RCG

# RCG Holdings Limited

宏霸數碼集團(控股)有限公司*

(Incorporated in Bermuda with limited liability)

HKSE : 802 AIM : RCG

# Annual Report 2011

* For identification only

RCG Holdings Limited is a leading and publicly quoted international provider of biometric and RFID products and solutions services with a primary focus on development and sourcing these products and solutions services from, and selling them in, the Asia Pacific markets. Focusing on biometric and RFID, together with complementary cutting-edge technologies, the Group is dedicated to developing an integrated security platform through hardware and software integration. The Group's products and solutions services include biometric access control devices, biometric consumer products, RFID-enabled asset management systems, RFID anti-counterfeit solutions, intelligent surveillance systems using facial recognition technology and machine-to-machine (M2M) applications.

Established in 1999, RCG Holdings Limited has hands-on experience in serving a number of growing vertical industries such as telecommunication, finance, retail, transportation, entertainment, healthcare, aviation, logistics, real estate and governmental sector. RCG is publicly quoted and its Shares are listed or admitted to trading on the Main Board of the Hong Kong Stock Exchange since February 2009, on the PLUS since June 2007 and Alternative Investment Market (AIM) of the London Stock Exchange since July 2004.

RCG Holdings Limited implements an aggressive growth strategy with clear focus on developing innovative applications and diversifying revenue streams towards the emerging markets. Regional offices have been set up in a number of markets including Kuala Lumpur, Beijing, Hong Kong, Shenzhen, Macau, Taipei, Bangkok, Jakarta and Dubai, with authorised distributors present in major countries globally.

# Contents


| | |
|---|---|
| Five Year Financial Summary | 2 |
| Cautionary Statement Regarding Forward-Looking Statements | 3 |
| Chairman's Statement | 4 |
| Management Discussion and Analysis | 6 |
| Directors' Report | 12 |
| Corporate Governance Report | 19 |
| Directors, Senior Management and Staff | 23 |
| Statement of Directors' Responsibilities in respect of Consolidated Financial Statements | 29 |
| Independent Auditors' Report | 30 |
| Consolidated Income Statement | 32 |
| Consolidated Statement of Comprehensive Income | 33 |
| Consolidated Statement of Financial Position | 34 |
| Statement of Financial Position | 36 |
| Consolidated Statement of Changes in Equity | 37 |
| Consolidated Statement of Cash Flows | 38 |
| Notes to the Consolidated Financial Statements | 40 |
| Shareholders Information | 108 |
| Corporate Information | 111 |
| Definitions | 113 |
| Glossary of Technical Terms | 115 |

# Five Year Financial Summary

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Results** | | | | | |
| Turnover | **1,385,288** | 3,025,919 | 2,450,162 | 2,002,353 | 1,438,781 |
| (Loss)/profit for the year | **(1,550,774)** | (6,974) | 644,919 | 611,102 | 452,666 |
| Attributable to: | | | | | |
| Owners of the Company | **(1,354,937)** | 72,859 | 636,048 | 622,268 | 452,528 |
| Non-controlling interests | **(195,837)** | (79,833) | 8,871 | (11,166) | 138 |
| | **(1,550,774)** | (6,974) | 644,919 | 611,102 | 452,666 |
| Basic (loss)/earnings per share (note) | **HK$(3.24)** | HK$0.26 | HK$2.52 | HK$2.69 | HK$2.03 |
| Dividends per share | **—** | — | — | HK$0.165 or £0.015 | HK$0.078 or £0.005 |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets and liabilities** | | | | | |
| Total assets | **3,035,889** | 4,699,812 | 4,240,670 | 3,176,880 | 2,165,258 |
| Total liabilities | **(162,164)** | (463,189) | (357,317) | (295,779) | (71,098) |
| | **2,873,725** | 4,236,623 | 3,883,353 | 2,881,101 | 2,094,160 |
| Equity attributable to owners of the Company | **2,902,644** | 4,054,626 | 3,701,737 | 2,681,331 | 2,062,542 |
| Non-controlling interests | **(28,919)** | 181,997 | 181,616 | 199,770 | 31,618 |
| | **2,873,725** | 4,236,623 | 3,883,353 | 2,881,101 | 2,094,160 |

Note: The calculation of basic (loss)/earnings per share is based on the profit attributable to owners of the Company and on the weighted average number of shares in issue during the relevant years.

# Cautionary Statement Regarding Forward-Looking Statements

This Annual Report 2011 contains forward-looking statements that state the Company's beliefs, expectations, intentions or predications for the future. The forward-looking statements reflect the current view of the Board with respect to future events and are, by their nature, subject to risks, uncertainties and assumptions, including the risk factors as disclosed in this report.

In some cases, words such as "believe", "will", "would", "could", "may", "should", "expect", "intend", "consider", "anticipate", "estimate", "project", "plan", "potential" or similar expressions are used to identify forward-looking statements. The Board can give no assurances that those expectations and intentions will prove to have been correct, and you are cautioned not to place undue reliance on such statements. All forward-looking events or circumstances contained in this report might not occur in the manner the Board expects. Accordingly, you should not place undue reliance on such forward-looking statements. All forward-looking statements contained in this report are qualified by reference to these cautionary statements.

# Chairman's Statement

"I am pleased to report on the annual results for the year ended 31 December 2011. During the year, RCG has significantly restructured its overall business model with the focus on its Solutions, Projects and Services business segment and has concentrated on distributors with proven track records in terms of their sales performance. RCG has continued to secure major projects including SIMCash mobile-phone payment based in Indonesia and Malaysia, development of Internet of Things (IoT) City in Xiangyang, PRC, and multiple platform based gaming solutions for the Government of Sikkim, India."

**Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman**
*Chairman*

This strategy has involved the divestment of less profitable and non-core businesses in an effort to better allocate resources to fulfill the long term growth objectives of the Group. As part of this strategy, the Group disposed of its entire holdings in RCG Network, Skycomp Technology, UCH Technology, E-ctasia Technology, Towards Soft and Virtual Storage Center.

During the year, the Group has experienced very challenging markets with competition in the technology sector, which has put pressure on pricing. RCG continues to experience implementation delays on certain projects which has resulted in lower sales in its Solutions, Projects and Services segment. The board of directors of the Company (the "Directors") (the "Board") has also decided to make further impairment provisions against the carrying value of contract rights, trade receivables and certain intangible assets which, combined with the lower revenues and margins, have resulted in a significant net loss for the year.

The Company announced on 7 March 2011 (with further updates given on 19 April 2011 and 30 June 2011), that Originating Summons had been issued by Veron International Limited ("Veron"), a shareholder which has disclosed holdings of approximately 13.31% of the total issued share capital of the Company as at the date of this announcement, against the Company in the Court of First Instance of the High Court of the Hong Kong Special Administrative Region. The Originating Summons and actions taken by Veron have inevitably caused disruptions and distractions to the Company's business operations and management time. Furthermore, the unexpected outcome of the Company's annual general meeting in June 2011 that voted out the Company's previous Chief Executive Officer ("CEO") Dato' Lee Boon Han created a further burden to the Company and greatly affected customers' confidence in dealing with the Company. The Board wishes to express its gratitude to Dato' Lee Boon Han for his contributions towards the development of the Group. The Board also thanks Mr. Chong Khing Chung, who resigned as Chief Financial Officer ("CFO") and executive Director effective from 1 August 2011 for personal reasons. In the temporary absence of a CFO, the Deputy CFO, Mr. Sim Kay Wah has assumed responsibilities for that role. The Board wishes Mr. Chong and Dato' Lee the best in their future endeavours.

The Board has immediately put a succession plan into action. In July 2011, the Board appointed Mr. Chew Tean Danny as the acting CEO of the Company. With over 15 years' experience in sales and development, Mr. Chew successfully developed and grew RCG's presence in the Middle East and is now taking more responsibility for the wider Group. We welcome Mr. Chew and Mr. Sim and will provide our guidance and support to them in their new roles. The Board continues to search for a permanent CEO and CFO and will make further announcements in due course.

I take this opportunity to express my sincere gratitude to our shareholders, customers, business partners and my fellow directors for their continued and valued support and to our management and staff for their dedicated efforts during this past year to RCG. I hope that RCG will continue to enjoy your support towards the development of the Group in the years to come.

**Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman**
*Chairman*

28 March 2012

## BUSINESS REVIEW

The financial year of 2011 is a period of implementation of a consolidation strategy focusing on the increase of Solutions, Projects and Services business segment and to reduce reliance on the less profitable distributorship model. As a result, revenue for the year ended 2011 has decreased by 54.2%, compared to the same period in 2010.

The Group revenue was HK$1,385.3 million for the year ended 31 December 2011 compared to HK$3,025.9 million for the same period in 2010, largely as a result of the reduction in distributor sales by approximately 46.9% and the continuous delays experienced by the Group in implementation of certain projects, resulting in lower sales in Solution, Projects and Services segment by approximately 75.0% compared to the same period last year. Gross margin for the year ended 31 December 2011 was 18.3% compared to 38.0% for the year ended 2010 due to the Group continues to experience margin pressure in both the consumer and enterprise business segment with lower selling prices arising from increased competition, coupled with rising cost of sales. These trends, together with the substantial disposal of surplus inventory by the Group in the second half of the year at discounted prices, have resulted in substantially lower gross margins that/have been achieved in the past. There has been substantial impairment to the carrying value of trade receivables, in addition to the impairment on certain assets of the company provided for throughout the current financial period; this combined with lower revenue and margin, have contributed to the net loss of HK$1,550.8 million in 2011 compared to a loss of HK$7.0 million in 2010.

### Performance of business segments

The Group is a leading international developer and solution provider in the biometric, RFID and security industries that delivers high-performing convenient security systems for enterprises and consumers. The business segment comprises three categories: "**Consumer**", "**Enterprise**", and "**Solutions, Projects and Services**".

The Group develops the **Consumer** segment products to promote the use of biometrics, RFID and other technologies in daily use, such as **i-train** wireless education system allowing interactive, real-time in-class participation and **m-series** biometric fingerprint doorlock. The Group sells its Consumer segment products through third-party distributors, as mentioned above, the Group will place little reliance in this segment going forward.

The **Enterprise** segment comprises biometric and RFID products for commercial use, such as **i-series** and **s-series** biometric fingerprint authentication devices and modules, together with **EL-1000** and **XL-1000** controllers forming access control and employee attendance, **RUS-series** RFID card readers for access control, time attendance, visitor management and security applications, **r-series** RFID readers and controllers and **K-series** multi-modal security devices combining facial recognition, fingerprint authentication, password and RFID. The Group mainly sells the **Enterprise** segment products through its distributors, system integrators and security system providers.

The Group develops system solutions for enterprise users using the Group's internally developed software and self-developed or third party products as required, providing a solution to business needs in security or efficiency management. This **Solutions, Projects and Services** business segment is mostly deployed for enterprise management and consumer security protection. The Group focuses on high growth industries such as banking, logistics and transportation, entertainment, healthcare, education, anti-counterfeit and government sectors.

| Business Segment | Year ended 31 December | | | | y-o-y |
|---|---|---|---|---|---|
| | 2011 | | 2010 | | growth |
| | HK$ m | % | HK$ m | % | % |
| Consumer | **167.5** | **12.1** | 1,183.3 | 39.1 | (85.9) |
| Enterprise | **1,021.2** | **73.7** | 1,054.6 | 34.9 | (3.2) |
| Solution, Projects and Services | **196.6** | **14.2** | 788.0 | 26.0 | (75.0) |
| **Total Revenue** | **1,385.3** | **100.0** | 3,025.9 | 100.0 | (54.2) |

The key contributor to the Group's turnover as at 31 December 2011 was the Enterprise segment which contributed 73.7% of the total Group's turnover. The Enterprise segment revenue decreased by 3.2% from HK$1,054.6 million in 2010 to HK$1,021.2 million in 2011, as the Group reduced its excess stock of biometric modules and components at a lower price.

Revenue from the Consumer segment in 2011 was HK$167.5 million. This segment experienced a 85.9% decrease compared with 2010 due to reduction in distribution sales in this segment as well as part of the Group' strategy as discuss above.

The Solutions, Projects and Services segment experienced a 75.0% revenue decrease from HK$788.0 million in 2010 to HK$196.6 million in 2011. The decrease was attributed to delays in implementation of certain project, and the change in its strategy to focus on long term projects. A majority of the revenue of the recently won contracts are expected to start generating revenue in the next few years.

### Geographical performance

The majority of the Group's revenues are generated from Southeast Asia, Greater China and the Middle East.

A breakdown of revenue based on geographies is presented in the table below.

| Geographical Segment | Year ended 31 December | | | | y-o-y |
|---|---|---|---|---|---|
| | 2011 | | 2010 | | growth |
| | HK$ m | % | HK$ m | % | % |
| Southeast Asia | **674.5** | **48.7** | 1,734.3 | 57.3 | (61.1) |
| Greater China | **498.3** | **36.0** | 777.3 | 25.7 | (35.9) |
| Middle East | **207.7** | **15.0** | 506.3 | 16.7 | (59.0) |
| Other Regions | **4.8** | **0.3** | 8.0 | 0.3 | (40.0) |
| **Total Revenue** | **1,385.3** | **100.0** | 3,025.9 | 100.0 | (54.2) |

In 2011, all regions reported lower revenue compared to the revenue in 2010, with each region showing similar patterns of reduction in the Consumer segment and the Solutions, Projects and Services segment for the reason described above.

