**	391
Interests in subsidiaries	17	**14,269**	33,519
		14,360	33,910
Current assets			
Other receivables, deposits and prepayments	26	**2,095**	2,286
Amounts due from subsidiaries	27	**1,308,849**	576,417
Cash and cash equivalents	28	**24,599**	142,676
		1,335,543	721,379
Current liabilities			
Other payables, deposits received and accruals	30	**13,325**	571
Amounts due to subsidiaries	27	**27,755**	190,639
		41,080	191,210
Net current assets		**1,294,463**	530,169
Total assets less current liabilities		**1,308,823**	564,079
NET ASSETS		**1,308,823**	564,079
EQUITY			
Equity attributable to owners of the Company			
Share capital	35	**299,700**	174,600
Reserves	37	**1,009,123**	389,479
		1,308,823	564,079
TOTAL EQUITY		**1,308,823**	564,079

Approved and authorised for issue by the board of directors on 28 March 2012.

On behalf of the board

Cheung Siu Lam
Director

Chan Yuk Ming
Director

The notes on pages 41 to 133 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

				Other comprehensive income						
	Share capital	Share premium	Share-based compensation reserve	Exchange fluctuation reserve	Fair value reserve	Statutory surplus reserve	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	172,590	287,362	16,914	11,192	9,014	1,104	238,657	736,833	104,216	841,049
Exchange adjustment	–	–	–	7,639	–	–	–	7,639	932	8,571
Profit for the year	–	–	–	–	–	–	25,355	25,355	6,791	32,146
Fair value adjustment for financial assets	–	–	–	–	(6,724)	–	–	(6,724)	–	(6,724)
Total comprehensive income	–	–	–	7,639	(6,724)	–	25,355	26,270	7,723	33,993
Shares issued under share option scheme	2,010	3,125	(2,369)	–	–	–	–	2,766	–	2,766
Decrease in non-controlling interests arising on disposal of interest in a subsidiary *(note 39)*	–	–	–	–	–	–	–	–	(103,626)	(103,626)
Decrease in exchange fluctuation reserve arising on disposal of interest in a subsidiary *(note 39)*	–	–	–	(7,335)	–	–	–	(7,335)	–	(7,335)
Decrease in statutory surplus reserve arising on disposal of interest in a subsidiary *(note 39)*	–	–	–	–	–	(493)	–	(493)	–	(493)
Equity settled share-based transactions	–	–	7,788	–	–	–	–	7,788	–	7,788
At 31 December 2010 and 1 January 2011	174,600	290,487	22,333	11,496	2,290	611	264,012	765,829	8,313	774,142
Exchange adjustment	–	–	–	18,169	–	–	–	18,169	269	18,438
Profit for the year	–	–	–	–	–	–	57,302	57,302	2,073	59,375
Fair value adjustment for financial assets	–	–	–	–	(5,041)	–	–	(5,041)	–	(5,041)
Transfer to reserve	–	–	–	–	–	8,576	(8,576)	–	–	–
Total comprehensive income	–	–	–	18,169	(5,041)	8,576	48,726	70,430	2,342	72,772
Share issued through acquisition of subsidiaries	125,000	574,980	–	–	–	–	–	699,980	–	699,980
Increase in non-controlling interests arising on acquisition of subsidiaries	–	–	–	–	–	–	–	–	20,153	20,153
Equity settled share-based transactions	100	475	(216)	–	–	–	–	359	–	359
Application of white wash wavier	–	(250)	–	–	–	–	–	(250)	–	(250)
Pre-acquisition dividend	–	–	–	–	–	–	–	–	122	122
As 31 December 2011	**299,700**	**865,692**	**22,117**	**29,665**	**(2,751)**	**9,187**	**312,738**	**1,536,348**	**30,930**	**1,567,278**

The notes on pages 41 to 133 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	**2011** **HK$'000**	2010 HK$'000
Operating activities			
Profit for the year		**59,375**	32,146
Adjustments for			
Income tax expense recognised in profit or loss	*8(a)*	**25,496**	6,843
Depreciation of property, plant and equipment	*13*	**760**	20,888
Gain on disposal of property, plant and equipment		**–**	(168)
Gain on disposal of available-for-sale investments		**(3,191)**	(9,864)
Written off of property, plant and equipment		**202**	–
Impairment loss on short-term loans receivable	*22*	**1,535**	–
Interest income		**(1,415)**	(1,951)
Finance costs		**1,018**	4,223
Share-based payment expenses		**–**	7,788
Dividend income from listed investments		**(939)**	(560)
Loss on disposal of subsidiaries	*39*	**–**	8,080
Amortisation of intangible assets	*16*	**18**	4,407
Change in fair value of investment property	*15*	**–**	(8,066)
Changes in working capital		**82,859**	63,766
Increase in short-term loans receivable		**(564,983)**	(103,172)
Decrease in inventories		**14,804**	75,312
Decrease in accounts receivable		**4,783**	42,612
Increase in interests receivable		**(5,428)**	–
Increase in deferred income		**15,886**	–
Decrease/(increase) in other receivables, deposits and prepayments		**174,193**	(178,837)
(Decrease)/increase in accounts payable		**(8,894)**	7,815
Increase in other payables, deposits received and accruals		**77,774**	33,237
Increase in liabilities arising from loan guarantee contracts		**1,376**	–
Increase in security deposits		**(18,503)**	–
Decrease/(increase) in financial assets at fair value through profit or loss		**31,660**	(32,935)
Cash used in operations		**(277,332)**	(155,968)
Taxation paid			
– PRC enterprise income tax		**(9,295)**	(4,395)
Net cash used in operating activities		**(203,768)**	(96,597)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Investing activities			
Purchase of property, plant and equipment	*13*	**(8,461)**	(26,012)
Purchase of available-for-sale investments		**(30,925)**	(42,304)
Proceeds from sale of available-for-sale investments		**12,221**	35,314
Proceeds on disposal of subsidiaries, net of cash disposed		**–**	(117,766)
Interest received		**1,415**	1,951
Proceeds from issue of shares		**89**	2,766
Dividend received from listed investment		**939**	560
Acquisition of subsidiaries, net of cash acquired	*40*	**45,453**	–
Proceeds on disposal of property, plant and equipment		**–**	1,721
Contribution from minority shareholders		**5,844**	–
Net cash inflow/(outflow) from investing activities		**26,575**	(143,770)
Financing activities			
Interest paid		**(1,018)**	(4,223)
Proceeds from new bank loans		**12,152**	21,153
Repayment of bank loans		**(5,057)**	(94,947)
Net cash inflow/(outflow) from financing activities		**6,077**	(78,017)
Decrease in cash and cash equivalents		**(171,116)**	(318,384)
Effect of foreign exchange rate changes		**18,401**	8,476
Cash and cash equivalents at beginning of the year		**339,954**	649,862
Cash and cash equivalents at end of the year	*28*	**187,239**	339,954

The notes on pages 41 to 133 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2011

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Suite 5606, 56th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company and its subsidiaries (the "Group") are set out below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(b) provides information on any changes in accounting policies resulting from initial applications of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in Hong Kong dollars ("HKD"), rounded to the nearest thousand except for per share data. Hong Kong dollar is the Company's functional and presentation currency.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Basis of preparation of the financial statements *(continued)*

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– investment property *(see note 2(w))*;

– financial instruments classified as available-for-sale or as financial assets at fair value through profit or loss *(see note 2(k))*.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 46.

Application of new and revised HKFRSs

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior accounting periods and/or on the disclosures set out in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Basis of preparation of the financial statements *(continued)*

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in HKAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard. The related party disclosures set out in note 44 are not required to be changed as a result of the application of the revised Standard.

New/revised HKFRSs not adopted

Up to the date of issue of these financial statements, the HKICPA has issued the following new and revised Standards, Amendments and Interpretations which are not yet effective for the year ended 31 December 2011.

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

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Basis of preparation of the financial statements *(continued)*

Possible impact of new and revised Standards, Amendments or Interpretations issued but not yet effective for the year ended 31 December 2011

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.*

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December. 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.

All material inter-company transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated statement of comprehensive income.

Non-controlling interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Subsidiaries and non-controlling interests *(continued)*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards). Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(i), (j), (u) or (x) depending on the nature of the liability.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group losses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset *(see note 2(k))*.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses *(see note 2(i))*, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) 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 acquisition-date fair values, except that:

– a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carry forwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12 *Income Tax*;

– assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 *Employee Benefits*;

– liabilities or equity instruments relating 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 and measured and 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.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) Business combinations *(continued)*

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 HKFRS.

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 being 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 *Financial Instruments: Recognition and Measurement*, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) Business combinations *(continued)*

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The policy described above is applied into all business combinations that take place on or after January 2010.

f) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date or acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

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

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

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g) Intangible assets

Intangible assets with finite useful lives acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses *(see note 2(i))*. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The intangible assets in respect of trademarks with finite useful lives are amortised from the date they are available for use and their estimated useful lives of 25 years.

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

h) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses *(see note 2(i))*.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

h) Property, plant and equipment *(continued)*

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– buildings situated on leasehold land are depreciated on a straight-line basis over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;

– other property, plant and equipment are depreciated on a straight-line method over their estimated useful lives as follows:

Leasehold improvements	5 years or over the remaining term of the lease, if shorter
Furniture and equipment	5 to 8 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Impairment of assets

i) Impairment of investments in equity securities and receivables

Investments in equity securities other than current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in subsidiaries and associate (including those recognised using the equity method the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(i)(ii).

– For unquoted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Impairment of assets *(continued)*

i) Impairment of investments in equity securities and other receivables (continued)

– For accounts receivables and other financial assets carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale equity securities which are stated at fair value, when a decline in the fair value has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Impairment of assets *(continued)*

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– prepaid lease payments;

– intangible assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Impairment of assets *(continued)*

ii) Impairment of other assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year *(see note 2(i))*.

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j) Financial guarantees issued, provisions and contingent liabilities

i) Financial guarantees issued

A loan guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A loan guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the loan guarantee contract. Subsequent to initial recognition, the Group measures the loan guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Undue liability provision is recognised at 50% of the guarantee income in the year it is generated.

Guarantee compensation provision is recognised at 1% of the year-end balance of the guarantee liability in the year it arisen.

ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k) Financial assets

The Group classified its investments in securities in the following categories: available-for-sale financial assets, financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the investments were acquired.

i) Available-for-sale investments

Available-for-sale investments are initially recognised at fair value plus transaction costs. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(m)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss as set out in note 2(m)(vi). When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

For available-for-sale 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 each reporting period subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar investments. Such impairment losses will not reverse in subsequent period.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or when they expire.

ii) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the end of the reporting period. Financial assets at fair value through profit or loss are carried at fair value, realised and unrealised gains and losses arising from changes in the fair value of these investments are included in the profit or loss in the period in which they arise.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k) Financial assets *(continued)*

iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. They arise when the Group provides money or services directly to a debtor or a related company with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the end of reporting period. These are classified as non-current assets.