The Enterprise segment revenue from the Greater China region increased by 199.3% in 2011 mainly as a result higher demand in biometric modules. The Enterprise segment and the Solutions, Projects and Services segment contributed 65.3% and 22.7% respectively of revenue in Greater China. The majority of the revenue in the Southeast Asia region was derived from the Enterprise segment which accounted for 77.2% of the total revenue in the region. The Enterprise segment also accounted for 82.7% of revenue in the Middle East.

**Disposals**

On 5 January 2011, the Group disposed of its 51% shareholding in RCG Network, its indirect subsidiary whose principal activities were the distribution of IT products including personal computers and notebooks, for a total consideration of RM2.65 million (HK$6.71 million). The Group previously used RCG Network to promote its FxGuard Windows Logon software and has successfully bundled the software with notebook computers sold by RCG Network. Following the disposal, the Group continued to collaborate with the purchaser to distribute the software.

On 22 June 2011, the Group disposed of its indirectly wholly owned subsidiaries, Skycomp Technology and UCH Technology for an aggregate consideration of RM32.4 million (HK$82.6 million). The companies were previously engaged in computer-related products and biometrics, and these businesses have been transferred to RCG Matrix Sdn Bhd, another subsidiary of the Group. The two companies were dormant at the time of the disposals.

In addition, the Group had also disposed a number of dormant and less profitable subsidiaries, E-ctasia Technology whose principal activity at the time of disposal was repair and maintenance of computers, installations and sale of security products. Towards Soft Technology whose principal activity at the time of disposal was software development, and Virtual Storage Centre whose principal activity at the time of disposal was provision of online information and data sharing solutions and RCG Solutions Sdn Bhd which principal activities at the time of disposal was research & development and implementation of solution system. These companies had been disposed of for an aggregate consideration of HK$0.5 million.

On 22 August 2011, the Group disposed it's indirect 15% shareholding in RCG Xcess Sdn Bhd for RM30,000. The Company is principally engaged in the business of banking equipment and other related products.

On 30 November 2011, the Group disposed it indirectly 80% owned subsidiary, Vase Base Technology Limited and indirectly wholly owned subsidiary, Chance Best Technology Limited for an aggregate consideration of HK$50,000 and HK$3,000, respectively. The two companies were dormant at the time of the disposal.

**Acquisitions**

On 11 January 2011, the Group entered into a share purchase and exchange agreement to acquire 13,000,000 shares in Spartan Gold Limited ("Spartan") for a total consideration of US$6.5 million (HK$50.7 million), satisfied by the issuance of 15,600,000 new shares in the Company. Spartan (OTCBB: SPAG) is a diversified junior gold exploration and mining company with gold exploration and development projects in Nevada and Alabama, United States. The share exchange enabled the Group to provide its technology to Spartan in order to deploy its biometric, RFID and security related technologies in the mining field.

On 18 January 2011, the Group acquired 54.5% of ordinary shares in Eramen Technology Limited for a cash consideration of US$60,000. The principal activity of Eramen is the development of mobile payment solutions and mobile application technology. The acquisition enabled the Group to collaborate on the development and launch of its SIMCash Solution, a mobile phone based payment solution.

On 17 June 2011, the Group invested in 6.0% of the ordinary shares of Hero View Limited for a cash consideration of HK$19,200,000. Hero View Limited is a manufacturer of fructose in PRC.

On 1 August 2011, the Group acquired 60% of ordinary shares in Brilliant Easy Limited for a cash consideration of HK$22,000,000. Brilliant Easy Limited owns 100% of Han Technology Company Limited. Han Technology Company Limited is principally engaged in the business of distribution of electronic consumers industrial and products.

On 4 November 2011, the Group acquired 25% share in i-Century Limited for a total consideration of HK$29,000,000 which was satisfied by a cash payment of HK$19,000,000 and a Promissory Note with HK$10,000,000 face value issued with maturity date of one year commencing from the date of issue. i-Century Limited owns 100% of the issued share capital in Chinese-Version Limited. Chinese-Version is an established brand in translation services.

## FINANCIAL REVIEW

### Turnover

For the year ended 31 December 2011, the Group reported a total revenue of HK$1,385.3 million representing a decrease of 54.2% compared to HK$3,025.9 million in 2010. The decrease was mainly due to the reduction in the Consumer biometric sales and the slowdown in the implementations of a number of solutions projects, partly offset by an increase in Enterprise sales.

### Cost of sales

Cost of sales decreased 39.7% from HK$1,875.3 million in 2010 to HK$1,131.7 million in 2011. In terms of percentage of sales, the cost of sales increased from 62.0% in 2010 to 81.7% in 2011, resulting from a more competitive pricing, higher raw material costs and the sale of a significant amount of old stock.

### Gross profit and gross profit margin

Gross profit in 2011 was HK$253.6 million, a decrease of 78.0% compared to HK$1,150.6 million in 2010. The Group adjusted it pricing strategy in order to remain competitive, incurred higher raw material costs and sold a significant amount of old stock at lower margin, leading to a gross profit margin of 18.3% as compared to 38.0% in 2010.

### Other revenue and gains

Other revenue and gains increased from HK$40.9 million in 2010 to HK$51.6 million in 2011 mainly attributable to foreign exchange gains.

### Administrative expenses

Administrative expenses decreased 9.7% from HK$408.1 million in 2010 to HK$368.9 million in 2011.

### Selling and distribution costs

Selling and distribution costs decreased by 33.7% from HK$163.4 million in 2010 to HK$108.3 million in 2011 due to lower marketing cost incurred in line with the lower sales in the period.

### Finance costs

Finance costs decreased from HK$8.0 million in 2010 to HK$6.1 million in 2011 due to the decreased in utilisation of external interest-bearing financing facilities for working capital purposes.

### Loss before taxation

Loss before taxation for 2011 was HK$1,549.7 million, as compared to a loss before taxation of HK$2.7 million in 2010.

### Income tax expense

Income tax expense decreased from HK$4.3 million in 2010 to HK$1.1 million in 2011.

### Loss for the year

The Group incurred a net loss of HK$1,550.8 million for the year ended 31 December 2011, compared to a net loss of HK$7.0 million in 2010.

### Loss attributable to the owners of the Company.

Loss attributable to the owners of the Company increased from HK$72.9 million in 2010 to HK$1,354.9 million in 2011.

### Loss attributable to the non-controlling interests

Loss attributable to the minority interests of HK$195.8 million is related to the minority interests' share of the impairment charges referred to above.

## REVIEW OF THE GROUP'S FINANCIAL POSITION AS AT 31 DECEMBER 2011

### Liquidity and capital resources

The Group funds its operations with sales revenue from its operating activities. The Group also has cash inflows from interest income as well as certain short-term trade financing facilities in place which can be utilized if required. Key drivers in the Group's sources of cash are primarily the Group's sales, and their inflow depends on the Group's ability to collect payments. There have been no material changes in the Group's underlying drivers during the year under review.

The Group incurred capital expenditure of HK$68.2 million during 2011 compared to HK$246.1 million in 2010. The capital expenditure was mainly used for the acquisition of property, plant and equipment and investment in research and development.

The following table sets out the capital expenditure for the years indicated:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Purchase of property, plant and equipment | **1,878** | 27,157 |
| Investment in research and development | **66,360** | 218,940 |
| **Total** | **68,238** | 246,097 |

The Group has internal budgeting mechanisms in place to ensure that if and when cash is committed to fund major expenditures there is sufficient cash flow to maintain the Group's daily operations and meet all of its contractual obligations.

Although the Group has consistently maintained a liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 31 December 2011, the Group had trade financing facilities amounting to HK$44.3 million secured by fixed deposits and Irrevocable Standby Document Credit, a term loan facility amounting to HK$64.5 million secured by the pledging of a Malaysian property.

Save as disclosed above, there were no other charges on assets as at 31 December 2011.

The interest rates for the trade financing line ranged from 3.4% to 5.4% and this facility is denominated in Malaysian Ringgit. It is in the form of Standby Letter of Credit, Letter of Credit, bankers' acceptance, and trust receipts facilities for trading purposes. The term loan facility carries interest at a rate of 4.9% to 6.4% and is also denominated in Malaysian Ringgit and RMB.

The following sets out the maturities of the Group's total borrowings as at the balance sheet date:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Total bank borrowings, secured, repayable within one year | **32,611** | 213,649 |
| Total bank borrowings, secured, repayable more than one year | **44,623** | 50,510 |
| **Total** | **77,234** | 264,159 |

The Group had cash and cash equivalents of HK$52.7 million as of 31 December 2011 compared to HK$242.3 million as of 31 December 2010.

**Working Capital**

Debtors and inventories have decreased by 33.8% and 7.8% in 2011. The Group's working capital cycle has lengthened due to the slow down in sales and longer credit period granted to customers. Accordingly the Group reported significant decrease in trade receivables as at 31 December 2011. However, the Board believes that the inventory balance have stabilised at a lower level and the trade receivables (net of write offs) are recoverable.

**Gearing ratio**

As at 31 December 2011, the Group's gearing ratio was approximately 0.026x as compared to 0.061x as at 31 December 2010. The gearing ratio was calculated as the Group's total debt divided by its total capital. Debt of HK$77.6 million is calculated as total borrowings (including short-term bank loans amounting HK$32.6 million, current portion of financing obligations amounting HK$0.1 million, long term bank loans amounting HK$44.6 million and long term financing obligations of HK$0.3 million). Total capital is calculated as total shareholder equity of HK$2,873.7 million plus debt.

### Contingent Liabilities

As at 31 December 2011, the Group had no outstanding contingent liabilities. There were also no contingent liabilities as 31 December 2010. The Company acted as a guarantor of its subsidiaries to secure interest-bearing borrowings, which amounted to approximately HK$74.5 million (2010: HK$98.7 million).

The carrying amount of the financial guarantee provision recognised in the Company's balance sheet was approximately HK$652,000 as at 31 December 2011, compared to HK$652,000 as at 31 December 2010. The financial guarantee contract was eliminated on consolidation.

### Foreign exchange risk management

The Group's bank balances are denominated variously, in British Pounds, Malaysian Ringgit, United States Dollars, United Arab Emirates Dirham and Chinese Renminbi, each of which is a currency other than the functional currency of the relevant group entities, which exposes it to foreign currency risk. The Group has not used any financial instruments to hedge against this currency risk. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

## HUMAN RESOURCES

As at 31 December 2011, in addition to the Directors, there were around 76 employees of the Group stationed in the Group's offices in Kuala Lumpur, Hong Kong, Beijing, Macau, Bangkok and Dubai. Total staff costs for the year ended 2011 were HK$47.4 million, compared with HK$74.0million in 2010. The saving was attributable to the Group moving its operational headquarters to Kuala Lumpur, which is a lower cost centre compared to Hong Kong and Greater China, and streamlining of the Group's human resources following consolidation and merging of subsidiary companies.

The Group offered training and development courses for its employees to enhance staff working capabilities. Remuneration packages are linked with individual's and the Group's business performance, and take into consideration industry practices and competitive market conditions, reviewed on annual basis. Directors' remuneration is determined with reference to his duties and responsibilities with the Company, the Company's standards for emoluments and market conditions.

## MANAGEMENT OUTLOOK

The Group remains conscious of trading conditions and working capital requirements. It will continue monitoring its trading conditions and competitive landscape whilst executing strict cost control and adjusting its trading policies with its distributors. It will closely monitor the competition in the market and adopt a pragmatic approach in its sales and pricing policy in order to maintain its margin.

More specifically, the Group remains focused on executing the contracts won from various governmental bodies in Southeast Asia and major corporations in China and the Middle East to maximize revenue generation. The Company also expects to leverage relationships with system integrators and other technology providers in order to achieve diversification of projects in the entertainment, financial and telecommunication sectors in the Solutions, Projects and Services business segment.

## PURCHASE, SALE OR REDEMPTIONS OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011.

The Board of the Company is pleased to present to the shareholders their annual report, together with the Group's audited consolidated financial statements for the year ended 31 December 2011.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company incorporated in Bermuda with limited liability. The Group is principally engaged in the provision of biometric and RFID products and solution services. There were no changes in the nature of the Group's principal activities during the year. The activities of its principal subsidiaries are set out in note 23 to the consolidated financial statements.

## REVIEW OF BUSINESS

In the opinion of the Directors, the future prospects of the Company is promising. A business review can be found in the section of Management Discussion and Analysis on pages 6 to 11.

## RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2011 are set out in the Consolidated Income Statement on page 32.

The Board maintains a cautious view to retain cash for running the business and fund its expansion, thus decided that there will be no dividend paid in respect of the year ended 31 December 2011.

## RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 37 and note 29 to the consolidated financial statements respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company's reserves available for distribution amounted to approximately HK$641,347,000 (2010: approximately HK$356,032,000).

## SHARE CAPITAL

Details of movements in the share capital during the year are set out in note 28 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

## INTEREST-BEARING BORROWINGS

Details of interest-bearing borrowings are set out in note 30 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 25.8% of the Group's total sales for the year and sales to the Group's largest customer amounted to approximately 6.2%. Purchases from the Group's five largest suppliers accounted for approximately 86.6% to the Group's total purchases for the year and purchases from the Group's largest supplier amounted to approximately 24.4%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the issue share capital of the Company as at the date of this annual report) had any interest in any of the Group's five largest customers and five largest suppliers.

## DIRECTORS' SERVICE CONTRACTS

Each of executive Directors, non-executive Directors and independent non-executive Directors and independent non-executive Directors has entered into a formal appointment letter with the Company for a term of one year subject to termination by either party giving the other not less than three month's prior written notice.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 11 and 47 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year or as at 31 December 2011.