Reclassification of financial assets, other than as set out below, or of financial liabilities between categories are not permitted following their initial recognition.

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category, where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the profit or loss over the remaining life of the financial assets, using the effective interest method.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

l) Non-current assets held for sale

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

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) *Sale of goods*

Revenue from the sale of merchandise is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the merchandise are delivered to customers and title has passed.

ii) Promotion and store display income, income from leasing of merchandise storage space are recognised according to contract terms and as services are provided.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

m) Revenue recognition *(continued)*

iii) Revenue from short-term financing services

– 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 revenue can be measured reliably. Interest income from a financial assets 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 assets to that asset's net carrying amount on initial recognition.

– Loan guarantee service income, consists of guarantee fee and related service income and is recognised in profit or loss on a straight-line basis over the guarantee period.

– Financing consultancy service income, which is collected from the customer at the inception of pawn loan and other short-term loan, is recognised when the services are rendered.

iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

v) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

vi) Other interest income

Other interest income is recognised as it accrues using the effective interest method.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

m) Revenue recognition *(continued)*

vii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Government grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

viii) Sale of trading securities

Revenue on sale of trading securities is recognised on a trade date basis when the relevant transactions are executed.

n) Accounts and other receivables

Accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts *(see note 2(i))*.

o) Short-term loans receivable

Short-term loans receivable secured by the pledge of personal property are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A typical short-term loan has a term of one to twelve months. If the loan is not repaid, the loan principal becomes the cost of the forfeited collateral, which is held for sale.

p) Accounts and other payables

Accounts and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

q) Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 30 January 2008, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 30 January 2008 is translated at the foreign exchange rate that applied at the date of acquisition of foreign operation.

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, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

r) Retirement scheme

The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong Scheme are held separately from those of the group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Hong Kong Scheme.

For the Group's PRC operations participate in defined contribution retirement plans managed by the local municipal government in the locations in which it operates. The relevant authorities of the local municipal government in the PRC is responsible for the retirement benefit obligations payable to the Group's retired employees. The Group has no obligation for payment of retirement benefits beyond the annual contribution. The contribution payable is charged as an expense to profit or loss as and when incurred.

s) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs such as direct labour costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

u) Income tax *(continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

v) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged as expenses in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

w) Investment properties

Investment property is property (land and/or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

i) use in the production or supply of goods or services or for administrative purposes; or

ii) sale in the ordinary course of business.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

w) Investment properties *(continued)*

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the statement of comprehensive income during the financial period in which they are incurred. Changes in fair values are recognised in the statement of comprehensive income.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the statement of comprehensive income.

Investment property held for sale without redevelopment is classified within non-current assets held for sale under HKFRS 5.

x) Employee benefits

i) Short term employee benefits and contributions to defined contribution plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

x) Employee benefits *(continued)*

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the Black Scholes Option Pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

y) Related parties

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

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

(ii) has significant influence over the Group; or

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

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

y) Related parties *(continued)*

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

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

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

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

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

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

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

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

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

z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

aa) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's board of directors for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

ac) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

ad) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

3. TURNOVER, OTHER REVENUE AND OTHER NET INCOME

The principal activities of the Group are the provision of integrated short-term financing services comprising money lending loan services, loan guarantee services and related management and consultancy services and retail business of convenience stores.

Turnover represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts in convenience stores, financial service income comprising interest income, loan guarantee service income and financing consultancy service income arising on provision of short-term financing services in short-term financing business during the year.

Notes to the Financial Statements

For the year ended 31 December 2011

3. TURNOVER, OTHER REVENUE AND OTHER NET INCOME *(continued)*

The Group's turnover, other revenue and other net income for the year arose from continuing operations of the following activities:

	Group	
	2011	2010
	HK$'000	HK$'000
Turnover		
Convenience store operations	**264,450**	201,515
Interest income on provision of short-term financing service	**20,166**	2,570
Loan guarantee service income	**1,099**	–
Financing consultancy service income	**96,412**	12,937
	382,127	217,022
Other revenue		
Bank interest income, being total interest income on financial assets not at fair value through profit or loss	**1,415**	451
Rental receivable from operating leases, less direct outgoings of Nil (2010: Nil)	**7,751**	6,284
Dividend income from listed investments	**939**	560
Promotion and store display income from suppliers	**29,520**	25,303
	39,625	32,598
Other net income		
Gain on disposal of financial assets at fair value through profit or loss	**–**	2,650
Gain on disposal of available-for-sale investments	**3,191**	9,864
Exchange gain, net	**–**	5,236
Compensation *(note)*	**–**	22,870
Income from government subsidies	**–**	976
Gross rental income from sub-leasing of shop premises	**3,441**	3,659
Others	**2,831**	4,535
Gain on disposal of property, plant and equipment	**–**	168
	9,463	49,958

3. TURNOVER, OTHER REVENUE AND OTHER NET INCOME *(continued)*

Note: On 11 August 2009, a former subsidiary within the Group, Hualian GMS Shopping Centre Company Limited, signed a letter of intent ("LOI") with Shanghai Xin Meng Investment Company Limited (The "Vendor") and ARC Capital Holding Limited (The "Guarantor") pursuant to which the Group is granted a pre-emptive right for the possible acquisition in consideration of payment of an earnest money of RMB500 million to the Vendor. If the formal acquisition cannot be concluded, the earnest money shall be repaid to the Group upon expiry of the pre-emptive period together with a compensation fee at the rate of 15% per annum (subject to a minimum of return of 8% per annum for a period of six months). On 28 January 2010, the parties of the LOI entered into a cancellation agreement pursuant to which the LOI was terminated with effect from the date of the cancellation agreement and none of the parties have any further obligation or liability under the LOI. The Vendor paid a compensation fee of RMB20 million (approximately equivalent to HK$22,870,000) to the Group, according to the terms set out in the LOI by 30 June 2010.

4. SEGMENTAL INFORMATION

The Group manages its businesses by divisions, which are organized by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Company's board of directors and the chief operating decision makers for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments.

1. Convenience stores

2. Short-term financing services

a) Segment revenue, results, assets and liabilities

For the purpose of assessing segment performance and allocating resources between segments, the Company's board of directors, the chief operating decision makers, monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates, deferred tax assets and other corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segments and bank borrowings managed directly by segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs

Notes to the Financial Statements

For the year ended 31 December 2011

4. SEGMENTAL INFORMATION *(continued)*

a) Segment revenue, results, assets and liabilities *(continued)*

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders or services.

The two reportable operating segments are listed as follows:

i) Convenience stores engaged in the distribution of live and fresh products, dry products, beverages, processed food and daily necessities through the convenience stores of the Group;

ii) Short-term financing service engaged in the provision of short-term financing, loan guarantee and consultancy service.

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

	Convenience stores		**Short-term financing service**		**Total**	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Revenue from external customer	**264,450**	201,515	**97,511**	12,937	**361,961**	214,452
Interest revenue	**–**	–	**20,166**	2,570	**20,166**	2,570
Reportable segment revenue	**264,450**	201,515	**117,677**	15,507	**382,127**	217,022
Reportable segment profit before taxation	**8,558**	936	**81,622**	6,574	**90,180**	7,510
Interest income	**–**	319	**842**	–	**842**	319
Promotion and store display income from suppliers	**29,520**	25,303	**–**	–	**29,520**	25,303
Interest expenses	**–**	–	**–**	–	**–**	–
Depreciation and amortisation	**–**	–	**219**	140	**219**	140
Income tax	**(2,139)**	(292)	**(22,622)**	(1,644)	**(24,761)**	(1,936)
Reportable segment assets	**130,000**	126,900	**1,566,210**	49,373	**1,696,210**	176,273
Reportable segment liabilities	**(85,581)**	(59,988)	**(170,808)**	(22,015)	**(256,389)**	(82,003)

Notes to the Financial Statements

For the year ended 31 December 2011

4. SEGMENTAL INFORMATION *(continued)*

b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2011 HK$'000	2010 HK$'000
Revenue		
Reportable segments' revenue	382,127	217,022
Consolidated revenue	382,127	217,022
Profit		
Reportable segments' profit derived form Group's external customers	90,180	7,510
Unallocated other revenue	14,143	36,543
Unallocated head office and corporate expenses	(19,452)	(12,496)
Consolidated profit before taxation	84,871	31,557
Assets		
Reportable segments' assets	1,696,210	176,273
Unallocated head office and corporate assets	96,780	635,508
Investment property	–	73,959
Assets classified as held-for-sale	73,959	–
Consolidated total assets	1,866,949	885,740
Liabilities		
Reportable segments' liabilities	(256,389)	(82,003)
Unallocated head office and corporate liabilities	(43,282)	(29,595)
Consolidated total liabilities	(299,671)	(111,598)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SEGMENTAL INFORMATION *(continued)*

c) Geographical Information

The geographical location of customers is based on the location at which the goods are delivered and services are rendered. Substantially, all of the Group's revenue from external customers, non-current assets and capital expenditure are located in the People's Republic of China ("PRC"), no analysis on revenue from external customers and non-current assets by location are presented.

d) Information about major customers

The Group has a very wide customer base, no single customer contributed more than 10% of the Group's revenue for each of the years ended 31 December 2010 and 2011.

5. PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS

The Group's profit from continuing operations before taxation is arrived at after charging:

	2011 **HK$'000**	2010 HK$'000
Continuing operations		
Depreciation	**760**	731
Amortisation of intangible assets	**18**	18
Operating lease payments – land and buildings	**32,592**	28,248
Auditors' remuneration	**1,008**	950
Written off of fixed assets	**202**	–
Impairment loss for short-term loans receivable	**1,535**	–
Loss on disposal of subsidiaries	**–**	8,080
Cost of inventories	**197,862**	156,126
Staff costs (including directors' remuneration – *note 7*):		
Salaries, allowances and other benefits	**46,771**	39,392
Pension scheme contribution	**5,993**	5,970
Equity settled share-based payment expenses	**–**	7,788
	52,764	53,150

Notes to the Financial Statements

For the year ended 31 December 2011

6. FINANCE COSTS

	Group	
	2011	2010
	HK$'000	HK$'000
Continuing operations		
Interest expense on bank loans, bank overdrafts and other loans repayable within five years, being total interest expense on financial liabilities not at fair value through profit or loss	**1,018**	1,550

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

i) The details of emoluments of every director are shown below:

	Year ended 31 December 2011				
	Fees	**Salaries, allowances and other benefits**	**Share-based payments**	**Pension scheme contribution**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Executive directors					
Cheung Siu Lam *(Chairman)*	**–**	**3,956**	**–**	**12**	**3,968**
Chan Yuk Ming *(Vice chairman)*	**–**	**891**	**–**	**12**	**903**
Tao Ye *(note (a))*	**–**	**918**	**–**	**–**	**918**
Non-executive directors					
Liu Hui	**40**	**–**	**–**	**–**	**40**
Lo Wan *(note (b))*	**18**	**364**	**–**	**12**	**394**
Independent non-executive directors					
Wang Jian Sheng	**40**	**–**	**–**	**–**	**40**
Chan Chun Keung	**40**	**–**	**–**	**–**	**40**
Tsang Kwok Wai	**80**	**–**	**–**	**–**	**80**
	218	**6,129**	**–**	**36**	**6,383**

Notes to the Financial Statements

For the year ended 31 December 2011

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(continued)*

i) The details of emoluments of every director are shown below: *(continued)*

	Year ended 31 December 2010				
	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Share-based payments HK$'000	Pension scheme contribution HK$'000	Total HK$'000
Executive directors					
Cheung Siu Lam *(Chairman)*	–	3,512	216	12	3,740
Chan Yuk Ming *(Vice chairman)*	–	839	432	12	1,283
Lo Wan	–	303	216	12	531
Non-executive directors					
Liu Hui	40	–	–	–	40
Independent non-executive directors					
Wang Jian Sheng	40	–	–	–	40
Chan Chun Keung	40	–	–	–	40
Tsang Kwok Wai	80	–	–	–	80
	200	4,654	864	36	5,754

As at 31 December 2011, the directors held share options under the Company's share option scheme. The details of the share options are disclosed under the paragraph "Share Option Scheme" in the report of the directors and in note 36.

No directors waived any emoluments during the year. No incentive payment or compensation for loss of office was paid or payable to any directors for the year ended 31 December 2011 (2010: Nil).

Notes:

(a) Mr. Tao Ye was appointed as executive director on 15 July 2011.

(b) Madam Lo Wan was re-designated from executive director to non-executive director on 15 July 2011.

Notes to the Financial Statements

For the year ended 31 December 2011

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

(continued)

ii) Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, four (2010: three) were directors of the Company whose emoluments are included in the disclosure in note 7(i) above. The emoluments of the remaining one (2010: two) individual(s) were as follows:

	2011 **HK$'000**	2010 HK$'000
Salaries, allowances and other benefits	**952**	1,069
Retirement scheme contribution	**12**	24
Share-based payments	**–**	432
	964	1,525

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of the one (2010: two) individual(s) other than directors with the highest emoluments are within the following bands:

	2011	2010
Number of individuals		
HK$Nil up to HK$1,000,000	**1**	2

Notes to the Financial Statements

For the year ended 31 December 2011

8. INCOME TAX (RELATING TO CONTINUING OPERATIONS)

a) Income tax in the consolidated statement of comprehensive income represents:

	Group	
	2011 **HK$'000**	2010 HK$'000
Current tax		
PRC Enterprise Income tax	**22,215**	2,232
(Over-provision)/under-provision of PRC Enterprise Income Tax in prior years	**(701)**	316
Deferred tax		
Current year	**3,982**	2,017
Tax charge	**25,496**	4,565

b) Reconciliation between tax expense and accounting profit at the applicable tax rate:

	2011 **HK$'000**	2010 HK$'000
Profit before taxation from continuing operations	**84,871**	31,557
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**21,436**	8,042
Income not subject to taxation	**(12,067)**	(8,023)
Expenses not deductible for taxation purposes	**11,266**	1,908
Effect of unrecognised temporary difference	**–**	(79)
Utilisation of tax losses previously not recognised	**–**	(787)
Deferred tax assets not recognised	**1,580**	3,188
(Over-provision)/under-provision in prior years	**(701)**	316
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**3,982**	–
Tax charge	**25,496**	4,565

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. INCOME TAX (RELATING TO CONTINUING OPERATIONS) *(continued)*

b) Reconciliation between tax expense and accounting profit at the applicable tax rate: *(continued)*

Tax effects relating to each components of other comprehensive income

	2011			2010		
	Before tax amount HK$'000	**Tax (expense)/ benefit HK$'000**	**Net-of-tax amount HK$'000**	Before-tax amount HK$'000	Tax (expense)/ benefit HK$'000	Net-of tax amount HK$'000
Exchange differences on translation of financial statements of overseas subsidiaries	**18,438**	**–**	**18,438**	8,571	–	8,571
Change in fair value of available-for-sale investments	**(5,041)**	**–**	**(5,041)**	(6,724)	–	(6,724)

No provision for profits tax in Hong Kong has been made as the Group has no income assessable for profits tax for the year in Hong Kong.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2010: 25%).

c) Taxation in the consolidated statement of financial position represents:

	Group	
	2011 HK$'000	2010 HK$'000
At 1 January	**(1,510)**	(982)
Provision for the year		
– PRC taxation	**(38,884)**	(2,232)
Over-provision/(under-provision) in prior year	**701**	(316)
Taxation paid for PRC enterprise	**4,950**	2,020
At 31 December	**(34,743)**	(1,510)
Analysed for reporting purposes as:		
Tax recoverable	**268**	–
Tax payable	**(35,011)**	(1,510)
	(34,743)	(1,510)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. DISCONTINUED OPERATIONS

On 24 March 2010, K.P.B. Marketing Limited ("K.P.B."), an indirect wholly-owned subsidiary of the Company entered into a sale agreement with Best Links (HK) Co., to dispose of the entire issued share capital in K.P.I. (BVI) Retail Management Company Limited, a company incorporated in the British Virgin Islands with limited liability which directly and indirectly holds 60% of the equity interests in Hualian GMS which mainly engaged in supermarket operations, at a consideration of approximately HK$504 million. The disposal of the supermarket operations is consistent with the Group's long-term policy to focus its resources in the convenience stores chain operation and provision of short-term financing service operations. The disposal was completed on 19 August 2010, on which date control of the supermarket operations passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of the profit or loss on disposal, are disclosed in below:

Analysis of profit for the year from discontinued operations

The results of the discontinued operation (i.e. supermarket operation) included in the consolidated statement of comprehensive income and consolidated statement of cash flows are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in 2010.

	2011 HK$'000	2010 HK$'000
Profit for the year from discontinued operations		
Turnover	–	1,214,880
Cost of sales	–	(1,095,840)
Other gains	–	143,206
Expenses	–	(246,734)
Profit before tax	–	15,512
Income tax expense	–	(2,278)
	–	13,234
Loss on disposal of operations	–	(8,080)
Profit for the year from discontinued operations attributable to owners of the Company	–	5,154
Profit for the year from discontinued operations include the following:		
Depreciation and amortisation	–	24,546
Cash flows from discontinued operations		
Net cash inflow from operating activities	–	115,979
Net cash outflow from investing activities	–	(23,704)
Net cash outflow from financing activities	–	(92,801)
Net cash outflow	–	(526)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a profit of HK$44,665,000 (2010: HK$2,542,000) which has been dealt with in the financial statements of the Company.

11. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2011 (2010: Nil).

12. EARNINGS PER SHARE

From continuing and discontinued operations

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

	2011 **HK$'000**	2010 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**57,302**	25,355

	2011	2010
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,414,605,075**	1,725,935,213
Effect of deemed issue of shares under the Company's share options scheme	**5,902,353**	12,326,592
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,420,507,428**	1,738,261,805

Notes to the Financial Statements

For the year ended 31 December 2011

12. EARNINGS PER SHARE *(continued)*

From continuing operations

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

Earnings figures are calculated as follows:

	2011 **HK$'000**	2010 HK$'000
Profit for the year attributable to owners of the Company	**57,302**	25,355
Adjustment for profit for the year from discontinued operations	**–**	1,456
Earnings for the purpose of basic earnings per share from continuing operations attributable to owners of the Company	**57,302**	26,811

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

From discontinued operations

In 2010, basic earnings per share for the discontinued operations attributable to owners of the Company is earning of HK0.084 cents per share and diluted earnings per share for the discontinued operations attributable to owners of the Company is earning of HK0.084 cents per share in 2010, based on the profit for the year from the discontinued operations of the Company of profit of HK$1.46 million in 2010 and the denominators detailed above for both basic and diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and building held for own use carried at cost HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost					
At 1/1/2010	2,125	101,979	3,893	66,464	174,461
Additions	–	10,645	587	14,780	26,012
Disposals	–	(29,051)	(746)	(18,039)	(47,836)
Derecognised on disposal of subsidiaries	–	(81,792)	(1,155)	(62,051)	(144,998)
Exchange adjustment	–	5	–	11	16
At 31/12/2010 and 1/1/2011	2,125	1,786	2,579	1,165	7,655
Additions	–	5,104	1,952	1,405	8,461
Through acquisition of subsidiaries	–	–	4	204	208
Written off	–	(259)	–	(124)	(383)
Exchange adjustment	–	12	–	38	50
At 31/12/2011	**2,125**	**6,643**	**4,535**	**2,688**	**15,991**
Accumulated depreciation					
At 1/1/2010	939	57,083	2,518	42,853	103,393
Charge for the year	33	10,424	698	9,733	20,888
Written back and disposals	–	(28,829)	(754)	(16,700)	(46,283)
Eliminated on disposal of subsidiaries	–	(38,070)	(676)	(35,222)	(73,968)
Exchange adjustment	–	3	–	(2)	1
At 31/12/2010 and 1/1/2011	972	611	1,786	662	4,031
Charge for the year	33	11	402	314	760
Written off	–	(127)	–	(54)	(181)
Exchange adjustment	–	3	1	9	13
At 31/12/2011	**1,005**	**498**	**2,189**	**931**	**4,623**
Carrying amount					
At 31/12/2011	**1,120**	**6,145**	**2,346**	**1,757**	**11,368**
At 31/12/2010	1,153	1,175	793	503	3,624

The leasehold land and building of the Group is held under medium term lease and situated in Hong Kong.