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

As at 31 December 2011, the interests and short positions of the Directors and chief executives in the Share, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap 571 of the Laws of Hong Kong (the "SFO")) as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO; or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

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

| Name of Directors | Capacity/Nature of interest | Number of shares | Number of underlying shares | Number of shares and underlying shares | Approximate percentage of issued share capital |
|---|---|---|---|---|---|
| Raymond Chu Wai Man | Beneficial owner | — | 2,800,000 | 2,800,000 | 0.57% |
| Li Mow Ming, Sonny | Beneficial owner | — | 80,000 | 80,000 | 0.02% |
| Liu Kwok Bond | Beneficial owner | — | 80,000 | 80,000 | 0.02% |
| Dato' Lee Boon Han (Retired as an executive Director on 10 June 2011) (Note 1) | Beneficial Owner | 104,000 | — | 104,000 | 0.02% |
| Ying Kan Man (Resigned as an executive Director on 1 December 2011) (Note 2) | Beneficial owner | 25,611 | — | 25,611 | 0.01% |

Note:

1. The number of shares of the Company held by Dato' Lee Boon Han up to 10 June 2011 as at his retirement. The options exercisable into 1,625,000 underlying shares held by Dato' Lee Boon Han lapsed on 10 June 2011 following his retirement.

2. The number of shares of the Company held by Mr. Ying Kan Man up to 1 December 2011 as at his resignation. The options exercisable into 1,500,000 underlying shares held by Mr. Ying Kan Man lapsed on 1 December 2011 following his resignation.

Save as disclosed above, none of the Directors or chief executives had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2011 that was required to be recorded pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

## RELATIONSHIP WITHIN DIRECTORS

None of the Directors and/or members of the senior management are related.

## SIGNIFICANT CONTRACT

There is no contract of significance (whether or not for provision of service) was entered into between the Company and its any subsidiaries and the controlling shareholders or its subsidiaries.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, the following persons or companies had interest or short positions in the shares or underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group were as follow:

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

| Name of Shareholders | Capacity/Nature of interest | Number of shares | Number of underlying shares | Number of shares and underlying shares | Approximate percentage of issued share capital (Note 4) |
|---|---|---|---|---|---|
| Veron International Limited (Note 1) | Beneficial owner | 65,662,832 | — | 65,662,832 | 13.31% |
| Kung Nina (Estate of Nina Kung also known as Nina T.H. Wang) (Note 1) | Interest of controlled corporation | 65,662,832 | — | 65,662,832 | 13.31% |
| Lai Kar Yan, Derek (Note 1) | Trustee | 65,662,832 | — | 65,662,832 | 13.31% |
| Lo Kin Ching Joseph (Note 1) | Trustee | 65,662,832 | — | 65,662,832 | 13.31% |
| The Offshore Group Holding Limited (Note 2) | Beneficial owner | 53,515,556 | — | 53,515,556 | 10.85% |
| Chan Chun Chuen (Note2) | Interest of controlled corporation | 53,515,556 | — | 53,515,556 | 10.85% |
| Tam Miu Ching (Note 2) | Spousal interest | 53,515,556 | — | 53,515,556 | 10.85% |

Notes:

1. The entire issued share capital of Veron International Limited is beneficially owned by Ms. Kung Nina. Therefore, Ms. Kung Nina is deemed to be interested in the 65,662,832 shares held by Veron International Limited under the SFO. Mr. Lai Kar Yan, Derek and Mr. Lo Kin Ching Joseph solely as Joint and Several Administrators pendente lite of Estate of Ms. Nina Kung.

2. The entire issued share capital of The Offshore Group Holdings Limited ("Offshore") is beneficially owned by an individual, Mr. Chan Chun Chuen. Ms. Tam Miu Ching is the wife of Mr. Chan Chun Chuen. Therefore, Mr. Chan Chun Chuen and Ms. Tam Miu Ching are deemed to be interested in the 53,515,556 shares held by Offshore under the SFO.

3. Represents the approximate percentage of total issued shares as at 31 December 2011.

Save as disclosed above, no person (other than the Directors and chief executives, whose interests are set out in the paragraph headed "Directors and chief executives' interests and short positions in shares and underlying shares"), had an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

## SHARE OPTION SCHEME AND POST LISTING SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was adopted by the Company on 28 June 2004 and was amended on 7 June 2006. A post listing share option scheme (the "Post Listing Scheme") was adopted by the Company on 16 October 2008.

### Share Option Scheme

Movements of the share options granted under the Share Option Scheme during the year are as follows:

| | Outstanding at beginning of the year | Granted during the year | Exercised during the year | Lapsed during the year | Cancelled during the year | Outstanding at end of the year | Date of grant | Vesting period | Exercisable period | Exercise price |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| Raymond Chu Wai Man | 1,300,000 | – | – | – | – | 1,300,000 | 20.04.2005 | 3 years | 20.04.2008–19.04.2015 | 34.5p |
| | 1,500,000 | – | – | – | – | 1,500,000 | 04.10.2006 | 1 year | 04.10.2007–03.10.2016 | 64.25p |
| Li Mow Ming Sonny | 80,000 | – | – | – | – | 80,000 | 29.04.2010 (Note 1) | 1 year | 29.04.2011–28.04.2020 | HK$8.21 |
| Liu Kwok Bond | 80,000 | – | – | – | – | 80,000 | 29.04.2010 (Note 1) | 1 year | 29.04.2011–28.04.2020 | HK$8.21 |
| Dato' Lee Boon Han | 400,000 | – | – | 400,000 | – | – | 04.10.2006 | 1 year | 04.10.2007–03.10.2016 | 64.25p |
| (Retired as executive director | 225,000 | – | – | 225,000 | – | – | 29.04.2010 (Note 1) | – | 29.04.2010–28.03.2017 | HK$8.21 |
| on 10 June 2011) | 1,000,000 | – | – | 1,000,000 | – | – | 29.04.2010 (Note 1) | 1 year | 29.04.2011–28.04.2020 | HK$8.21 |
| Ying Kan Man (Resigned as | 100,000 | – | – | 100,000 | – | – | 20.04.2005 | 3 years | 20.04.2008–19.04.2015 | 34.5p |
| executive director | 800,000 | – | – | 800,000 | – | – | 04.10.2006 | 1 year | 04.10.2007–03.10.2016 | 64.25p |
| on 1 December 2011) | 200,000 | – | – | 200,000 | – | – | 29.04.2010 (Note 1) | – | 29.04.2010–28.03.2017 | HK$8.21 |
| | 400,000 | – | – | 400,000 | – | – | 29.04.2010 (Note 1) | 1 year | 29.04.2011–28.04.2020 | HK$8.21 |
| Chong Khing Chung (Resigned as | 72,500 | – | – | 72,500 | – | – | 29.04.2010 (Note 1) | – | 29.04.2010–28.03.2017 | HK$8.21 |
| executive director | 400,000 | – | – | 400,000 | – | – | 29.04.2010 (Note 1) | 1 year | 29.04.2011–28.04.2020 | HK$8.21 |
| on 1 August 2011) | | | | | | | | | | |
| Subtotal | 6,557,500 | – | – | 3,597,500 | – | 2,960,000 | | | | |
| **Other employees** | | | | | | | | | | |
| In aggregate | 35,000 | – | – | – | – | 35,000 | 20.04.2005 | 3 years | 20.04.2008–19.04.2015 | 34.5p |
| | 1,227,500 | – | – | 187,500 | – | 1,040,000 | 29.04.2010 (Note 1) | – | 29.04.2010–28.03.2017 | HK$8.21 |
| | 2,530,000 | – | – | 1,480,000 | – | 1,050,000 | 29.04.2010 (Note 1) | 1 year | 29.04.2011–28.04.2020 | HK$8.21 |
| Subtotal | 3,792,500 | – | – | 1,667,500 | – | 2,125,000 | | | | |
| **Total** | **10,350,000** | **–** | **–** | **5,265,000** | **–** | **5,085,000** | | | | |

Notes:

1. The closing price of the share immediately before 29 April 2010 is HK$8.10.

2. The weighted average closing price before the date of exercising for share options was HK$4.66.

3. The weighted average closing price before the date of exercising for share options was HK$8.54.

**Summary of principal terms of the Share Option Scheme**

The purpose of the Share Option Scheme is to attract and retain personnel, to provide incentives to participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Option can be granted to any employee (including Directors) of the Company or its associated companies under the Share Option Scheme.

The number of share that can be the subject of options granted under the Share Option Scheme cannot exceed 15% of the issued share capital of the Company from time to time. There is no limit on the value of benefit that can be granted to eligible employee under the Share Option Scheme.

Generally, options can be exercised between the first and tenth anniversaries of the date of grant. The option will lapse if it is not so exercised. If the eligible employee leaves the employment of the Group or any associated company for any other reason, then the option will lapse. The rules also provide for the early exercise of options, provided that any performance conditions have been satisfied.

The exercise of options may be subject to performance conditions set by the Board from time to time.

The Exercise Price (as defined in the Share Option Scheme) payable on the exercise of options shall be determined by the Directors, but shall be not less than the higher of (i) the mid-market price shown in the Financial Times of London on the day of grant or, if that day is not a Business day (as defined), for the last preceding Business Day or, if there is no such price, such value as shall be determined by the Directors, and (ii) the nominal value of the shares.

The Share Option Scheme was terminated with effect from the listing of the Company on the HKSE on 10 February 2009. No further options may be granted under the Share Option Scheme but the rules will continue to apply to options granted before such termination.

**Summary of principal terms of the Post Listing Scheme**

The purpose of the Post Listing Scheme is to attract and retain personnel, to provide incentives to participants to work towards enhancing the value of the Company and its share for the benefit of the Company and its shareholders as a whole.

The Board may, at its discretion and on such terms as it may think fit, grant any participant an option as it may determine in accordance with the terms of the Post Listing Scheme. Participants of the Post Listing Scheme comprise Directors (including executive Directors and non-executive Directors) and full time employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, or service providers of any member of the Group.

The total number of shares in respect of which options may be granted under the Post Listing Scheme shall be 15,986,000 shares, representing 4.67% of the issued share capital of the Company as at the date of this annual report.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee (including exercised and outstanding options) in any twelve-month period shall not exceed 1 per cent of the shares in issue for the time being.

The Board may grant options on such terms and subject to such conditions as it thinks fit, including the amount payable on acceptance of the option and the period within which the option must be exercised. The Board may, in its absolute discretion, determine that options will be subject to performance targets that must be achieved before vesting. The Board will determine the minimum period, which shall be no less than one year, for which a share option must be held before it vests and any other conditions in relation to dealing with shares on vesting.

The subscription price payable on the exercise of an option shall be a price determined by the Board at its absolute discretion and notified to a participant and shall be no less than the greatest of: (i) the closing price of the shares as stated in the daily quotations sheet issued by the HKSE on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the HKSE for the five business days immediately preceding the date of grant; or (iii) the nominal value of the shares.

The Post Listing Scheme will be valid and effective for a period of ten years commencing on 16 October 2008, after which period no further options will be offered or granted.

During the year ended 31 December 2011 and up to the date of this annual report, the Company did not grant any option pursuant to the Post Listing Scheme.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company (other than service contracts with any Director or any person engaged in the full time employment of the Company) were entered into or existed during the year.

## PURCHASE, SALE OR REDEMPTIONS OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011.

## PLACING AND ISSUE OF NEW SHARES

On 5 January 2011, the Company announced a subscription of 6,450,000 new ordinary shares in the Company at a price of HK$3.10 per share by a subscriber, Kelton Capital Group Limited. The net price for each subscription share was approximately HK$3.10. The closing price of the Share on 4 January 2011 being the date on which the subscription agreement was entered into was HK$3.46 on the HKSE and 24.18 pence on AIM. All 6,450,000 subscription shares were subscribed for and the subscription was completed on 7 January 2011.

On 12 January 2011, the Company announced an issuance of 15,600,000 new ordinary shares in the Company at a price of HK$3.25 per share by Avalon Partners Limited. The net price for each issued share was approximately HK$3.25. The closing price of the shares on 11 January 2011, being the date on which the stock purchase and exchange agreement was entered into, was HK$3.52 on the HKSE and 27.0 pence on AIM. All 15,600,000 new shares were placed and the investment was completed on 14 January 2011.

In addition, on 21 February 2011, the Company announced a further subscription of 19,000,000 new ordinary shares in the Company at a price of HK$2.50 per share by two subscribers, Chiefland Trading Limited and Rare Minerals Group Limited. The net price for each subscription share was approximately HK$2.38. The closing price of the shares on 18 February 2011, being the date on which the subscription agreement was entered into, was HK$3.05 on the HKSE and 23.0 pence on AIM. All 19,000,000 subscription shares were subscribed for and the subscription was completed on 24 February 2011.

On 13 May 2011 the company announced (and in further announcements on 18 May 2011, 20 May 2011 and 23 May 2011) a further placing up to 68,500,000 new ordinary shares in the Company at a price of HK$1.45 per share by a placing agent, Tanrich Securities Company Limited, to more than six independent placees on a best efforts basis. The net price for each subscription share was approximately HK$1.55. The closing price of the shares on 12 May 2011, being the date on which the subscription agreement was entered into, was HK$1.68 on the HKSE and 13.5 pence on AIM. All 68,500,000 subscription shares were subscribed for and the subscription was completed on 31 May 2011.

Lastly, on 30 June 2011, the Company announced a further placing up to 82,200,000 new ordinary shares in the Company at a price of HK$1.00 per share by a placing agent, Tanrich Securities Company Limited, to more than six independent placees on a best efforts basis. The net price for each subscription share was approximately HK$0.97. The closing price of the shares on 29 June 2011, being the date on which the subscription agreement was entered into, was HK$1.11 on the HKSE and 8.33 pence on AIM. All 82,200,000 subscription shares were subscribed for and the subscription was completed on 15 July 2011.

One of the reasons for conducting the above subscriptions was to introduce more shares to the market and to improve share trading liquidity. The net proceeds from the subscriptions were intended to be used for financing the anticipated new projects in the Company's Solutions, Projects and Services business segment for public and private sector customers in the Southeast Asia and the Greater China regions, and for financing the Company's research and development activities.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws; or the laws of Bermuda, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

## COMPETITION AND CONFLICT OF INTEREST

None of the Directors or substantial shareholders of the Company or any of their representative associates has engaged in any business that competes or may compete with the businesses of the Group or has any other conflict of interest with the Group.

## CONNECTED TRANSACTIONS

During the year, there was no connected transaction required to be reported.

## SUFFICIENCY OF PUBLIC FLOAT

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

## CORPORATE GOVERNANCE

Details of the corporate governance practices of the Company are set out in the "Corporate Governance Report" of this annual report on pages 19 to 22.

## CHARITABLE CONTRIBUTIONS

During the year under review, the Group made charitable contribution totaling HK$108,000 (2010: HK$103,000)

## AUDITORS

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganized as HLB Hodgson Impey Cheng Limited. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

By order of the Board
**Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman**
*Chairman*

28 March 2012

During the year ended 31 December 2011, the Directors, where practicable, for an organisation of the Group's size and nature sought to comply with the UK Corporate Governance Code (the "Code"). The Code is the key source of corporate governance recommendations for UK listed companies. It consists of principles of good governance covering the following areas: (i) Directors; (ii) Directors' remuneration; (iii) accountability and audit; (iv) relations with shareholders; and (v) institutional investors.

In connection with the listing of the Company on the HKSE in February 2009, the Company adopted the code provisions set out in the Code on Corporate Governance Practices ("CCG") contained in Appendix 14 (amended to "Corporate Governance Code and Corporate Governance Report" on 1 April 2012) to the Hong Kong Listing Rules as its additional code on corporate governance practices on 2 February 2009. The Company has complied with the code provisions set out in the CCG throughout the year ended 31 December 2011, except for the deviation from code provision A.2.1 which is explained in the following relevant paragraph.

## THE BOARD

The Board meets four times a year at approximately quarterly internals and the Directors receive information between meetings about the activities of the Group. All Directors have full and timely access to all relevant information of the Group. In addition to the meetings of the Board, the senior management meets frequently to review and discuss the daily operation of the Group.

## BOARD COMPOSITION

As at 31 December 2011, there were seven Board members consisting of two executive Directors, two non-executive Directors and three independent non-executive Directors:

*Executive Directors:*
Li Jinglong
(appointed on 27 September 2011)
Zhang Ligong
(appointed on 27 September 2011)

*Non-executive Directors:*
Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman *(Chairman)*
Raymond Chu Wai Man

*Independent Non-executive Directors:*
Li Mow Ming, Sonny
Liu Kwok Bond
Pieter Lambert Diaz Wattimena

## RESPONSIBILITIES OF THE BOARD

The Board is responsible for the overall direction and strategy of the Group, its performance, management and major financial matters. The Board meets regularly to devise and monitor strategies, approve acquisitions and disposals, review managerial performance, examine capital expenditures, approve budgets and handle important financial matters. The Board monitors business risk exposures and reviews performance based on strategies, budgetary goals and development programs. The Board also considers employee issues, key appointments and information for shareholders of the Company.

Throughout the year, five Board meetings were held. Details of the attendance of the Directors are as follows:

| Names of the Directors | Directors' Attendance |
|---|---|
| *Executive Directors:* | |
| Li Jinglong (appointed on 27 September 2011) | 1/1 |
| Zhang Ligong (appointed on 27 September 2011) | 1/1 |
| Dato' Lee Boon Han (retired on 10 June 2011) | 2/2 |
| Ying Kan Man (resigned on 1 December 2011) | 4/4 |
| Chong Khing Chung (resigned on 1 August 2011) | 2/2 |
| *Non-executive Directors:* | |
| Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman *(Chairman)* | 5/5 |
| Raymond Chu Wai Man | 3/5 |
| *Independent Non-executive Directors:* | |
| Li Mow Ming, Sonny | 5/5 |
| Liu Kwok Bond | 5/5 |
| Pieter Lambert Diaz Wattimena | 5/5 |

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under provision A.2.1 of the Code, the roles of the Chairman and the chief executive officer (the "CEO") should be separated and should not be performed by the same individual. During the year under review, Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman is the non-executive Chairman of the Company. Dato' Lee Boon Han was the CEO of the Company before his retirement as an executive Director on 10 June 2011. The CEO was temporary absence and Mr. Ying Kan Man, the chief operating officer assumed responsibilities for CEO until the appointment of Mr. Chew Tean Danny as the Company's Acting CEO with effect from 15 July 2011. The two positions are now held by two separate individuals to ensure their respective independence, accountability and responsibility.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rule 3.10(1) of the Hong Kong Listing Rules, there are three independent non-executive Directors representing one-third of the Board. Among the three independent non-executive Directors, one has appropriate professional qualification in accounting or related financial management expertise as required by Rule 3.10(2) of the Hong Kong Listing Rules. The Company has received from each of its independent non-executive Directors the written confirmation of his independence pursuant to Rule 3.13 of the Hong Kong Listing Rules. The Company, based on such confirmations, considers Mr. Li Mow Ming, Sonny, Mr. Liu Kwok Bond and Mr. Pieter Lambert Diaz Wattimena independent.

## DIRECTORS' APPOINTMENT, RE-ELECTION AND REMOVAL

Each of executive Directors, non-executive Directors and independent non-executive Directors has entered into a formal appointment letter with the Company for a term of one year subject to termination by either party giving the other not less than three months' prior written notice.

In accordance with Bye-law 87(1) of the Company's Bye-laws, all Directors (including executive Directors, non-executive Directors and independent non-executive Directors) are subject to retirement by rotation at least once every three years. This year, in accordance with Bye-law 87(1) of the Company's Bye-laws, Mr. Raymond Chu Wai Man and Mr. Pieter Lambert Diaz Wattimena will retire and will seek re-election at the forthcoming AGM of the Company.

In accordance with Bye-law 86(2) of the Company's Bye-laws, any Director appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Mr. Li Jinglong and Mr. Zhang Ligong will retire and being eligible, put themselves up for re-election at the forthcoming AGM of the Company.

## BOARD MEETINGS AND BOARD PRACTICES

The Board regularly meets at least four times a year and also meets on other occasions when a board-level decision on a particular matter is required. The company secretary of the Company (the "Company Secretary") will assist the Chairman to prepare the agenda of meetings and each Director may request to include any matters in the agenda. The Company Secretary is responsible for distributing detailed documents to Directors prior to the meetings of the Board to ensure that the Directors are able to make informed decisions regarding the matters to be discussed in the meetings so that they may receive accurate, timely and clear information. All Directors may access the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. All Directors will also be provided with sufficient resources to discharge their duties, and upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board with opinions on matters in relation to the compliance with the procedures of the Board meetings. All minutes of Board meetings were recorded in sufficient detail the matters considered by the Board and decisions reached.

## DELEGATION OF POWERS

The Board delegates day-to-day operations of the Group to executive Directors and management of the Company with department heads responsible for different aspects of the business/functions, while reserving certain key matters in making strategic decision for its approval. When the Board delegates aspects of its management and administration functions to management, it gives clear directions as to the powers of management, in particular, with respect to the circumstances where management need to report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

## BOARD COMMITTEES

The Board has formally established a number of committees and agreed upon their terms of reference. The committees are:

### Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") on 28 June 2004 with written terms of reference, which was revised on 2 February 2009, in compliance with the CCG. The Remuneration Committee constitutes Mr. Liu Kwok Bond, an independent non-executive Director, acting as chairman of the Remuneration Committee with Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman, a non-executive Director, and Mr. Pieter Lambert Diaz Wattimena, an independent non-executive Director, as members.

The primary functions of the Remuneration Committee are to make recommendations to the Board on remuneration of Directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for executive Directors and senior management. The remuneration committee determines the terms and conditions of service of the executive Directors, including the remuneration and grant of options to executive Directors and employees under the share option scheme of the Company and any other future share option schemes and arrangements adopted by the Company. Details of the current Directors' remuneration and the executive share option scheme are shown in the Directors' Report on pages 12 to 18 and in the section of Directors, Senior Management and Staff on pages 23 to 28.

During the year under review, one meeting was held to review the remuneration packages of all the Directors and the senior management. The attendance records for the Remuneration Committee meeting are as follows:

| Names of the members | Members' Attendance |
|---|---|
| Liu Kwok Bond *(Chairman)* | 1/1 |
| Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman | 1/1 |
| Pieter Lambert Diaz Wattimena | 1/1 |

### Nomination Committee

The Company established a nomination committee (the "Nomination Committee") on 28 June 2004 with written terms of reference, which was revised on 2 February 2009, in compliance with the CCG. The Nomination Committee constitutes Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman, a non-executive Director, as chairman of the Nomination Committee with Mr. Li Mow Ming, Sonny and Mr. Liu Kwok Bond, independent non-executive Directors, as members.

The Nomination Committee makes recommendation to the Board on potential candidates to fill vacancies on the Board. It is responsible for leading the process for Board appointments and for identifying and nominating, for the approval of the Board, candidates for appointments to the Board. It also regularly reviews the structure, size and composition of the Board and keeps under review the leadership needs of the Group to ensure the continued ability of the Group to compete effectively in the market place.

During the year under review, one meeting was held to review the structure, size and composition of the Board, assess the independence of independent non-executive Directors, and make recommendations to the Board relating the redesignation and appointment of the Directors. The attendance records for the Nomination Committee meeting are as follows:

| Names of the members | Members' Attendance |
|---|---|
| Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman *(Chairman)* | 1/1 |
| Liu Kwok Bond | 1/1 |
| Li Mow Ming, Sonny | 1/1 |

### Audit Committee

The Company established an audit committee (the "Audit Committee") on 28 June 2004 with written terms of reference, which was revised on 2 February 2009, in compliance with the CCG. The Audit Committee constitutes Mr. Li Mow Ming Sonny, an independent non-executive Director, as chairman of the Audit Committee with Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman, a non-executive Director, and Mr. Pieter Lambert Diaz Wattimena, an independent non-executive Director, as members.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2011 and the interim consolidated financial statements for the six months ended 30 June 2011, including the accounting principles and practices adopted by the Group.

During the year under review, the Audit Committee has performed its primary responsibility for monitoring the quality of internal control and financial reporting process and ensuring that the performance of the Company's auditor relating to the Company's accounting and auditing matters are of good quality. The Audit Committee has held meetings with the Company's auditor to discuss the auditing, internal control and financial reporting matters of the Company.

During the year under review, three meetings were held. The attendance records for the Audit Committee meeting are as follows:

| Names of the members | Members' Attendance |
|---|---|
| Li Mow Ming, Sonny *(Chairman)* | 3/3 |
| Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman | 3/3 |
| Pieter Lambert Diaz Wattimena | 3/3 |

## AUDITOR'S REMUNERATION

For the year ended 31 December 2011, the remuneration in respect of audit services and other service assignment provided by the auditor of the Company, HLB Hodgson Impey Cheng, amounted to approximately HK$6,000,000 and HK$1,200,000 respectively.

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganized as HLB Hodgson Impey Cheng Limited. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditors of the Company at the forthcoming annual general meeting.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Group's consolidated financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2011, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The reporting responsibility of the external auditor of the Company on the consolidated financial statements of the Company for the year ended 31 December 2011 are set out in the Independent Auditor's Report.

## RELATIONS WITH SHAREHOLDERS

The Company's executive Directors and management team meet regularly with institutional investors, fund managers and analysts, as part of an active investor-relations program to discuss long-term issues and receive feedback.

## INTERNAL CONTROL

The Board is responsible for the Group's internal control system. They review its effectiveness, which by nature can only provide reasonable and not absolute assurance against material misstatement or loss. The Directors have in place an organisational structure with clearly defined levels of responsibility and delegation of authority. The Board delegates day-to-day responsibility for internal control to the Executive Directors who conduct regular meetings with their senior management team. During these meetings, the exposure to financial, operations and compliance risk are identified, reported on, assessed and controlled. Control procedures include annual budget approval, performance monitoring, review and approval of capital expenditures and the Group's financial arrangements. The Board retains primary responsibility for acquisition and divestment policy. Appropriate due diligence will be carried out when the Company acquires a business.

## CODE FOR DIRECTORS' DEALINGS

The Company has adopted a code for Directors' dealings appropriate for a company whose shares are admitted to trading on AIM and takes all reasonable steps to ensure compliance by the Directors and any relevant employees. The form of this code is substantially the same as that set out in Appendix 10 of the Hong Kong Listing Rules.

In connection with the listing of the Company on the HKSE in February 2009, the Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Hong Kong Listing Rules as its own code of conduct regarding securities transactions by the Directors on 2 February 2009. Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard set out in the Model Code for the year under review.