Notes to the Financial Statements

For the year ended 31 December 2011

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost				
At 1/1/2010	378	1,992	495	2,865
Additions	–	–	72	72
At 31/12/2010 and 1/1/2011	378	1,992	567	2,937
Additions	–	–	29	29
At 31/12/2011	**378**	**1,992**	**596**	**2,966**
Accumulated depreciation				
At 1/1/2010	378	1,503	351	2,232
Charge for the year	–	244	70	314
At 31/12/2010 and 1/1/2011	378	1,747	421	2,546
Charge for the year	–	245	84	329
At 31/12/2011	378	1,992	505	2,875
Carrying amount				
At 31/12/2011	**–**	**–**	**91**	**91**
At 31/12/2010	–	245	146	391

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For the year ended 31 December 2011

14. LAND LEASE PREMIUM

The Group's interests in lease premium for land represent prepaid operating lease payments and their carrying amount are analysed as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount at 1 January, as previously reported	**–**	881
Effect of adoption of HKAS17 (Amendment)	**–**	(881)
Carrying amount at 1 January, as restated	**–**	–
Carrying amount at 31 December, as restated	**–**	–

15. INVESTMENT PROPERTY

	Group	
	2011	2010
	HK$'000	HK$'000
At valuation:		
At 1 January	**–**	65,893
Increase in fair value	**–**	8,066
At 31 December	**–**	73,959

The Group's investment property is situated at No.88, Xi San Wan Road North, Hai Ding District, Beijing. It is held under a long term lease for rental purpose. It was stated at fair value as at 31 December 2011. The investment property was revalued on 31 October 2011 by RHL Appraisal Limited, an independent qualified professional valuer not connected with the Group. RHL Appraisal Limited has appropriate qualifications in the valuation of properties. The valuation, which conforms to Hong Kong Institute of Surveyors Valuation Standards on Properties, was mainly arrived at by Direct Comparison Approach by making reference to the comparable market transactions as available and where appropriate, on the basis of capitalization of the net income derived from the existing tenancies with allowance for outgoings and, in appropriate case, made provisions for reversionary income potential. The management considered that there is no significant change in fair value of the investment property from the valuation date of 31 October 2011 to 31 December 2011.

Notes to the Financial Statements

For the year ended 31 December 2011

15. INVESTMENT PROPERTY *(continued)*

The Group's investment property was pledged to a bank in the PRC to secure banking facilities granted to a subsidiary of the Group in February 2009 *(note 45)*.

On 30 November 2011, the Group entered into a Sale and Purchase Agreement pursuant Agreement pursuant to which the Group has agreed to sell the investment property *(note 41)*.

16. INTANGIBLE ASSETS – TRADEMARKS

		Group	
	Hualian GMS	**Hi-24**	**Total**
	(note a)	*(note b)*	
	HK$'000	HK$'000	HK$'000
Cost			
At 1/1/2010, 31/12/2010 and 31/12/2011	–	448	448
Accumulated amortisation			
At 1/1/2010	13,290	27	13,317
Amortisation for the year	4,389	18	4,407
Written back on disposal of subsidiaries	(17,679)	–	(17,679)
At 31/12/2010 and 1/1/2011	–	45	45
Amortisation for the year	–	18	18
At 31/12/2011	**–**	**63**	**63**
Carrying amount			
At 31/12/2011	**–**	**385**	**385**
At 31/12/2010	–	403	403

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of comprehensive income.

Note:

a) Hualian GMS is the trademark for a supermarket chain operation. The supermarket chain operation was discontinued in 2010, which is described in more detail in note 9.

b) Hi-24 is the trademark for a convenience chain stores operation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. INTERESTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	HK$'000
Unlisted shares, at cost	**14,269**	33,519

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group:

Name	Country of incorporation/ registration and operations	Nominal value of registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
K.P.B. Group Holdings Limited	British Virgin Islands ("BVI")/ Hong Kong	Ordinary US$12	100%	–	Investment holding
北京華夏興業投資擔保有限公司 *(note I)*	PRC	Registered capital RMB100,000,000	100%	–	Provision of loan guarantee service
Charter Merit Limited	Hong Kong	Ordinary HK$2	–	100%	Holding of a club membership
Charter Paradise Limited	Hong Kong	Ordinary HK$2	–	100%	Holding of a club membership
K.P.A. Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100%	Property investment
K.P.B. Asset Holdings Limited	BVI/Hong Kong	Ordinary US$6	–	100%	Investment holding
K.P.B. Marketing Limited ("KPB Marketing")	BVI/Hong Kong	Ordinary US$2	–	100%	Investment holding
K.P.B.-T.C. Holdings Limited	BVI/Hong Kong	Ordinary US$1	–	100%	Investment holding
K.P.B. Trading Limited	BVI/Hong Kong	Ordinary US$4	–	100%	Investment holding
K.P.I. Development Limited	Hong Kong	Ordinary HK$2 Deferred HK$10,000	–	100%	Trading of financial securities

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For the year ended 31 December 2011

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Country of incorporation/ registration and operations	Nominal value of registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
K.P.I. Industries Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100%	Investment holding and property investment
K.P.I. International Trading Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100%	Holding of a club membership and trading of financial securities
K.P.I. (BVI) Retail Management Company Limited ("KPIRM")	BVI/Hong Kong	Ordinary US$18,087,700	–	Disposed on 19 August 2010	Investment holding
K.P.I. Convenience Retail Company Limited ("KPICR")	BVI/Hong Kong	Ordinary US$50,000	–	72%	Investment holding
Bestjoy International Limited	BVI/Hong Kong	Ordinary US$10	–	Disposed on 19 August 2010	Investment holding
K.P.I. Property Investment Company Limited	Hong Kong	Ordinary HK$2	–	100%	Property investment
北京嘉鑫銘物業管理有限公司 *(note g)*	PRC	Registered capital US$10,000,000	–	100%	Provision of property management service
北京中金投財務諮詢有限公司 *(note h)* (formerly known as "北京港佳匯通財務諮詢有限公司")	PRC	Registered capital RMB300,000	–	100%	Provision of financing consultancy service
北京中金投商業經紀有限公司 *(note i)*	PRC	Registered capital RMB500,000	–	100%	Provision of rental service
北京中金港資產管理有限公司 *(note j)*	PRC	Registered capital RMB500,000	–	100%	Provision of financing consultancy service
北京惠豐融金小額貸款有限公司 *(note k)*	PRC	Registered capital RMB50,000,000	–	70%	Provision of short-term financing service
K.P. Financial Group Limited	BVI/Hong Kong	Ordinary US$1	–	100%	Investment holding
KP Financial Holdings Limited	Hong Kong	Ordinary HK$1	–	100%	Investment holding

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For the year ended 31 December 2011

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Country of incorporation/ registration and operations	Nominal value of registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
KP Financial Services Limited	Hong Kong	Ordinary HK$1	–	100%	Money lending business
華聯集團吉買盛購物中心有限公司 *(note a)*	PRC	Registered capital RMB80,000,000	–	Disposed on 19 August 2010	Supermarket chains
海口港佳貿易有限公司（海口港佳）*(note b)*	PRC	Registered capital US$25,400,000	–	100%	Investment holding and property investment
上海港佳倍盛經貿有限公司# *(note c)*	PRC	Registered capital RMB2,000,000	–	100%	General trading
北京中嘉利通商貿有限公司 *(note d)*	PRC	Registered capital RMB30,000,000	–	100%	General trading
北京中港佳鄰商業有限公司 *(note e)*	PRC	Registered capital US$13,000,000	–	72%	Convenience stores chain
北京萬方利通典當行有限公司 *(note f)*	PRC	Registered capital RMB80,000,000	–	100%	Provision of short-term financing services

Not audited by CCIF CPA Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. INTERESTS IN SUBSIDIARIES *(continued)*

Notes:

a) 華聯集團吉買盛購物中心有限公司 (Hualian GMS Shopping Center Company Limited*) ("Hualian GMS") is an equity joint venture established in the PRC to be operated for 20 years up to March 2016. The operating license will be renewed the validity period. Hualian GMS was disposed in 2010, which described in more detail in note 9.

b) 海口港佳 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to August 2015. The operating license will be renewed the validity period.

c) 上海港佳倍盛經貿有限公司 is a sino-foreign equity joint venture established in the PRC to be operated for 10 years up to March 2012. The operating licence will not be renewed after the validity period.

d) 北京中嘉利通商貿有限公司 is a wholly foreign-owned enterprise by 海口港佳to be operated for 15 years up to March 2023.

e) 北京中港佳鄰商業有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to March 2028.

f) 北京萬方利通典當行有限公司 is a limited liability company established in the PRC.

g) 北京嘉鑫銘物業管理有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to December 2030.

h) 北京中金投財務諮詢有限公司 (formerly known as "北京港佳匯通財務諮詢有限公司") is a wholly foreign owned enterprise established in the PRC to be operated for 20 years up to December 2030. The company name was changed on 12 May 2011.

i) 北京中金投商業經紀有限公司 is a limited liability company established in the PRC.

j) 北京中金港資產管理有限公司 is a limited liability company established in the PRC.

k) 北京惠豐融金小額貸款有限公司 is a limited liability company established in the PRC.

l) 北京華夏興業投資擔保有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to June 2031.

* *For identification purposes only.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. GOODWILL

	Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount		
At 1 January	**–**	377,972
Arising on acquisition of subsidiaries during the year *(note 40)*	**622,703**	–
Disposal *(note 39)*	**–**	(377,972)
At 31 December	**622,703**	–

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to reportable segments as follows:

	Group	
	2011	2010
	HK$'000	
Short-term financing operation	**622,703**	N/A

Impairment tests for cash-generating unit containing goodwill

As at 31 December 2011, the Group engaged Roma Appraisals Limited, an independent qualified professional valuer to assess the recoverable amount of the CGU and determined that the recoverable amount of the CGU is approximately HK$1,246,000,000 (2010: Nil).

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Management determined the budgeted gross margin based on past performance and its expectations for market development. The growth rates used are by references to the forecasts based on the funds available for the Group's loan financing business and does not exceed the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. Cashflow beyond the five year period are extrapolated using the estimated gross margin of 87%, discount rate of 29.69% and zero growth rate. The growth rate dose not exceeds the long-term average growth rate for the business in which the CGU operates.

The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the CGU to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2011	2010
	HK$'000	HK$'000
Listed securities, at fair value – Hong Kong	**61,814**	44,961
Unlisted investments:		
– Golf club memberships, at cost	**2,761**	2,761
– Long term equity interest, at cost *(Note)*	**773**	773
Total	**65,348**	48,495

Note: As at 31 December 2010 and 2011, the Group's long term equity interest was not stated at fair value but at cost because it did not have a quoted market price in an active market and the fair value cannot be reliably measured. No impairment is recognised since there is no objective evidence that the long term equity interests will be impaired.

20. ACCOUNTS RECEIVABLE

	Group	
	2011	2010
	HK$'000	HK$'000
Accounts receivable	**8,012**	1,143

All the accounts receivable are expected to be recovered within one year. The carrying amount of accounts receivable approximate to their fair value.