## EXECUTIVE DIRECTORS

### Mr. Li Jinglong

Mr. Li Jinglong, aged 51, holds a diploma in Business Management from Beijing Society Han Shou University in China. Prior to joining the Group, Mr. Li has, since 2005, been the general manager of Shanghai Yu Heng Pharmaceuticals Technology Company Limited, a company which specialises in surgical dressing and medical consumable products, and where he oversaw the company's long term development plans, daily operations and vendors and distributors management. He was the general manager of ZhongXing Industrial Development Company Limited from 1995 to 2005 where he was responsible for daily operations, trading and business developments of the company. Mr. Li will be responsible for the Group's business development in China.

Mr. Li has not previously held any position within the Company or any of its subsidiaries and has not been a director in any other listed company in the past three years.

As at the Latest Practicable Date, Mr. Li does not have any interests or short positions in the Company's shares within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Li does not have any relationship with any current or former director, senior management, or substantial or controlling shareholders of the Company.

Under the appointment letter of Mr. Li entered into with the Company, the initial term of service is one year with an annual remuneration of HK$180,000. Mr. Li's emolument was determined with reference to his duties and responsibilities with the Company and the Company's standard for emoluments. Mr. Li will be subject to re-election at the Company's next annual general meeting and rotation at least once every three years in accordance with the Company's Bye-laws.

Save as disclosed above, the Board is not aware of any other matter in relation to the appointment of Mr. Li that need to be brought to the attention of the shareholders of the Company or any information about Mr. Li that shall be disclosed pursuant to Rule 13.51 (2)(h) to (v) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### Mr. Zhang Ligong

Mr. Zhang Ligong, aged 44, holds a diploma in Information Science and Engineering from Beijing Electrical & Information Engineering College in China. Prior to joining the Company, Mr. Zhang has been, since 2006, the deputy general manager of Beijing Zheshi Communications Technology Co. Ltd., a company specialising in home and office security and surveillance systems, and where he spearheaded sales, marketing and business development as well as being responsible for the company's operation and implementation of strategic direction. He was a technical engineer in Beijing Qinghe Textile Factory from 1986 to 2006. Mr. Zhang will be responsible for the Group's business development in China.

Mr. Zhang has not previously held any position with the Company or any of its subsidiaries and has not been a director in any other listed company in the past three years.

As at the Latest Practicable Date, Mr. Zhang does not have any interests or short positions in the Company's shares within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Zhang does not have any relationship with any current or former director, senior management, or substantial or controlling shareholders of the Company.

Under the appointment letter of Mr. Zhang entered into with the Company, the initial term of service is one year with an annual remuneration of HK$180,000. Mr. Zhang's emolument was determined with reference to his duties and responsibilities with the Company and the Company's standard for emoluments. Mr. Zhang will be subject to re-election at the Company's next annual general meeting and rotation at least once every three years in accordance with the Company's Bye-laws.

Save as disclosed above, the Board is not aware of any other matter in relation to the appointment of Mr. Zhang that need to be brought to the attention of the shareholders of the Company or any information about Mr. Zhang that shall be disclosed pursuant to Rule 13.51 (2)(h) to (v) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## NON-EXECUTIVE DIRECTORS

**Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman**
*Non-executive Chairman*

Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman, aged 69, was appointed as an independent non-executive Director on 1 June 2010. He was appointed as the non-executive Chairman of the Company and redesignated as a non-executive Director on 4 October 2010. He provides guidance for the overall direction and strategy of the Group.

He dedicated over 45 years of his career to the Malaysian government. He started his career in 1963 as a Clerical Officer with the Land Office & General Hospital Kota Bharu, Kelantan. The following year, he was appointed as a police inspector until 1968, when he left on a scholarship to read law. He was admitted as a Barrister at-Law of the Inner Temple, London and upon his return, joined the Judicial and Legal Service ("JLS") of Malaysia.

Tan Sri Dato' Nik Hashim held various posts in the JLS since 1970 as a magistrate in Klang and Kuala Terengganu; President of the Sessions Court in Temerloh and Muar; Deputy Director of the Legal Aid Bureau; Senior Federal Counsel of the Ministry of Housing and Local Government; Judge Advocate, Ministry of Defense; Deputy Public Prosecutor, Sarawak; State Legal Advisor, Terengganu; Senior Federal Counsel (Special Unit) in the Attorney General's Chambers; Deputy Parliamentary Draftsman; Public Trustee and Official Administrator; the first and founding Director General of the Judicial and Legal Training Institute (ILKAP) and Chairman of the Advisory Board in the Prime Minister's Department, Taiping Perak before he was appointed to the Malaysian Judiciary. In 1995, Tan Sri Dato' Nik Hashim was appointed as a Judicial Commissioner of the High Court Malaya. He was confirmed as a Judge of the High Court in 1997, promoted to the Court of Appeal in 2003 and as a Judge of the Federal Court in 2005 until his retirement in July 2009.

He was a member of the Royal Police Force Commission from 2004 to 2008, a member of the Syariah Appeal Court, Kelantan since April 1998 and currently an Adjunct Professor in the Faculty of Law and International Relations of the University of Sultan Zainal Abidin (UniSZA) Malaysia since February 2009.

In recognition of his public service, he was conferred honorary titles from various Sultanates in Malaysia.

Tan Sri Dato' Nik Hashim currently sits on the board of Inch Kenneth Kajang Rubber Public Limited Company and Olympia Industries Bhd, both companies listed on the Bursa Malaysia Securities Berhad, as an independent non-executive director and on the board of Baswell Resourses Bhd, a company listed on the Bursa Malaysia Securities Berhad as an independent and non-executive chairman. Save as disclosed above, he has not held any directorships in other listed companies in the last three years.

As at the Latest Practicable Date, Tan Sri Dato' Nik Hashim does not have any interests or short positions in the Company's shares within the meaning of Part XV of the SFO. Tan Sri Dato' Nik Hashim does not have any relationship with any director, senior management, or substantial or controlling shareholder of the Company.

Under the appointment letter of Tan Sri Dato' Nik Hashim entered into with the Company, the initial term of service is one year with a director's fees of HK$480,000 per annum. Tan Sri Dato' Nik Hashim's emolument was determined with reference to his duties and responsibilities with the Company, the Company's standard for emoluments and in line with market norms. Tan Sri Dato' Nik Hashim will be subject to retirement by rotation and re-election at the Company's annual general meeting at least once every three years in accordance with Bye-law 87(1) of the Company's Bye-laws.

Save as disclosed above, there is no information to be disclosed pursuant to the requirements of Rule 13.51(h) to (w) of the Hong Kong Listing Rules.

**Raymond Chu Wai Man**

Mr. Raymond Chu Wai Man, aged 49, joined the Group in 1999 as a founder. He was the chairman and chief executive officer of the Company. He stepped down from his positions as the chief executive officer of the Company on 11 February 2010 and as the executive chairman on 4 October 2010. He was redesignated as a non-executive Director on 4 October 2010. Mr. Chu holds directorships in subsidiary companies of the Group.

Mr. Chu garnered 10 years of experience in property and corporate finance matters. He joined the law firm Kao Lee & Yip in 1987 and became a partner in 1990, where he worked for a total of 10 years. He received a Bachelor of Laws from the University of Bristol, England in 1984. He was subsequently admitted as a solicitor in Hong Kong in 1987. Save as disclosed above, he has not held any directorships in listed companies in the last three years.

As at the Latest Practicable Date, Mr. Chu had an interest in a total of 2,800,000 Shares within the meaning of Part XV of the SFO. Mr. Chu does not have any relationship with any director, senior management or substantial or controlling shareholder of the Company.

Under the appointment letter of Mr. Chu entered into with the Company, the initial term of service is one year with a director's fees of HK$960,000 per annum. Mr. Chu's emolument was determined with reference to his duties and responsibilities with the Company, the Company's standards for emoluments and market condition. Mr. Chu will be subject to retirement by rotation and re-election at the Company's annual general meeting at least once every three years in accordance with the Bye-law 87(1) of the Company's Bye-laws.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Li Mow Ming, Sonny**

Mr. Li Mow Ming, Sonny, aged 54, was appointed as an independent non-executive Director on 19 January 2009. Mr. Li was previously the company secretary and financial controller for Huafeng Group Holdings Limited, a company listed on the Main Board of the HKSE and principally engaged in the supply of yarn products and fabric processing services for the textile industry in the PRC. He was also previously the financial controller of Man Fai Tai Holdings Limited, a construction materials manufacturing and trading company. He was a director of Hycomm Wireless Limited, a company listed on the Main Board of the HKSE, from May 2005 to January 2008.

Mr. Li holds a bachelor of arts degree in business administration from the University of Seattle, USA. He is also a fellow of the Hong Kong Institute of Certified Public Accountants, CPA Australia, and The Financial Services Institute of Australasia.

As at the Latest Practicable Date, Mr. Li had an interest in a total of 80,000 Shares within the meaning of Part XV of the SFO. Mr. Li does not have any relationship with any director, senior management, or substantial or controlling shareholder of the Company.

Under the appointment letter of Mr. Li entered into with the Company, the initial term of service is one year with a director's fees of HK$240,000 per annum. Mr. Li emolument was determined with reference to his duties and responsibilities with the Company, the Company's standards for emoluments and market condition. Mr. Li will be subject to retirement by rotation and re-election at the Company's annual general meeting at least once every three years in accordance with Bye-law 87(1) of the Company's Bye-laws.

Save as disclosed above, there is no information to be disclosed pursuant to the requirements of Rule 13.51(h) to (w) of the Hong Kong Listing Rules.

**Liu Kwok Bond**

Mr. Liu Kwok Bond, aged 56, was appointed as a non-executive Director of the Company on 27 April 2004 and was subsequently appointed as an independent non-executive Director on 2 February 2009.

He was formerly a Director of the Federation of Hong Kong Industries ("FHKI") with specific responsibilities on Intellectual Property Protection and Training. He has had more than 20 years of managerial experience, 18 years of which were attached with the FHKI. He obtained a degree of bachelor of arts from the City University of New York, U.S. in 1981 and was awarded a master degree in business administration by the University of East Asia in Macau in 1989.

As at the Latest Practicable Date, Mr. Liu had an interest in a total of 80,000 Shares within the meaning of Part XV of the SFO. Mr. Liu does not have any relationship with any director, senior management, or substantial or controlling shareholder of the Company.

Under the appointment letter of Mr. Liu entered into with the Company, the initial term of service is one year with a director's fees of HK$240,000 per annum. Mr. Liu emolument was determined with reference to his duties and responsibilities with the Company, the Company's standards for emoluments and market condition. Mr. Liu will be subject to retirement by rotation and re-election at the Company's annual general meeting at least once every three years in accordance with Bye-law 87(1) of the Company's Bye-laws.

Save as disclosed above, there is no information to be disclosed pursuant to the requirements of Rule 13.51(h) to (w) of the Hong Kong Listing Rules.

**Pieter Lambert Diaz Wattimena**

Mr. Pieter Lambert Diaz Wattimena, aged 62, was appointed as an independent non-executive Director on 25 March 2010.

Mr. Diaz Wattimena dedicated over 30 years of service to the Indonesian Air Force and government, including appointments as Chief of 2nd Operation Command Expert in Makasar in 1997, Expert Staff of Air Force Chief of Staff at Headquarter of Air Force in 1999, Head of Duty, Air Force Flying Safety and Work in Indonesian National Air Force in 2000, and Director General of for Defense Facility and Procurement in 2005. He was also appointed as a Member of House of Representative/House of Parliament of the Republic of Indonesia from the Indonesia National Army/Police fraction from 1999 to 2004. To date, Mr. Diaz Wattimena is still acts as an adviser to national organisations such as Federation of Indonesia Labour Association for Metals, Electronics and Machines and Research Center of Political Communication and Social Society "Institut Lembang Sembilan". He graduated from the Air Force Academy in 1972, holds a bachelor degree of political science from Universitas Terbuka and is currently enrolled in the Institute of Business of Law and Management. He has not held any directorships in listed companies in the last three years.

As at the Latest Practicable Date, Mr. Diaz Wattimena does not have any interests or short positions in the Company's Shares within the meaning of Part XV of the SFO. Mr. Diaz Wattimena does not have any relationship with any director, senior management, or substantial or controlling Shareholder of the Company.

Under the appointment letter of Mr. Diaz Wattimena entered into with the Company, the initial term of service is one year with a director's fees of HK$240,000 per annum. Mr. Diaz Wattimena emolument was determined with reference to his duties and responsibilities with the Company, the Company's standards for emoluments and market condition. Mr. Diaz Wattimena will be subject to retirement by rotation and re-election at the Company's annual general meeting at least once every three years in accordance with Bye-law 87(1) of the Company's Bye-laws.

Save as disclosed above, none of the Directors above are related to each other, senior management or substantial or controlling shareholders of the Company.

## SENIOR MANAGEMENT

**Chew Tean Danny**
*Acting Chief Executive Officer, Chief Representative of RCG Malaysia and ME*

Mr. Chew Tean Danny, aged 39, is a director of RCG ME and the chief representative of RCG Dubai regional office. He joined the Group in January 2006 and oversees the Group's overall operations in the Middle East. He has more than 10 years of experience in sales and development. Mr. Chew received a double major degree in Marketing and Business Administration from the University of Strathclyde in Glasgow, Scotland, in 1995.

**James Shen**
*Chief Representative of RCG China*

Mr. Shen Jing James, aged 49, is the senior vice president of RCG China and the chief representative of RCG Beijing regional office. He joined the Group in October 2006 and is responsible for the Group's business development in the PRC. He has previously worked as sales manager and regional manager in several renowned multi-national companies. Mr. Shen received a Bachelor's degree in Automatic and Computer Control from Beijing Polytechnic University and he has over 20 years of experience in sales and development in the information technology industry.

**Kenny Sim**
*Deputy Chief Financial Officer*

Mr. Kenny Sim, aged 36, joined the Group in 2010 as a financial controller. Prior to joining the Group, Mr. Kenny Sim had over ten years experience in corporate finance, investment management and banking, where he served in various capacities including as chief financial officer, executive director and financial controller of public listed companies. Mr. Kenny Sim is a Chartered Accountant of the Malaysian Institute of Accountants and a Certified Public Accountant of CPA Australia. He obtained his bachelor's degree in Accountancy and master's degree in Finance from the Royal Melbourne Institute of Technology, Australia.

## COMPANY SECRETARY

**Lo Wah Wai**

Mr. Lo, aged 48, holds a Bachelor's degree in Business Administration from the Chinese University of Hong Kong and a Master's degree in Science from the New Jersey Institute of Technology, the United States. He is a practicing member of the Hong Kong Institute of Certified Public Accountants and is a member of the American Institute of Certified Public Accountants.

## HUMAN RESOURCES

Issues related to human resources has been addressed in the subsection titled "Human Resources" under the section of Management Discussion and Analysis on page 11.

The Directors are responsible for the preparation of consolidated financial statements for each financial year. The consolidated financial statements must give a true and fair view of the state of affairs of the Company and the Group, and the Group's profit and loss for that period.

When preparing consolidated financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently
- Make judgments and estimates that are reasonable
- State whether they adhered to applicable accounting standards subject to any material departures disclosed and explained in the consolidated financial statements
- Prepare the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business

The Directors must keep proper accounting records, which disclose, with reasonable accuracy at any time, the financial position of the Group and the Company. The Directors must ensure that the consolidated financial statements comply with applicable laws and follow International Financial Reporting Standards. The Directors must also safeguard the assets of the Group and the Company, and take reasonable steps to prevent and detect fraud or other irregularities.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

**TO THE SHAREHOLDERS OF**
**RCG HOLDINGS LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of RCG Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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

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

## OPINION

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

HLB Hodgson Impey Cheng

**HLB Hodgson Impey Cheng**
Chartered Accountants
Certified Public Accountants

Hong Kong, 28 March 2012

# Consolidated Income Statement

For the year ended 31 December 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Turnover** | 8 | **1,385,288** | 3,025,919 |
| Cost of sales | | **(1,131,715)** | (1,875,363) |
| **Gross profit** | | **253,573** | 1,150,556 |
| Other revenue and gains | 9 | **51,583** | 40,863 |
| Impairment loss on trade receivables | 25 | **(634,404)** | (72,178) |
| Loss arising on fair value of financial assets at fair value through profit or loss | | **(14,027)** | — |
| Loss on disposal of subsidiaries | 38(a) | **(14,029)** | — |
| Impairment loss on available-for-sale financial assets | 21 | **(74,152)** | (57,141) |
| Impairment loss on intangible assets | 20 | **(630,347)** | (339,791) |
| Impairment loss recognised in respect of goodwill | 19 | **(4,508)** | (145,519) |
| Selling and distribution expenses | | **(108,300)** | (163,396) |
| Administrative expenses | | **(368,916)** | (408,147) |
| **(Loss)/profit from operations** | 10 | **(1,543,527)** | 5,247 |
| Finance costs | 12 | **(6,135)** | (7,958) |
| Share of loss of associates | | **(21)** | — |
| **Loss before taxation** | | **(1,549,683)** | (2,711) |
| Income tax expense | 13 | **(1,091)** | (4,263) |
| **Loss for the year** | | **(1,550,774)** | (6,974) |
| **Attributable to:** | | | |
| Owners of the Company | | **(1,354,937)** | 72,859 |
| Non-controlling interests | | **(195,837)** | (79,833) |
| | | **(1,550,774)** | (6,974) |
| **(Loss)/earnings per share attributable to owners of the Company** | | | |
| — Basic (HK cents) | 14 | **(323.9)** | 25.5 |
| — Diluted (HK cents) | 14 | **(323.9)** | 25.4 |

All of the Group's activities are classified as continuing operations.

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **Loss for the year** | | **(1,550,774)** | (6,974) |
| **Other comprehensive loss for the year** | | | |
| Available-for-sale financial assets: | | | |
| Loss arising on change in fair value | | **(34,242)** | — |
| Exchange difference on translating foreign operations | | | |
| Exchange differences arising during the year | | **(27,713)** | 42,183 |
| Reclassification adjustments upon disposal | | **(32,465)** | — |
| | | **(60,178)** | 42,183 |
| | | **(94,420)** | 42,183 |
| **Total comprehensive (loss)/income for the year** | | **(1,645,194)** | 35,209 |
| **Attributable to:** | | | |
| Owners of the Company | | **(1,448,778)** | 114,544 |
| Non-controlling interests | | **(196,416)** | (79,335) |
| | | **(1,645,194)** | 35,209 |

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **176,039** | 207,578 |
| Investment properties | 17 | **61,257** | 53,188 |
| Prepaid lease payments | 18 | **32,909** | 33,272 |
| Goodwill | 19 | **20,905** | 53,576 |
| Intangible assets | 20 | **466,632** | 1,228,684 |
| Interests in associates | 35 | **29,032** | — |
| Available-for-sale financial assets | 21 | **42,977** | 77,859 |
| | | **829,751** | 1,654,157 |
| **Current assets** | | | |
| Prepaid lease payments | 18 | **497** | 491 |
| Inventories | 24 | **659,464** | 714,929 |
| Financial assets at fair value through profit or loss | 22 | **5,185** | — |
| Trade receivables | 25 | **866,579** | 1,309,343 |
| Deposits, prepayments and other receivables | 26 | **621,730** | 778,592 |
| Cash at bank and on hand | 27 | **52,683** | 242,300 |
| | | **2,206,138** | 3,045,655 |
| **Total assets** | | **3,035,889** | 4,699,812 |
| **EQUITY** | | | |
| **Owners of the Company** | | | |
| Share capital | 28 | **4,932** | 3,015 |
| Reserves | | **2,897,712** | 4,051,611 |
| | | **2,902,644** | 4,054,626 |
| **Non-controlling interests** | | **(28,919)** | 181,997 |
| **Total equity** | | **2,873,725** | 4,236,623 |

As at 31 December 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 30 | **44,623** | 50,510 |
| Obligations under finance leases | 31 | **223** | 368 |
| Deferred tax liabilities | 32 | **2,452** | 1,242 |
| | | **47,298** | 52,120 |
| **Current liabilities** | | | |
| Trade payables | 33 | **13,217** | 165,410 |
| Accruals and other payables | 34 | **58,897** | 30,599 |
| Tax payables | | **—** | 1,157 |
| Interest-bearing borrowings | 30 | **32,611** | 213,649 |
| Promissory note | 36 | **10,043** | — |
| Obligations under finance leases | 31 | **98** | 254 |
| | | **114,866** | 411,069 |
| **Total liabilities** | | **162,164** | 463,189 |
| **Total equity and liabilities** | | **3,035,889** | 4,699,812 |
| **Net current assets** | | **2,091,272** | 2,634,586 |
| **Total assets less current liabilities** | | **2,921,023** | 4,288,743 |

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2012 and signed on its behalf by:

| | |
|---|---|
| **Li Jinglong** | **Zhang Ligong** |
| *Executive Director* | *Executive Director* |

The accompanying notes form an integral part of these consolidated financial statements.

# Statement of Financial Position

As at 31 December 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **2** | 3 |
| Investments in subsidiaries | 23 | **24** | 24 |
| Available-for-sale financial assets | 21 | **5,070** | — |
| | | **5,096** | 27 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 23 | **649,212** | 423,743 |
| Deposits, prepayments and other receivables | 26 | **216** | 566 |
| Cash at bank and on hand | 27 | **13** | 239 |
| | | **649,441** | 424,548 |
| **Total assets** | | **654,537** | 424,575 |
| **EQUITY** | | | |
| Share capital | 28 | **4,932** | 3,015 |
| Reserves | 29 | **637,143** | 396,754 |
| **Total equity** | | **642,075** | 399,769 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | 37 | **443** | 21,772 |
| Accruals and other payables | 34 | **12,019** | 3,034 |
| **Total liabilities** | | **12,462** | 24,806 |
| **Total equity and liabilities** | | **654,537** | 424,575 |
| **Net current assets** | | **636,979** | 399,742 |
| **Total assets less current liabilities** | | **642,075** | 399,769 |

The financial statements were approved and authorised for issue by the board of directors on 28 March 2012 and signed on its behalf by:

**Li Jinglong**
*Executive Director*

**Zhang Ligong**
*Executive Director*

The accompanying notes form an integral part of these consolidated financial statements.

For the year ended 31 December 2011

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Available-for-sale securities revaluation reserve HK$'000 | Employee share-based compensation reserve HK$'000 | Capital reserve HK$'000 | Translation reserve HK$'000 | Revaluation reserve HK$'000 | Legal reserve HK$'000 | Share issuable reserve HK$'000 | Retained earnings HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| As at 1 January 2010 | 2,736 | 1,597,158 | – | 31,126 | (872) | (4,187) | 83,577 | 48 | – | 1,992,151 | 3,701,737 | 181,616 | 3,883,353 |
| Profit/(loss) for the year | – | – | – | – | – | – | – | – | – | 72,859 | 72,859 | (79,833) | (6,974) |
| Other comprehensive income for the year | – | – | – | – | – | 41,685 | – | – | – | – | 41,685 | 498 | 42,183 |
| Total comprehensive profit/(loss) for the year | – | – | – | – | – | 41,685 | – | – | – | 72,859 | 114,544 | (79,335) | 35,209 |
| Share-based payment | – | – | – | 14,246 | – | – | – | – | – | – | 14,246 | – | 14,246 |
| Exercise of options | 14 | 15,582 | – | (5,812) | – | – | – | – | – | – | 9,784 | – | 9,784 |
| Lapse of share options | – | – | – | (4,354) | – | – | – | – | – | 4,354 | – | – | – |
| Cancellation of share options | – | – | – | (3,361) | – | – | – | – | – | 3,361 | – | – | – |
| Acquisition of a subsidiary | 110 | 92,840 | – | – | – | – | – | – | 59,150 | – | 152,100 | 79,282 | 231,382 |
| Issue of shares upon subscription | 155 | 66,845 | – | – | – | – | – | – | – | – | 67,000 | – | 67,000 |
| Shares issuing expenses | – | (4,785) | – | – | – | – | – | – | – | – | (4,785) | – | (4,785) |
| Incorporation of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | 434 | 434 |
| As at 31 December 2010 and 1 January 2011 | 3,015 | 1,767,640 | – | 31,845 | (872) | 37,498 | 83,577 | 48 | 59,150 | 2,072,725 | 4,054,626 | 181,997 | 4,236,623 |
| Loss for the year | – | – | – | – | – | – | – | – | – | (1,354,937) | (1,354,937) | (195,837) | (1,550,774) |
| Other comprehensive loss for the year | – | – | (34,242) | – | – | (59,599) | – | – | – | – | (93,841) | (579) | (94,420) |
| Total comprehensive loss for the year | – | – | (34,242) | – | – | (59,599) | – | – | – | (1,354,937) | (1,448,778) | (196,416) | (1,645,194) |
| Share-based payment | – | – | – | 13,507 | – | – | – | – | – | – | 13,507 | – | 13,507 |
| Lapse of share options | – | – | – | (24,191) | – | – | – | – | – | 24,191 | – | – | – |
| Dividend paid to non-controlling shareholders | – | – | – | – | – | – | – | – | – | – | – | (12,708) | (12,708) |
| Release of exchange reserve upon deregistration of a subsidiary | – | – | – | – | – | 784 | – | – | – | (784) | – | – | – |
| Disposal of subsidiaries | – | – | – | – | – | – | (83,577) | – | – | 83,577 | – | (2,361) | (2,361) |
| Acquisition of a subsidiary and assets (note 38(b)(i) & 39) | – | – | – | – | – | – | – | – | – | – | – | 1,051 | 1,051 |
| Issue of shares upon subscription | 410 | 106,397 | – | – | – | – | – | – | – | – | 106,807 | – | 106,807 |
| Acquisition of additional interest in subsidiaries from non-controlling shareholders | – | – | – | – | – | – | – | – | – | (2,062) | (2,062) | (482) | (2,544) |
| Placing of shares | 1,507 | 180,018 | – | – | – | – | – | – | – | – | 181,525 | – | 181,525 |
| Shares issuing expenses | – | (2,981) | – | – | – | – | – | – | – | – | (2,981) | – | (2,981) |
| As at 31 December 2011 | 4,932 | 2,051,074 | (34,242) | 21,161 | (872) | (21,317) | – | 48 | 59,150 | 822,710 | 2,902,644 | (28,919) | 2,873,725 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | **(1,549,683)** | (2,711) |
| Amortisation of intangible assets | 20 | **198,065** | 216,404 |
| Amortisation of prepaid lease payments | 18 | **496** | 272 |
| Depreciation | 16 | **23,303** | 29,695 |
| Gain on disposal of property, plant and equipment | 9 | **(355)** | (1,843) |
| Share-based payment expenses | 46 | **13,507** | 14,246 |
| Gain arising on change in fair value of investment properties | 9, 17 | **(5,311)** | (1,964) |
| Loss on disposal of subsidiaries | 38(a) | **14,029** | — |
| Gain on disposal of an associate | 9, 35 | **(77)** | — |
| Share of loss of associates | 35 | **21** | — |
| Reversal of provision of obsolescent inventories | 9 | **(60)** | — |
| Reversal of impairment loss on trade receivables | 9 | **(570)** | (262) |
| Provision of obsolescent inventories | | **17,075** | 14,603 |
| Impairment loss on trade receivables | 25 | **634,404** | 72,178 |
| Impairment loss on other receivables | | **3,600** | — |
| Impairment loss recognised in respect of goodwill | 19 | **4,508** | 145,519 |
| Impairment loss on intangible assets | 20 | **630,347** | 339,791 |
| Impairment loss on available-for-sale financial assets | 21 | **74,152** | 57,141 |
| Loss arising on fair value of financial assets at fair value through profit or loss | | **14,027** | — |
| Bank interest income | 9 | **(915)** | (773) |
| Written-off of property, plant and equipment | | **4,097** | 1,789 |
| Interest expenses on interest-bearing borrowings and bank overdrafts, promissory note and finance leases | | **5,899** | 7,077 |
| Operating cash flows before movements in working capital | | **80,559** | 891,162 |
| Decrease/(increase) in inventories | | **27,617** | (205,413) |
| Increase in trade receivables | | **(243,152)** | (578,830) |
| Decrease/(increase) in deposits, prepayments and other receivables | | **153,650** | (23,898) |
| (Decrease)/increase in trade payables | | **(98,552)** | 84,795 |
| Increase in accruals and other payables | | **38,573** | 12,437 |
| Cash (used in)/generated from operations | | **(41,305)** | 180,253 |
| Bank interest income received | 9 | **915** | 773 |
| Income tax paid | | **(2,357)** | (7,311) |
| **Net cash (used in)/generated from operating activities** | | **(42,747)** | 173,715 |