Accounts receivable are due within 30 days from date of billing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

20. ACCOUNTS RECEIVABLE *(continued)*

a) Aging analysis

The aging analysis of accounts receivable at the end of the reporting period is as follows:

	2011 HK$'000	2010 HK$'000
Outstanding balances with ages		
Due within 1 month or on demand	**3,660**	1,143
Due after 1 month but within 3 months	**–**	–
Due after 3 months but within 6 months	**2,202**	–
Due after 6 months	**2,150**	–
	8,012	1,143

b) Accounts receivable that are not impaired

	2011 HK$'000	2010 HK$'000
Neither past due nor impaired	**3,660**	1,143
Past due but not impaired	**4,352**	–
	8,012	1,143

Accounts receivable that were neither past due nor impaired relate to recognised and creditworthy customers for whom there was no recent history of default.

Accounts receivable that were past due but not impaired relate to a number of independent customers that have a good tract record with the Company. Based on past experience, management believes that no impairment allowance 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.

The Group does not hold any collateral or other credit enhancements over these balances.

Notes to the Financial Statements

For the year ended 31 December 2011

21. INTERESTS RECEIVABLE

	Group	
	2011	2010
	HK$'000	HK$'000
Interests receivable	**6,283**	–

All of the interests receivable are expected to be recovered within one year.

a) Aging analysis

The aging analysis of interests receivable at the end of the reporting period is as follows:

	2011	2010
	HK$'000	HK$'000
Due within 1 month or on demand	**2,900**	–
Due after 1 month but within 3 months	**1,009**	–
Due after 3 months but within 6 months	**700**	–
Due after 6 months	**1,674**	–
	6,283	–

b) Interests receivable that are not impaired

	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**6,283**	–

Interests receivable that were neither past due nor impaired related to recognised and creditworthy customers for whom there was no recent history of default.

The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

22. SHORT-TERM LOANS RECEIVABLE

	Group					
	2011			2010		
	Pawn loans receivable HK$'000	Other short-term loans receivable HK$'000	Total HK$'000	Pawn loans receivable HK$'000	Other short-term loans receivable HK$'000	Total HK$'000
Gross loans advanced	232,703	697,319	930,022	328,359	–	328,359
Repayment during the year	(115,984)	(2,874)	(118,858)	(142,150)	–	(142,150)
Allowance for doubtful debts	(1,143)	(392)	(1,535)	–	–	–
Exchange adjustment	(25)	(8)	(33)	–	–	–
	115,551	694,045	809,596	186,209	–	186,209

The Group offers loans secured by tangible personal property, such as real estate merchandise, commonly known as short-term loans. A typical short-term loan generally has a term of 30 days to 360 days. All of the short-term loans receivable are expected to be recovered within one year.

a) Aging analysis

The aging analysis of short-term loans receivable at the end of the reporting period is as follows:

	2011			2010		
	Pawn loans receivable HK$'000	Other short-term loans receivable HK$'000	Total HK$'000	Pawn loans receivable HK$'000	Other short-term loans receivable HK$'000	Total HK$'000
Outstanding balance with ages						
Due within 1 month or on demand	25,268	78,148	103,416	186,209	–	186,209
Due after 1 month but within 3 months	12,212	47,449	59,661	–	–	–
Due after 3 months	79,239	568,848	648,087	–	–	–
Allowance for doubtful debts	(1,143)	(392)	(1,535)	–	–	–
Exchange adjustment	(25)	(8)	(33)	–	–	–
	115,551	694,045	809,596	186,209	–	186,209

Notes to the Financial Statements

For the year ended 31 December 2011

22. SHORT-TERM LOANS RECEIVABLE *(continued)*

b) Impairment of short-term loans receivable

Impairment losses in respect of short-term loans receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against short-term loans receivable directly *(see note 2(i))*.

Movements in allowance for doubtful debts

	2011 Pawn loans receivable HK$'000	Other short-term loans receivable HK$'000	Total HK$'000	2010 Pawn loans receivable HK$'000	Other short-term loans receivable HK$'000	Total HK$'000
At 1 January	**–**	**–**	**–**	N/A	N/A	N/A
Impairment loss recognised	**1,143**	**392**	**1,535**	N/A	N/A	N/A
At 31 December	**1,143**	**392**	**1,535**	N/A	N/A	N/A

As at 31 December 2011, no short-term loans receivable were individually determined to be impaired (2010: N/A).

c) Short-term loans receivable

	2011 Pawn loans receivable HK$'000	Other short-term loans receivable HK$'000	Total HK$'000	2010 Pawn loans receivable HK$'000	Other short-term loans receivable HK$'000	Total HK$'000
Loans to customers						
Neither past due nor impaired	**68,973**	**694,045**	**763,018**	186,209	–	186,209
Past due but not yet impaired	**46,578**	**–**	**46,578**	–	–	–
	115,551	**694,045**	**809,596**	186,209	–	186,209

Short-term loans receivable that were neither past due nor impaired relate to recognised and creditworthy borrowers for whom there was no recent history of default.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

22. SHORT-TERM LOANS RECEIVABLE *(continued)*

d) All the Group's short-term loans receivable in the PRC were denominated in RMB. The short-term loans receivable in the PRC carry interest plus service charge at a monthly effective rate of 1% to 3.2%.

Note: (a) As at 31 December 2011, approximately RMB46,020,000 represented pawn loans receivable attributable to loans renewals.

(b) As at 31 December 2011, the Group held collaterals with value of approximately RMB1,785,460,000 in total over the pawn loans receivable and other short-term loans receivable.

23. SECURITY DEPOSITS

Security deposits are place by the Group with banks to secure the Group's due performance in relation to the financial service business in the PRC.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	HK$'000	HK$'000
Financial derivatives	**3,898**	35,558

25. INVENTORIES

a) Inventories in the consolidated statement of financial position comprise:

	Group	
	2011	2010
	HK$'000	HK$'000
Commodities held for sale	**20,777**	35,581

As at 31 December 2011, none of the inventories were carried at net realisable value (2010: Nil).

b) The analysis of the amount of inventories recognised as an expense is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount of inventories sold in continuing operations	**197,862**	156,126
Carrying amount of inventories sold in discontinued operation	**–**	1,095,840
	197,862	1,251,966

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For the year ended 31 December 2011

26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Other receivables	**–**	19,855	**–**	–
Less: Allowance for doubtful debt	**–**	(6,365)	**–**	–
Other receivables, net	**–**	13,490	**–**	–
Others	**26,009**	48,243	**1,080**	1,455
Loans and receivables	**26,009**	61,733	**1,080**	1,455
Trade and deposits paid	**–**	82,653	**–**	–
Prepayments	**11,297**	14,116	**299**	252
Utility and sundry deposits	**1,304**	582	**716**	579
VAT and other tax recoverables	**–**	1,730	**–**	–
	38,610	160,814	**2,095**	2,286

All of the other receivables are expected to be recovered within one year. Prepayments and deposits are expected to be recovered or recognised as expense after more than one year.

Impairment losses in respect of other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against other loan receivable directly *(see note 2(i))*.

As at 31 December 2010, other loans receivable of the Group amounting to HK$6,365,000 were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for more than 1 year.

27. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

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

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Cash at banks/financial institutions and on hand	**187,239**	339,954	**24,599**	142,676
Cash and cash equivalents in the consolidated statement of financial position	**187,239**	339,954	**24,599**	142,676

Deposits with bank carry interest at market rates of 0.5% (2010: 0.32%) per annum. The directors consider the carrying amounts of cash and cash equivalents at the end of the reporting period approximate to their fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. ACCOUNTS PAYABLE

The aging of the Group's accounts payable is analysed as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Outstanding balances with ages		
Due within 1 month or on demand	**28,574**	20,328
Due after 1 month but within 3 months	**17,031**	34,037
	45,605	54,365

Accounts payable are interest free and are normally settled on 90-day terms. The carrying amounts of accounts payable approximate to their fair values due to their short term maturity and measured at amortised cost.

30. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued salaries, wages and benefits	**62**	2,319	**–**	–
Accrued expenses	**1,481**	5,145	**410**	571
Balance of consideration for acquisition of subsidiaries *(note 40)*	**12,915**	–	**12,915**	–
Dividend payable	**47,850**	–	**–**	–
Others	**65,192**	326	**–**	–
Financial liabilities measured at amortised cost	**127,500**	7,790	**13,325**	571
Rental and other deposit received	**14,082**	1,265	**–**	–
VAT and other tax payables	**1,987**	385	**–**	–
	143,569	9,440	**13,325**	571

All of the other payables, deposits received and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

31. LIABILITIES ARISING FROM LOAN GUARANTEE CONTRACTS

	Group	
	2011	2010
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Current liabilities	**1,851**	–

	Undue liability provision *(note a)* HK$'000	**Guarantee compensation provision** *(note b)* HK$'000	**Total** HK$'000
At 1 January 2011	–	–	–
Additional provision in the year	903	2,156	3,059
Amount utilized	(300)	(908)	(1,208)
At 31 December 2011	603	1,248	1,851

Notes:

(a) Pursuant to Article 31 of Tentative Measures for the Administration of Financing Guarantee Companies, a financial guarantee company shall provide 50% of its guarantee income in the year it derived, as undue liability provision (「未到期責任準備金」).

(b) Pursuant to Article 31 of Tentative Measures for the Administration of Financing Guarantee Companies, a financial guarantee company shall provide no less than 1% of the year-end balance of the guarantee liability in the year it arising as guarantee compensation provision (「擔保賠償準備金」).

Notes to the Financial Statements

For the year ended 31 December 2011

32. BANK BORROWINGS

At the end of the reporting period, all the bank loans of the Group, which were all obtained in PRC and denominated in RMB, are listed as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within 1 year or on demand		
Bank loans – secured	**49,175**	4,650
Bank loans – unsecured	**–**	21,153
	49,175	25,803
After 1 year but within 2 years		
Bank loans – secured	**–**	4,650
After 2 years but within 5 years		
Bank loans – secured	**–**	11,627
After 5 years		
Bank loans – secured	**–**	–
	–	16,277
	49,175	42,080

All of the non-current interest bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowing is expected to be settled within one year.

The directors consider the carrying value of the amounts at the end of the reporting period.

The ranges of effective interest rates on the Group's borrowings are as follows:

	Group	
	2011	2010
Effective interest rates:		
Bank loans – secured	**6.56%**	6.53%
Bank loans – unsecured	**–**	9%
	per annum	per annum

Notes to the Financial Statements

For the year ended 31 December 2011

32. BANK BORROWINGS *(continued)*

Secured bank borrowings of HK$15,870,000 (2010: HK$20,927,000) were secured by the Group's investment property with a carrying amount of approximately HK$73,959,000 (2010: HK$73,959,000). The remaining balance of secured bank borrowings of HK$33,305,000 (2010: Nil) were secured by corporate guarantee of its subsidiaries.

None of the portion of bank loans of 2010 due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

33. DEFERRED INCOME

	The Group	
	2011	2010
	HK$'000	HK$'000
Financing consultancy services income	**14,720**	–
Loan guarantee business income	**1,555**	–
	16,275	–

Deferred income represents income received under the financing consultancy services and the loan guarantee business. Deferred income from the financing consultancy services is recognised as revenue when the consultancy services are rendered. Deferred income from the loan guarantee business is amortised and recognised as revenue on a straight line basis over the guarantee period.

Notes to the Financial Statements

For the year ended 31 December 2011

34. DEFERRED TAXATION

a) The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follow:

	Amortisation of intangible assets trademarks HK$'000	Revaluation of investment property HK$'000	Withholding tax HK$'000	Total HK$'000
Deferred tax arising from:				
At 1 January 2010	40,014	2,186	–	42,200
(Credited)/charged to profit or loss	(1,097)	2,017	–	920
Less: Disposal of subsidiaries *(note 39)*	(38,917)	–	–	(38,917)
At 31 December 2010 and 1 January 2011	–	4,203	–	4,203
Charged to profit or loss	–	–	3,982	3,982
At 31 December 2011	–	4,203	3,982	8,185

b) Withholding tax

Pursuant to the New EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax liabilities is only provided to the extent that such earnings are estimated to be distributable in the foreseeable future.

c) Deferred tax assets in respect of the unused tax losses carried forward are to be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The Group has not recognised deferred tax assets in respect of the tax losses of HK$54,253,000 (2010: HK$18,422,000) due to the unpredictability of future profit streams. The unrecognised tax losses, mainly arising from Hong Kong companies, can be carried forward indefinitely.

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For the year ended 31 December 2011

35. SHARE CAPITAL

	2011		2010	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**4,000,000,000**	**400,000**	4,000,000,000	400,000
Issued and fully paid:				
At beginning of the year	**1,746,002,336**	**174,600**	1,725,902,336	172,590
Shares issued under share option scheme *(note a)*	**1,000,000**	**100**	20,100,000	2,010
Share issued pursuant to acquisition *(note b)*	**1,250,000,000**	**125,000**	–	–
At end of the year	**2,997,002,336**	**299,700**	1,746,002,336	174,600

a) On 16 March 2011, options were exercised to subscribe for 1,000,000 ordinary shares in the company at a consideration of HK$359,000 of which HK$100,000 was credited to share capital and the balance of HK$259,000 was credited to the share premium account. As a result of the exercise of such share options, HK$216,300 is also transferred from the share-based compensation reserve to the share premium account.

b) On 21 June 2011, the Company acquired the entire issued capital of K.P. Financial Group Limited, as detailed in note 40, at consideration of HK$800,000,000, in which HK$700,000,000 was satisfied by issuance of 1,250,000,000 shares of the company at fair value of HK$0.56 each.

HK$125 million was credited to share capital and the balance of HK$575 million was credited to the share premium account.

Notes to the Financial Statements

For the year ended 31 December 2011

36. SHARE OPTIONS

Equity-settled share option schemes

Pursuant to an ordinary resolution passed on 19 March 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the directors of the Company were authorised to grant share options to full-time employees (including executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company.

On 7 June 2004, the Old Share Option Scheme was terminated and a new share option scheme ("New Share Option Scheme") was adopted. The purpose of the New Share Option Scheme is to enable the Company to grant option to eligible participants in order to reward or provide incentives to its employees or any person who has contributed or will contribute to the Group. The New Share Option Scheme shall continue in force for the period commencing from 7 June 2004 and expiring at the close of business on the tenth anniversary thereof, after such period no further options will be granted but the provisions of the New Share Option Scheme shall remain in full force and effect in respect of any options granted before its expiry or termination but not yet exercised.

Under the New Share Option Scheme, the directors of the Company may offer to any employees or any person who has contributions to the Group including directors of the Company or any of its subsidiaries share options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The maximum number of shares in respect of which share options may be granted under the New Share Option Scheme shall not, when aggregate with any shares subject to any other schemes, exceed such number of shares as represents 10% of the issued shares as at the date of approval of the New Share Option Scheme (the "Scheme Mandate Limit") which shall be equivalent to 67,725,155 shares. On 28 April 2005, the Scheme Mandate Limit was refreshed to 101,587,733 shares. The Company may seek approval from the shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the total number of shares which may be issued upon exercise of all share options to be granted under all of the schemes of the Company or its subsidiaries under the limit as refreshed must not exceed 10% of the shares in issue as at the date of approval of the Scheme Mandate Limit. Share options previously granted under the New Share Scheme (excluding those outstanding, cancelled, lapsed in accordance with the New Share Option Scheme or any other share option schemes and exercised the share options) will not be counted for the purpose of calculating the Scheme Mandate Limit.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Share Option Scheme and any other scheme of the Company must not exceed 10% except seeking separate approval by its shareholders in general meeting for granting further options. Moreover in any case, must not exceed 30% of the total issued share capital from time to time.

Notes to the Financial Statements

For the year ended 31 December 2011

36. SHARE OPTIONS *(continued)*

Equity-settled share option schemes *(continued)*

The total number of shares issued and to be issued on the exercise of share options granted and to be granted in any 12-month period up to the date of grant of each eligible participant (including both exercised and outstanding options) shall not exceed 1% of the total issued shares.

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

On 17 May 2004 and 7 July 2004, 38,000,000 share options granted to the executive directors and 1,000,000 share options granted to the continuous contract employees outstanding under the Old Share Option Scheme were lapsed respectively.

On 10 January 2005, 2 February 2005 and 1 September 2005, the Company granted in aggregate 99,500,000 share options to its directors and employees under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options may be exercised at any time after date of grant of the share options to the half past-ninth anniversary of the date of grant.

On 4 October 2007, the Company granted 68,500,000 share options to its directors and employees under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options may be exercised at any time after twelve months from the date of grant of the share options to the tenth anniversary of the date of grant.

On 22 October 2010, the Company granted 36,000,000 share options to the eligible grantees under the share option scheme of the Company adopted on 7 June 2004, subject to acceptance of the Grantees. The Share Options shall entitle the Grantees to subscribe for a total of 36,000,000 ordinary shares of HK$0.1 each in the share capital of the Company.

Notes to the Financial Statements

For the year ended 31 December 2011

36. SHARE OPTIONS *(continued)*

Equity-settled share option schemes *(continued)*

The following table discloses movements of the Company's share options granted under the New Share Option Scheme and movements in such holdings:

Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	Contractual life of option
Directors	0.479	4 October 2007	4 October 2007 to 3 October 2017	10 years
	0.359	22 October 2010	22 October 2010 to 21 October 2020	10 years
Employees	0.126	10 January 2005	10 January 2005 to 6 June 2014	9.5 years
	0.479	4 October 2007	4 October 2007 to 3 October 2017	10 years
	0.359	22 October 2010	22 October 2010 to 21 October 2020	10 years

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

Option type	Outstanding at 1/1/11 '000	Granted during the year '000	Exercised during the year '000	Forfeited during the year '000	Expired during the year '000	Outstanding at 31/12/11 '000
2007	63,000	–	–	–	–	63,000
2010	35,000	–	(1,000)	–	–	34,000
	98,000	–	(1,000)	–	–	97,000
Exercisable at the end of the year						97,000
Weighted average exercise price	HK$0.442	–	HK$0.359	–	–	HK$0.437

Notes to the Financial Statements

For the year ended 31 December 2011

36. SHARE OPTIONS *(continued)*

Equity-settled share option schemes *(continued)*

a) *(continued)*

The following share options granted under the employee share option plan were exercised in the current year:–

Options type	Number exercised	Exercise date	Share price at exercise date
2010	1,000,000	16/3/2011	HK$0.44

b) *Fair value of share options at measurement date*

The fair value of services received in return of share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes Option Pricing Model. The contractual life of the option is used as an input into this model.

Grand dates	Director 4 October 2007	Employee 4 October 2007	Director 22 October 2010	Employee 22 October 2010
Fair value of shares options and assumptions:				
Fair value at measurement date (HK$)	0.235	0.235	0.216	0.216
Share price (HK$)	0.470	0.470	0.355	0.355
Exercise price (HK$)	0.479	0.479	0.359	0.359
Expected volatility (expressed at a weighed average volatility used in the modelling under the Black-Scholes Option Pricing Model)	68.60%	68.60%	103.93%	103.93%
Option life	10 years	10 years	10 years	10 years
Expected dividends	0%	0%	0%	0%
Risk-free interest rate (based on Exchange Fund Notes)	4.31%	4.31%	0.58%	0.58%
Expected forfeiture rate	0%	0%	0%	0%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

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For the year ended 31 December 2011

37. RESERVES

Group

	Share premium HK$'000	Share-based compensation reserve HK$'000	Other comprehensive income: Exchange fluctuation reserve HK$'000	Other comprehensive income: Fair value reserve HK$'000	Statutory surplus reserve HK$'000	Retained earnings HK$'000	Attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010	287,362	16,914	11,192	9,014	1,104	238,657	564,243	104,216	668,459
Shares issued under share option scheme	3,125	(2,369)	–	–	–	–	756	–	756
Decrease in non-controlling interests arising on disposal of interest in a subsidiary *(note 39)*	–	–	–	–	–	–	–	(103,626)	(103,626)
Decrease in exchange fluctuation reserve arising on disposal of interest in a subsidiary *(note 39)*	–	–	(7,335)	–	–	–	(7,335)	–	(7,335)
Decrease in statutory surplus reserve arising on disposal of interest in a subsidiary *(note 39)*	–	–	–	–	(493)	–	(493)	–	(493)
Equity settled share-based transactions	–	7,788	–	–	–	–	7,788	–	7,788
Exchange adjustment	–	–	7,639	–	–	–	7,639	932	8,571
Profit for the year	–	–	–	–	–	25,355	25,355	6,791	32,146
Fair value adjustment for financial assets	–	–	–	(6,724)	–	–	(6,724)	–	(6,724)
At 31 December 2011 and 1 January 2011	290,487	22,333	11,496	2,290	611	264,012	591,229	8,313	599,542
Exchange adjustment	–	–	18,169	–	–	–	18,169	269	18,438
Fair value adjustment for available-for-sale financial assets	–	–	–	(5,041)	–	–	(5,041)	–	(5,041)
Profit for the year	–	–	–	–	–	57,302	57,302	2,073	59,375
Equity settled share-based transactions	475	(216)	–	–	–	–	259	–	259
Issue of shares pursuant to acquisition	574,980	–	–	–	–	–	574,980	–	574,980
Increase in non-controlling interest arising on acquisition of subsidiaries	–	–	–	–	–	–	–	20,153	20,153
Application of white wash waver	(250)	–	–	–	8,576	(8,576)	(250)	–	(250)
Pre-acquisition dividend	–	–	–	–	–	–	–	122	122
At 31 December 2011	865,692	22,117	29,665	(2,751)	9,187	312,738	1,236,648	30,930	1,267,578

Notes to the Financial Statements

For the year ended 31 December 2011

37. RESERVES *(continued)*

Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2010	287,362	16,914	74,117	378,393
Share issued under share option scheme	3,125	(2,369)	–	756
Equity settled share-based transactions	–	7,788	–	7,788
Profit for the year	–	–	2,542	2,542
At 31 December 2010 and 1 January 2011	290,487	22,333	76,659	389,479
Application of white wash waiver	(250)	–	–	(250)
Issue of new shares pursuant to acquisition	574,970	–	–	574,970
Equity settled share-based transactions	475	(216)	–	259
Profit for the year	–	–	44,665	44,665
At 31 December 2011	**865,682**	**22,117**	**121,324**	**1,009,123**

At 31 December 2011, the Company has reserve available for distribution to shareholders as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance at HK$121,324,000 (2010: HK$76,659,000).