For the year ended 31 December 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | 16, 18 | **(1,878)** | (27,157) |
| Purchases of investment properties | 17 | **—** | (51,224) |
| Purchase of available-for-sale financial assets | | **(73,512)** | — |
| Purchase of financial assets at fair value through profit or loss | | **(19,212)** | — |
| Increase in fixed deposits | 27 | **(3,000)** | (18,020) |
| Investment in intangible assets | 20 | **(66,360)** | (218,940) |
| Net cash paid for acquisition of associates | 35 | **(19,076)** | — |
| Net cash paid for acquisition of addition shares of subsidiaries | | **(2,544)** | — |
| Net cash paid for acquisition of a subsidiary and assets | 38(b), 39 | **(19,645)** | (37,400) |
| Proceeds from disposal of subsidiaries | 38(a) | **1,252** | — |
| Proceeds from disposal of associates | 35 | **77** | — |
| Proceeds from disposal of property, plant and equipment | | **1,264** | 14,616 |
| **Net cash used in investing activities** | | **(202,634)** | (338,125) |
| **Cash flows from financing activities** | | | |
| Interest expenses paid on interest-bearing borrowings and bank overdrafts | 12 | **(5,833)** | (7,077) |
| Issue of new shares | | **288,332** | — |
| Share issuing expenses | | **(2,981)** | — |
| Interest-bearing borrowings repaid, net | | **(184,185)** | (377) |
| Capital injection from non-controlling interests | | **—** | 434 |
| Proceeds from issue of shares upon subscription | | **—** | 67,000 |
| Cost of issue of new shares | | **—** | (4,785) |
| Proceeds from exercise of options | | **—** | 9,784 |
| Proceeds from inception of obligations under finance leases | | **340** | 1,028 |
| Repayment of obligations under finance leases | | **(544)** | (1,075) |
| Dividends paid to non-controlling shareholders | | **(12,708)** | — |
| **Net cash generated from financing activities** | | **82,421** | 64,932 |
| **Net decrease in cash and cash equivalents for the year** | | **(162,960)** | (99,478) |
| Cash and cash equivalents at beginning of the year | | **220,555** | 312,146 |
| Effect of foreign exchange rate changes | | **(29,666)** | 7,887 |
| **Cash and cash equivalents at end of the year** | | **27,929** | 220,555 |
| **Analysis of the balances of cash and cash equivalents:** | | | |
| Cash at bank and on hand | | **52,683** | 242,300 |
| Pledged bank deposit | | **(3,000)** | — |
| Fixed deposits | | **(21,754)** | (21,745) |
| **Cash and cash equivalents at end of the year** | | **27,929** | 220,555 |

## 1. CORPORATE INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are dual primary listed on The Stock Exchange of Hong Kong Limited and The Alternative Investment Market of the London Stock Exchange.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at Lot 1, Jalan Teknologi 3/5, Taman Sains Selangor 1. Kota Damansara, Petaling Jaya, Selangor, Malaysia.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 23.

## 2. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the disclosure requirements of Hong Kong Companies Ordinance.

## 3. BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which have been measured at fair values.

The consolidated financial statements are presented in Hong Kong Dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000), except when otherwise indicated.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out in note 6. These policies have been consistently applied to all the years presented, unless otherwise stated.

Certain comparative figures of prior years have been re-presented to conform with current year's presentation.

## 4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised International Accounting standards ("IAS"), International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee interpretations ("IFRIC") for the first time for the current year's consolidated financial statements which do not have any significant impact on the Group's consolidated financial statements.

| | |
|---|---|
| IFRS 1 Amendment | Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* |
| IAS 24 (Revised) | *Related Party Disclosures* |
| IAS 32 Amendment | Amendments to IAS 32 *Financial Instruments — Classification of Rights Issues* |
| IFRIC 14 Amendment | Amendment to IFRIC-Int 14 *Prepayments of a Minimum Funding Requirement* |
| IFRIC 19 | *Extinguishing Financial Liabilities with Equity Instruments* |
| Various IASs and IFRSs | Improvements to IFRSs 2011 |

## 5. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| IFRS 1 Amendment | Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'*[1] |
| IFRS 1 Amendment | Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Addition exemption for entities ceasing to suffer from severe hyperinflation*[1] |
| IFRS 7 Amendment | Amendment to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1] |
| IFRS 7 Amendment | Amendment to IFRS 7 *Financial Instruments: Disclosures — Amendments enhancing disclosures about offsetting of financial assets and financial liabilities*[4] |
| IFRS 7 Amendment | Amendment to IFRS 7 *Financial Instruments: Disclosures — Amendments requiring disclosures about initial application of IFRS 9*[6] |
| IFRS 9 | *Financial Instruments — Classification and measurement of financial assets*[6] |
| IFRS 9 Amendment | Amendment to IFRS 9 *Financial Instruments — Accounting for financial liabilities and derecognition*[5] |
| IFRS 10 | *Consolidated Financial Statements*[4] |
| IFRS 11 | *Joint Arrangements*[4] |
| IFRS 12 | *Disclosure of Interests in Other Entities*[4] |
| IFRS 13 | *Fair Value Measurement*[4] |
| IAS 1 Amendment | Amendment to IAS 1 *Presentation of Financial Statements — Amendments to Revise the Way Other Comprehensive Income is Presented*[3] |
| IAS 12 Amendment | Amendment to IAS 12 *Income Taxes — Limited scope amendment (recovery of underlying assets)*[2] |
| IAS 19 Amendment | Amendment to IAS 19 *Employee Benefits — Amended Standard Resulting from the Post-Employment Benefits and Termination Benefits Projects*[4] |
| IAS 27 | *Consolidated and Separate Financial Statements — Reissued as IAS 27 Separate Financial Statements*[4] |
| IAS 28 | *Investments in Associates — Reissued as IAS 28 Investments in Associates and Joint Ventures*[4] |
| IAS 32 Amendment | Amendment to IAS 32 *Financial Instruments: Presentation — Amendments to application guidance on the offsetting of financial assets and financial liabilities*[5] |

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

## 5. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Further information about those changes that are expected to affect the Group is as follows:

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

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

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

Key requirements of IFRS 9 are described as follows:

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

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future will not have significant impact.

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

Key requirements of these five standards are described below.

## 5. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

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

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

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time. The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of IFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group's investment in associates may become the Group's subsidiaries based on the new definition of control and the related guidance in IFRS 10). In addition, the application of IFRS 11 may result in changes in the accounting of the Group's jointly controlled entities that are currently accounted for using proportionate consolidation. Under IFRS 11, those jointly controlled entities will be classified as a joint operation or joint venture, depending on the rights and obligations of the parties to the joint arrangement. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

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

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

## 5. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

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

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

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012. The directors anticipate that the application of the amendments to IAS 12 in future reporting periods may result in adjustments to the amounts of deferred tax liabilities recognised in prior years regarding the Group's investment properties of which the carrying amounts are presumed to be recovered through sale. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to HKAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to HKAS 19 may have impact on amounts reported in respect of the Group's defined benefit plans. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

## 6. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of consolidation

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

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

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

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

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Business combinations

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

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

— deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

— liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see note above); and

— assets (or disposal groups) that are classified as held for sale in accordance with IFRS 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 reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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

When 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 corresponding adjustments 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.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Business combinations (Continued)

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 IAS 39, or IAS 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.

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 to all business combinations that take place on or after 1 January 2010.

### (c) Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata 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 the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described at note below.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Intangible assets

*Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

*Internally-generated intangible assets — research and development expenditures*

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

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

— the technical feasibility of completing the intangible asset so that it will be available for use or sale;

— the intention to complete the intangible asset and use or sell it;

— the ability to use or sell the intangible asset;

— how the intangible asset will generate probable future economic benefits;

— the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

— the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to income statement in the period in which it is incurred.

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

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are carried at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets acquired separately.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts, estimated customer returns, rebates and other similar allowances.

*Sale of goods*

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

(i) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

(ii) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(iii) the amount of revenue can be measured reliably;

(iv) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

*Rendering of services*

Revenue from provision of biometric and RFID solution services are recognised when the services are rendered.

*Interest income*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### (f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided at rates calculated to write off the cost of property, plant and equipment, less their estimated residual value, over their expected useful lives on the following bases:

| | |
|---|---|
| Land and buildings | 2% |
| Leasehold improvements | 20% |
| Furniture, fixtures and equipment | 20% |
| Showroom equipment | $33^1/_3$% |
| Mould | 20% |
| Motor vehicles | 20% |
| Development tools | 20% |

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

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

### (h) Prepaid lease payments

Payment for obtaining land use rights is accounted for as prepaid lease payments and is charged to income statement on a straight-line basis over the lease terms.

### (i) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease (see note above).

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (see note above).

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a weighted average basis. Net realisable value represents 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.

### (k) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong Dollars ("HKD"), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the income statement in the period in which they arise except for:

— exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

— exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

— exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in the income statement on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollars using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in the income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing date.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Taxation

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (m) Pensions

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

Pursuant to the relevant laws and regulations, the subsidiaries in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Contributions are made based on a percentage of the employees' basic salaries and such contributions are recognised as an expense in the income statement as incurred.

Pursuant to the relevant regulations of the government of the People's Republic of China (the "PRC"), the subsidiaries operating in the PRC have participated in central pension schemes (the "Schemes") operated by local municipal governments, whereby the subsidiaries in the PRC are required to contribute a certain percentage of the basic salaries of their employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries in the PRC. The only obligation of the Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to the income statement as incurred. There are no provisions under the Schemes whereby forfeited contributions may be used to reduce future contributions.

### (n) Financial instruments

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

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

***Financial assets***

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

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Financial instruments (Continued)

***Financial assets (Continued)***

*Effective interest method*

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

*Financial assets at fair value through profit or loss*

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated income statement. Fair value is determined in the manner described in note 40.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Financial instruments (Continued)

***Financial assets (Continued)***

*Available-for-sale financial assets*

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed equity instruments by the Group that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. Fair value is determined in the manner described in note 40. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see above), interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in income statement. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale securities revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to income statement.

Dividends on AFS equity instruments are recognised in income statement when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in income statement are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

*Loans and receivable*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivable, other receivables, and cash at bank and on hand) are measured at amortised cost using the effective interest method, less any identified impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

***Impairment of financial assets***

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Financial instruments (Continued)

***Impairment of financial assets (Continued)***

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

— significant financial difficulty of the issuer or counterparty; or

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

— it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

— the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of available-for-sale securities revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Financial instruments (Continued)

***Derecognition of financial assets***

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

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

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

***Financial liabilities and equity instruments***

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

*Equity instruments*

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

*Other financial liabilities*

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

*Effective interest method*

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

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Financial instruments (Continued)

***Derecognition of financial liabilities***

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

### (o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and other short-term highly liquid investments that are directly convertible to a known amount of cash and are insignificant risk of change in value.

### (p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

### (q) Leasing

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

*The Group as lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

*The Group as lessee*

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

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

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

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) Leasing (Continued)

*The Group as lessee (Continued)*

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### (r) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows and 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

### (s) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

The policy described above is applied to all equity-settled share-based payment transactions that were granted after 7 November 2002 and vested after 1 January 2005. No amounts have been recognised in the consolidated financial statements in respect of other equity-settled shared-based payments.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (t) Related parties

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

(a) The party, is a person or a close member of that person's family and that person,

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

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

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

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

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

### (u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

### (v) Financial guarantees

A financial 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 payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, are subsequently measured at the higher of:

— the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and

— the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (v) Financial guarantees (Continued)

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

### (w) Investment in associate

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

## 6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (w) Investment in associate (Continued)

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

## 7. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRSs requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and area involving a high degree of judgements are described below:

### (a) Estimated impairment of goodwill

The management of the Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 4(e). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. 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. The management would refer to the valuation performed by independent qualified valuers. In performing the valuation, the valuers have based on method of valuation which involves certain estimates and assumptions.