Nature and purpose of reserves

i) Share premium

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

ii) Share-based compensation reserve

The share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of a subsidiary recognised in accordance with the accounting policy adopted for share-based payments set out in note 2(x)(ii).

iii) Exchange fluctuation reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 2(q).

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For the year ended 31 December 2011

37. RESERVES *(continued)*

Nature and purpose of reserves *(continued)*

iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2(k).

v) Statutory surplus reserve

According to the Company's PRC subsidiaries' articles of association, the PRC company is required to transfer 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the PRC company's registered capital, any further appropriation is optional. The transfer to this reserve must be made before distribution of a dividend to the shareholders.

Statutory surplus reserve can be used to make up previous years' losses, if any, and may be converted into capital in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital.

38. RETIREMENT BENEFITS SCHEME

The group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

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

Notes to the Financial Statements

For the year ended 31 December 2011

39. DISPOSAL OF A SUBSIDIARY

On 19 August 2010, the Group disposed K.P.I.(BVI) Retail Management Company Limited ("KPIRM") a subsidiary, which carried out the entire supermarket operation, of the Group through Hualian GMS, the subsidiary of KPIRM's subsidiary Bestjoy International Limited.

	2010 HK$'000
Consideration received	
Total consideration received in cash and cash equivalents	503,912

Analysis of asset and liabilities over which control was lost

	19 August 2010 HK$'000
Non-current assets	
Property, plant and equipment	71,030
Intangible assets *(note 16)*	155,669
Long term lease prepayment	7,596
Goodwill *(note 18)*	377,972
Current assets	
Inventories	112,056
Prepayment and other receivables	381,751
Cash and cash equivalents	621,678
Current liabilities	
Trade payables	(504,235)
Other payables, deposit received and accruals	(502,839)
Tax payables	(1,001)
Short term bank loans	(57,314)
Non-current liabilities	
Deferred taxation *(note 34(a))*	(38,917)
Net assets disposed of	623,446

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39. DISPOSAL OF A SUBSIDIARY *(continued)*

Loss on disposal of a subsidiary

	Year ended 31 December 2010 HK$'000
Consideration received and receivable	503,912
Net assets disposed of	(623,446)
Non-controlling interests	103,626
Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of subsidiary	493
Cumulative statutory surplus reserve in respect of the subsidiaries being disposed reclassified from equity to profit or loss on loss of control of subsidiary	7,335
Loss on disposal *(note 9)*	(8,080)

The loss on disposal is included in the profit for the year from discontinued operations in the consolidated statement of comprehensive income *(note 9)*.

Net cash inflow on disposal of a subsidiary

	2010 HK$'000
Consideration received	503,912
Less: Cash and cash equivalent balances disposed of	(621,678)
	(117,766)

Notes to the Financial Statements

For the year ended 31 December 2011

40. ACQUISITION OF SUBSIDIARIES

On 27 January 2011, K.P.B. Group Holdings Limited, a wholly-owned subsidiary of the Company, entered into an Acquisition Agreement with the Chairman of the Board, Mr. Cheung Siu Lam, to acquire the entire issued capital of K.P. Financial Group Limited ("K.P. Financial") which indirectly has beneficial interests in 70% of the equity interests in Beijing Huifeng Rongjin Credit Finance Company Limited（北京惠豐融金小額貸款有限公司）, 100% of the equity interests in Beijing Zhong Jin Tou Management Consultancy Company Limited（北京中金投財務諮詢有限公司）(formerly known as 北京港佳匯通財務諮詢有限公司) and 100% of the equity interests in Beijing Huaxia Xingye Investment Guarantee Company Limited（北京華夏興業投資擔保有限公司）（「華夏興業投資擔保」）. Beijing Huifeng Rongjin Credit Finance Company Limited is principally engaged in the provision of small loan services in Miyun county, Beijing, PRC, Beijing Huaxia Xingye Investment Guarantee Company Limited is principally engaged in the provision of loan guarantee services to individuals and corporation.

The acquisition was completed on 21 June 2011 upon the fulfilment of the conditions agreed and the completion of the transfer of the entire registered capital of Beijing Huaxia Xingye Investment Guarantee Company Limited to the Company. The acquisition costs of HK$800,000,000 was satisfied (i) as to HK$100,000,000 in cash payable within 6 months after the date of completion and (ii) as to HK$700,000,000 by issuance of 1,250,000,000 shares of the Company at fair value of HK$0.56 each. The fair value of these shares is equivalent to the closing market value as at 21 June 2011.

K.P. Financial and its subsidiaries as at the date of acquisition (collectively "K.P. Financial Group") and 華夏興業投資擔保 additional contributed approximately HK$109,271,000 to the Group's revenue and approximately HK$37,184,000 to the Group's net profit after taxation for the period between the date of acquisition and the date of the statement of financial position.

The revenue and profit after taxation (excluding non-controlling interest) of K.P. Financial Group and 華夏興業投資擔保 for the year ended 31 December 2011 amounting to HK$159,925,000 and HK$90,502,000 respectively. If the acquisition had occurred on 1 January 2011, the Group's revenue would have been HK$458,934,000, and profit after taxation (excluding non-controlling interest) would have been HK$115,843,000 for the year ended 31 December 2011. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results 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.

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40. ACQUISITION OF SUBSIDIARIES *(continued)*

Goodwill arising on acquisition:

	HK$'000
Total consideration – satisfied by	
Cash consideration	100,000
Issue of new shares of the company	700,000
	800,000
Add: Non-controlling interests, being held 30% equity interest in sub-subsidiary Beijing Huifeng Rongjin Credit Finance Company Limited	18,413
Less: Fair value of Identifiable net assets	(195,710)
Goodwill on acquisition *(note 18)*	622,703

Acquisition-related costs amounting to HK$2,039,725 have been excluded from the consideration transferred and have been recognised as an expenses in the current year, within the 'other operating expenses' line item in the consolidated statement of comprehensive income.

An analysis of the net assets acquired is as follows:

	Acquiree's carrying amount before combination HK$'000	**Fair value adjustment** HK$'000	**Fair value** HK$'000
Property, plant and equipment	208	–	208
Deferred assets	1,104	–	1,104
Accounts receivable	11,652	–	11,652
Prepayment, deposits and other receivables	52,420	–	52,420
Short-term loans receivable	58,404	–	58,404
Interests receivable	855	–	855
Cash and cash equivalents	145,453	–	145,453
Deferred income	(389)	–	(389)
Accounts payables	(134)	–	(134)
Other payables, deposits received and accruals	(56,356)	–	(56,356)
Tax payables	(17,032)	–	(17,032)
Liabilities arising from loan guarantee contracts	(475)	–	(475)
	195,710	–	195,710

Notes to the Financial Statements

For the year ended 31 December 2011

40. ACQUISITION OF SUBSIDIARIES *(continued)*

Goodwill arose in the business combination because the cost of combination included amount in relation to the benefits from business network with commercial banks and business associates, customer service capability, the provision of solid sources of funding, network growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

None of the goodwill recognised is expected to be deductible for income tax purposes.

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration paid	(100,000)
Cash and cash equivalents acquired	145,453
	45,453

Contingent liabilities arising from acquisition of subsidiaries of RMB26,000,000 equivalent to approximately HK$32,071,000 in relation to the provision of loan guarantee services in the PRC.

41. ASSET CLASSIFIED AS HELD FOR SALE

	2011 **HK$'000**	2010 HK$'000
Investment property	**73,959**	–

The Group intends to dispose of investment property on 31 March 2012. The investment property located at No. 88, Xi San Wan Road North, Hai Ding District, Beijing. The investment property was revalued at RMB63 million (equivalent to approximately HK$74 million) on 31 October 2011, which was equivalent to the consideration of the disposal.

The disposal transaction has not yet been completed at the end of the reporting period. Pursuant to the Supplemental Agreement for Sale and Purchase of Commercial Property dated 28 February 2012, the disposal transaction will be completed on 31 March 2012.

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42. OPERATING LEASE ARRANGEMENTS

a) As lessor

The Group leases its investment property (note 15 to the financial statements), sub-lease its shop premises of convenience stores chain operations and golf club membership under operating lease arrangements, with leases negotiated for terms of one to fifteen years for investment property, one to ten years for shop premises of convenience stores chain operations and one to two years for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**11,248**	8,858
In the second to fifth years, inclusive	**23,064**	14,484
After the fifth year	**9,238**	10,126
	43,550	33,468

Notes to the Financial Statements

For the year ended 31 December 2011

42. OPERATING LEASE ARRANGEMENTS *(continued)*

b) As lessee

The Group leases certain of its office properties, director's quarter and shop premises of convenience stores chain operation and short term financing operation under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to twenty years.

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**36,369**	11,882	**755**	1,510
In the second to fifth years, inclusive	**54,937**	15,492	**–**	727
After the fifth year	**11,484**	10,126	**–**	–
	102,790	37,500	**755**	2,237

43. CONTINGENT LIABILITIES

The Group had contingent liabilities of RMB104,950,000 equivalent to approximately HK$129,450,000 (2010: Nil), and recognised RMB488,516 (2010: Nil) equivalent to approximately HK$603,000 and RMB1,011,910 (2010: Nil) equivalent to HK$1,248,000 as undue liability provision and guarantee compensation provision respectively in the consolidated statement of financial position in relation to the provision of loan guarantee service in China. The corresponding deferred income received from the business is disclosed in Note 33.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

44. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following transactions with its related parties during the year:

a) Related party transactions included in the statement of comprehensive income:

	2011 **HK$'000**	2010 HK$'000
Rental expenses to a company controlled by directors *(note)*	**–**	332

Note: Rental expenses for two directors were paid to a company controlled by them. The monthly rental of HK$83,000 was calculated by reference to open market rental. The rental expenses were fully settled up to 30 April 2010.

b) Remuneration of key management personnel of the Group

	2011 **HK$'000**	2010 HK$'000
Salaries, allowances and other benefits	**3,944**	3,512
Post-employment benefit	**12**	12
Share-based payments expenses	**–**	216
	3,956	3,740

Note: Further details of pension scheme contribution and directors' emoluments are included in note 7 to the financial statements.

45. BANKING FACILITIES

During 2011, the Group was granted banking facilities aggregating to approximately HK$49,175,000 (2010: HK$42,080,000), of which approximately HK15,870,000 (2010: HK$20,927,000) is secured by an investment property *(note 15)*. At 31 December 2011, the banking facilities were fully utilised.

Notes to the Financial Statements

For the year ended 31 December 2011

46. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, the following are the key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i) Impairment of property, plant and equipment and land lease premium

The recoverable amount of an asset is the higher of its fair value less cost 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, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

The carrying amount of property, plant and equipment is HK$11,368,000 (2010: HK$3,624,000) *(see note 13 for details)*.

ii) Estimated fair value of investment property

The investment property was revalued at the end of the reporting period on market value of existing use basis by independent qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each end of the reporting period.

The carrying amount of investment property is HK$73,959,000 (2010: HK$73,959,000) *(see note 15 for details)*.

Notes to the Financial Statements

For the year ended 31 December 2011

46. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

a) Key sources of estimation uncertainty *(continued)*

iii) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the 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 HK$622,703,000 (2010: HK$Nil) *(see note 18 for details)*.

iv) Impairment of receivables

The Group maintains impairment allowance for doubtful debts based upon evaluation of the recoverability of the accounts receivables and other receivables, where applicable, at each end of the reporting period. The estimates are based on the aging of the accounts receivables and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

v) Impairment losses on short-term loans receivable

The provisioning policy for impairment of short-term loans receivable of the Group is based on the evaluation of collectability and ageing analysis of the receivables and on management's judgments. A considerable amount of judgment is required in assessing the ultimate realization of short-term loans receivable from these customers, if applicable, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required. As at 31 December 2011, the carrying amount of short-term loan receivables is HK$809,596,000 (2010: HK$186,209,000).

Short-term loans receivable mainly include financing advances provided to customers which are secured by real estate. Apart from assessing the financial positions of customers, the management further reviews value of the pledged real estate by reference to recent market transactions in comparable properties. If the market value of secured real estate is deteriorated and is below the carrying amount of the corresponding financing advances, provision on impairment may be required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

46. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

a) Key sources of estimation uncertainty *(continued)*

vi) Estimated fair value of available-for-sale investments

The fair value of financial instruments in active markets (such as trading securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the closing bid price at the end of the reporting period.

The fair value of financial instruments that are not traded in active market is determined based on available recent market information such as most recent market transaction price with third parties and the latest available financial information existing at each end of the reporting period.

vii) Write down of inventories

The management of the Group reviews its inventories at the end of each reporting period and write down inventories to net realisable value. Management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each statement of financial position date and make allowance for obsolete items.

viii) Recognition of deferred tax assets

The recognition of deferred tax assets requires formal assessment by the Group of the future profitability of related operations. In making this judgement, the Group evaluates, amongst other factors, the forecast financial performance, changes in operational and financing cashflows.

ix) Acquired intangible assets

Acquired intangible assets are trademarks for convenience chain stores operations. They are amortised over their estimated useful lives. The valuation and estimated useful lives of trademarks is dependent on a number of assumptions and judgements, such as expected cash flows, customer attrition, and royalty rates, variations in which could produce different values and/or useful lives.

Notes to the Financial Statements

For the year ended 31 December 2011

46. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

a) Key sources of estimation uncertainty *(continued)*

x) Income taxes

As at 31 December 2011, no deferred tax asset (2010: Nil) in relation to unused tax losses HK$54,253,000 (2010: HK$18,422,000) has been recognised in the Group consolidated statement of financial position due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

xi) Provision for loan guarantees

When determining the amounts to be recognised in respect of liabilities arising from the loan guarantee business, the Article 31 of Tentative Measures for the Administration of Financing Guarantee Companies. As at 31 December 2011, liabilities arising from the loan guarantee business are HK$1,851,000 (2010: Nil). Where the actual defaults on loan guarantees are higher than expected, a material loss may arise (see note 31 for details of loan guarantee contracts).

b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

Certain available-for-sale financial assets are stated at cost less impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry and sector performance and financial information regarding the investee are taken into account.

Notes to the Financial Statements

For the year ended 31 December 2011

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include equity investments, cash and cash equivalents, borrowings, accounts receivable, other receivables, short-term loans receivable, interests receivable, accounts payable, other payables, liabilities arising from loan guarantee contracts and tax payable. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and other price 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.

a) Credit risk

i) Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

ii) As at 31 December 2011, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

iii) In respect of accounts receivable, other receivables, short-term loans receivable, and interests receivable in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition are performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of accounts receivable, other receivables. Debts are usually due within 30 days from the date of billing. In addition, the management of the Group reviews the recoverable amount of each individual 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 and the Company's credit risk is significantly reduced.

iv) In respect of accounts receivable, other receivables, short-term loans receivable and interests receivable, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had no significant concentrations of credit risk which individual balance exceeds 10% of the total accounts receivable, other receivables, short term loans receivable and interests receivable at the end of the reporting period.

v) The majority of the Group's investments are liquid securities listed on the recognised stock exchanges. No exposure to credit risk is expected.

vi) The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

vii) Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts receivables, interests receivable, short-terms loans receivable and other receivables are set out in notes 20, 21, 22 and 26.

Notes to the Financial Statements

For the year ended 31 December 2011

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

b) Liquidity risk

The Group is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as the major source of liquidity.

The following liquidity table set out the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the statement of financial position date) and the earliest date the Group and the Company required to pay:

Group

	2011						2010				
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liability											
Bank borrowings											
– variable rates	55,001	–	–	–	55,001	49,175	25,803	4,954	14,056	44,813	42,080
Account and other payables	189,174	–	–	–	189,174	189,174	63,805	–	–	63,805	63,805
Liabilities arising from loan guarantee contracts	1,851	–	–	–	1,851	1,851	–	–	–	–	–
Tax payable	35,011	–	–	–	35,011	35,011	1,510	–	–	1,510	1,510
	281,037	–	–	–	281,037	275,211	91,118	4,954	14,056	110,128	107,395

Company

	2011				2010			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative Financial liability								
Other payables	13,325	–	–	13,325	571	–	571	571

Notes to the Financial Statements

For the year ended 31 December 2011

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

c) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 32 for details of these borrowings).

i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's borrowings at the end of the reporting period:

	Group			
	2011		2010	
	Effective interest rates %	**HK$'000**	Effective interest rates %	HK$'000
Variable rate Borrowings:				
Bank loans	**6.56%**	**33,305**	6.53%	42,080
Variable rate bank balances and deposit	**0.5%**	**205,742**	0.36%	339,954

ii) Sensitivity analysis

All of the bank loans of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank balances and deposits and bank borrowings, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately HK$875,740 (2010: HK$1,154,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined based on the exposure to interest rates at the end of the reporting period. 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 interest rates is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The analysis is performed on the same basis for 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk is United States dollars ("US dollar") and Renminbi ("RMB").

However, since the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States against other currencies. Therefore, the currency risk arising from US dollar is remote.

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

All the revenue-generating subsidiaries of the Company are transacted in RMB. Depreciation or appreciation of the RMB against foreign currencies can affect the Group's results. The Group did not hedge its currency exposure.

e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as financial assets at fair value through profit or loss *(see note 24)* and available-for-sale investments *(see note 19)*.

The Group's listed investments are listed on the recognised stock exchanges. Decisions to buy or sell financial assets at fair value through profit or loss are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

Notes to the Financial Statements

For the year ended 31 December 2011

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

e) Equity price risk *(continued)*

At 31 December 2011, it is estimated that an increase/(decrease) of 10% (2010: 10%) in the relevant stock market index (for listed investments), the price/earning ratios of comparable listed companies (for unquoted investments) as applicable, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profit as follows:

Group

	2011		2010	
		Effect on profit after tax and retained profits HK$'000		Effect on profit after tax and retained profits HK$'000
Change in the relevant equity price risk variable:				
Increase	**10%**	**5,487**	10%	6,723
Decrease	**(10)%**	**(5,487)**	(10)%	(6,723)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

f) Fair values

i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market date

	2011				2010			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Assets								
Financial assets at fair value through profit or loss	**3,898**	**–**	**–**	**3,898**	35,558	–	–	35,558
Available-for-sale investments	**61,814**	**–**	**–**	**61,814**	44,961	–	–	44,961
	65,712	**–**	**–**	**65,712**	80,519	–	–	80,519

During the year there were no significant transfers between instruments in Level 1 to Level 2 or Level 3.

Notes to the Financial Statements

For the year ended 31 December 2011

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

f) Fair values *(continued)*

ii) Fair value of financial instruments carried at other then fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2010 and 2011.

g) Capital management

The Group's objectives when managing capital are to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt. During 2011, the Group's strategy, which was unchanged from 2010, was to maintain a gearing ratio within 3% to 6%. The gearing ratios as at 31 December 2011 and 31 December 2010 were as follows:

	Group		**Company**	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Interest-bearing bank loans	**49,175**	42,080	**–**	–
Total borrowings	**49,175**	42,080	**–**	–
Total equity	**1,567,278**	774,142	**1,308,823**	564,079
Gearing ratio	**3.14%**	5.44%	**N/A**	N/A

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

Notes to the Financial Statements

For the year ended 31 December 2011

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

h) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

i) Listed securities

Fair value is based on listed market price at the end of the reporting period without any deduction for transaction costs.

ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

48. ULTIMATE CONTROLLING PARTY

The directors regard Mr. Cheung Siu Lam through his direct shareholding in the Company as being the ultimate controlling party. The Company does not have any parent company.

FINANCIAL SUMMARY

For the year ended 31 December 2011

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified or restated as appropriate, is set out below.

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**382,127**	217,022	2,073,083	1,777,062	662,288
Profit for the year	**59,375**	32,146	42,614	255,874	6,317
Attributable to:					
Owners of the Company	**57,302**	25,355	26,303	247,686	6,330
Non-controlling interest	**2,073**	6,791	16,311	8,188	(13)
	59,375	32,146	42,614	255,874	6,317

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**1,866,949**	885,740	2,087,814	1,821,954	715,097
Total liabilities	**(299,671)**	(111,598)	(1,246,765)	(1,040,167)	(327,365)
Non-controlling interest	**(30,930)**	(8,313)	(104,216)	(87,647)	(9,710)
Balance of total equity attributable to owners of the Company	**1,536,348**	765,829	736,833	694,140	378,022