### (b) Useful lives of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these assets to be 3–50 years. As changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, future depreciation charges could be revised. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

### (c) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### (d) Provision for obsolete inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes provision for obsolete and slow-moving items. The management estimates the net realisation value for such finished goods 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 the end of each reporting period and makes provision for obsolete items.

## 7. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (e) Impairment of trade and other receivables

The debt profile of trade and other receivables is reviewed on a regular basis to ensure that the trade and other receivables balances are collectible and follow up actions are prompty carried out if the agreed credit periods have been exceeded. However from time to time, the Group may experience delays in collection. Where recoverability of trade and other receivables balances are called into doubts, specific provisions for trade and other receivables are made based on credit status of the debtors, the aged analysis of the receivables balances and written-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivables to the consolidated statement of comprehensive income. Changes in the collectability of trade and other receivables for which provision are not made could affect the results of operations.

### (f) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are primarily based on market conditions existing at the end of each reporting period.

### (g) Impairment of intangible assets

The directors of the Company reconsidered the recoverability of the Group's intangible assets "contract rights" and "product development and design".

The recoverable amounts of the intangible assets have been determined based on value-in-use calculations. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the intangible assets and a suitable discount rate in order to calculate the present value. The management refers to the valuation performed by independent qualified valuers. In performing the valuation, the valuers have based on method of valuation which involves certain estimates and assumptions.

### (h) Impairment of available-for-sale financial assets

The directors of the Company reconsidered the recoverability of the Group's available-for-sale financial assets.

The recoverable amounts of the available-for-sale financial assets have been determined based on value-in-use calculations. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the available-for-sale financial assets and a suitable discount rate in order to calculate the present value. The management refers to the valuation performed by independent qualified valuers. In performing the valuation, the valuers have based on method of valuation which involves certain estimates and assumptions.

### (i) Fair value of investment properties

At the end of the reporting period, the Group's investment properties are stated at fair value of approximately HK$61,257,000 (2010: HK$53,188,000) based on the valuation performed by an independent qualified professional valuer. In determining the fair value, the valuers have applied a market value basis which is direct comparison approach with reference to comparable transactions in the open market and on the basis of vacant possession. In relying on the valuation, management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions. Should there be changes in assumptions due to change in market conditions, the fair value of the investment properties will change in future.

## 8. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the key management. This key management reviews the Group's internal reporting in order to assess performance and allocate resources. Key management has determined the operating segments based on these reports.

The key management considers the business from both a business and geographic perspective. From a business perspective, key management assesses the performance of consumer, enterprise and solutions, projects and services business segments.

— *Consumer* segment focuses principally on residential and personal security products for end-users. Products in this segment include *FxGuard Windows Logon, BioMirage Coffer* and *iTrain software*;

— *Enterprise* segment's products are mainly biometric products for commercial use, such as *i-series* and *s-series* biometric fingerprint authentication sensors and RFID card readers used for access control, time attendance, visitor management and security applications, and *K-series* multi-model security devices that use facial recognition technology, fingerprint authentication technology, password and RFID; and

— *Solutions, Projects and Services* segment makes bespoke system solutions for end-users using our internally developed software and hardware capabilities supported by our own and third party products as required.

The key management assesses the performance of the business segments based on a measure of gross profit. Segment assets include trade all tangible, intangible assets and current assets with the exception of assets classified as held for sale and other corporate assets. Segment liabilities include trade payables, accruals and other payables except of current and deferred tax liabilities, other corporate liabilities attributable to the individual segments and other borrowings managed directly by the segments.

For the year ended 31 December 2011

## 8. SEGMENT INFORMATION (Continued)

The following table presents the Group's turnover, segment results and other information for business segments:

| | Consumer | | Enterprise | | Solutions, Projects and Services | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Turnover | | | | | | | | | | |
| — external sales | 167,478 | 1,183,297 | 1,021,250 | 1,054,599 | 196,560 | 788,023 | — | — | 1,385,288 | 3,025,919 |
| Segment results | 48,395 | 338,600 | 139,669 | 445,300 | 65,509 | 366,656 | — | — | 253,573 | 1,150,556 |
| Unallocated other operating income | | | | | | | 51,583 | 40,863 | 51,583 | 40,863 |
| Loss arising on fair value of financial assets at fair value through profit or loss | — | — | — | — | — | — | (14,027) | — | (14,027) | — |
| Depreciation | (2,322) | (9,071) | (2,151) | — | (3,820) | (10) | (15,010) | (20,614) | (23,303) | (29,695) |
| Amortisation of prepaid lease payments | — | — | (288) | — | — | — | (208) | (272) | (496) | (272) |
| Amortisation of intangible assets | — | (27,535) | — | (27,559) | (198,065) | (161,310) | — | — | (198,065) | (216,404) |
| Impairment loss on other receivables | — | — | — | — | — | — | (3,600) | — | (3,600) | — |
| Impairment loss on trade receivables | (369,114) | (3,952) | (32,432) | (725) | (232,858) | (66,931) | — | (570) | (634,404) | (72,178) |
| Impairment loss on available-for-sale financial assets | — | — | — | — | — | — | (74,152) | (57,141) | (74,152) | (57,141) |
| Impairment loss on intangible assets | — | (6,557) | (120,574) | (8,505) | (509,773) | (324,729) | — | — | (630,347) | (339,791) |
| Impairment loss recognised in respect of goodwill | — | (129,065) | — | (16,454) | (4,508) | — | — | — | (4,508) | (145,519) |
| Unallocated expenses | | | | | | | (265,802) | (325,172) | (265,802) | (325,172) |
| Finance costs | | | | | | | (6,135) | (7,958) | (6,135) | (7,958) |
| Loss before taxation | | | | | | | (327,351) | (370,864) | (1,549,683) | (2,711) |
| Income tax expense | | | | | | | (1,091) | (4,263) | (1,091) | (4,263) |
| Loss for the year | | | | | | | (328,442) | (375,127) | (1,550,774) | (6,974) |
| **Segment assets** | 169,105 | 972,205 | 1,110,876 | 987,826 | 1,409,270 | 1,429,303 | 346,638 | 1,310,478 | 3,035,889 | 4,699,812 |
| **Segment liabilities** | 74,625 | 74,504 | 6,781 | 53,741 | 9,010 | 31,165 | 71,748 | 303,779 | 162,164 | 463,189 |
| **Other segment information:** | | | | | | | | | | |
| Additions to non-current assets | 1,105 | 37,400 | 24,599 | 101,790 | 41,875 | 79,750 | 659 | 27,159 | 68,238 | 246,099 |
| Interests in associates | — | — | — | — | — | — | 29,032 | — | 29,032 | — |
| Share of loss of associates | — | — | — | — | — | — | (21) | — | (21) | — |
| Depreciation | (2,322) | (9,071) | (2,151) | — | (3,820) | (10) | (15,010) | (20,614) | (23,303) | (29,695) |
| Amortisation of prepaid lease payments | — | — | (288) | — | — | — | (208) | (272) | (496) | (272) |
| Amortisation of intangible assets | — | (27,535) | — | (27,559) | (198,065) | (161,310) | — | — | (198,065) | (216,404) |
| Impairment loss recognised in respect of goodwill | — | (129,065) | — | (16,454) | (4,508) | — | — | — | (4,508) | (145,519) |
| Impairment loss on other receivables | — | — | — | — | — | — | (3,600) | — | (3,600) | — |
| Impairment loss on trade receivables | (369,114) | (3,952) | (32,432) | (725) | (232,858) | (66,931) | — | (570) | (634,404) | (72,178) |
| Impairment loss on intangible assets | — | (6,557) | (120,574) | (8,505) | (509,773) | (324,729) | — | — | (630,347) | (339,791) |
| Impairment loss on available-for-sale financial assets | — | — | — | — | — | — | (74,152) | (57,141) | (74,152) | (57,141) |

For the year ended 31 December 2011

## 8. SEGMENT INFORMATION (Continued)

### Revenue from major products and services

The Group's turnover from its major products and services were as follow:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Consumer products | **167,478** | 1,183,297 |
| Enterprise products | **1,021,250** | 1,054,599 |
| Biometric application | **173,569** | 419,016 |
| RFID solutions | **22,991** | 369,007 |
| | **1,385,288** | 3,025,919 |

### Geographical information

The Group operates in three principal geographical areas — Southeast Asia, Greater China and Middle East. The following tables provide an analysis of the Group's turnover, segment results and other information by geographical areas, irrespective of the origin of the goods and services:

| | Turnover | | Segment results | |
|---|---|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Southeast Asia | **674,497** | 1,734,353 | **135,355** | 515,767 |
| Greater China | **498,275** | 777,270 | **83,101** | 425,376 |
| Middle East | **207,721** | 506,286 | **33,069** | 205,943 |
| Others | **4,795** | 8,010 | **2,048** | 3,470 |
| | **1,385,288** | 3,025,919 | **253,573** | 1,150,556 |

| | Segment assets | | Segment liabilities | | Additions to non-current assets | | Amortisation and depreciation | |
|---|---|---|---|---|---|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Southeast Asia | **259,611** | 1,319,337 | **84,090** | 193,767 | **1,775** | 218,942 | **14,256** | 15,184 |
| Greater China | **2,772,896** | 3,376,752 | **75,632** | 267,619 | **66,434** | — | **207,396** | 230,962 |
| Middle East | **3,382** | 3,723 | **2,442** | 1,803 | **29** | 27,157 | **212** | 225 |
| | **3,035,889** | 4,699,812 | **162,164** | 463,189 | **68,238** | 246,099 | **221,864** | 246,371 |

### Information about major customers

No customer contributes 10% or more to the Group's revenue.

For the year ended 31 December 2011

## 9. OTHER REVENUE AND GAINS

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| **Other revenue** | | |
| Bank interest income | **915** | 773 |
| Rental income | **4,009** | 872 |
| Sundry income | **747** | 2,577 |
| | **5,671** | 4,222 |
| **Other gains** | | |
| Gain arising on change in fair value of investment properties | **5,311** | 1,964 |
| Reversal of impairment loss on trade receivables | **570** | 262 |
| Reversal of impairment loss on trade deposits | **—** | 157 |
| Gain on disposal of property, plant and equipment | **355** | 1,843 |
| Reversal of provision for obsolescent inventories | **60** | — |
| Gain on disposal of an associate | **77** | — |
| Foreign exchange gain | **39,539** | 32,415 |
| | **45,912** | 36,641 |
| **Total** | **51,583** | 40,863 |

For the year ended 31 December 2011

## 10. (LOSS)/PROFIT FROM OPERATIONS

The (loss)/profit from operations is stated after charging/(crediting):

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| Depreciation | | | |
| — Owned assets | | **22,652** | 29,462 |
| — Assets held under finance leases | | **651** | 233 |
| | 16 | **23,303** | 29,695 |
| Cost of inventories sold | | **1,131,715** | 1,875,363 |
| Amortisation of prepaid lease payments | 18 | **496** | 272 |
| Amortisation of intangible assets | 20 | **198,065** | 216,404 |
| Written-off of property, plant and equipment | 16 | **4,097** | 1,789 |
| Gain on disposal of property, plant and equipment | | **(355)** | (1,843) |
| Impairment loss on trade receivables | 25 | **634,404** | 72,178 |
| Impairment loss on other receivables | | **3,600** | — |
| Impairment loss on available-for-sale financial assets | 21 | **74,152** | 57,141 |
| Impairment loss on intangible assets | 20 | **630,347** | 339,791 |
| Impairment loss recognised in respect of goodwill | 19 | **4,508** | 145,519 |
| Provision of obsolescent inventories | 24 | **17,075** | 14,603 |
| Foreign exchange gain | | **(39,759)** | (30,116) |
| Auditors' remuneration | | | |
| — Audit services | | **6,000** | 4,200 |
| — Other services | | **1,200** | 2,040 |
| Research and development expenses | | **1,255** | 1,519 |
| Operating lease rentals in respect of premises | | **10,406** | 13,329 |
| Gross rental income from investment properties | | **(4,009)** | (872) |
| — Direct operating expenses from investment properties that generated rental income during the year | | **114** | 105 |
| — Direct operating expenses from investment properties that did not generated rental income during the year | | **—** | 158 |
| Staff costs, including directors' remuneration | 11 | **47,412** | 74,023 |

For the year ended 31 December 2011

## 11. STAFF COSTS AND THE FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' remuneration

| | Directors' fees | | Salaries and bonus | | Retirement scheme contribution | | Employee share option benefits | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| *Executive directors:* | | | | | | | | | | |
| Dato' Lee Boon Han[7] | — | — | 1,572 | 3,000 | — | — | 1,932 | 3,092 | 3,504 | 6,092 |
| Ying Kan Man[8] | — | — | 1,320 | 1,334 | 22 | 9 | 1,701 | 1,237 | 3,043 | 2,580 |
| Chong Khing Chung[1] | — | — | 752 | 1,334 | — | — | 1,082 | 1,237 | 1,834 | 2,571 |
| Li Jinglong[9] | 47 | — | — | — | — | — | — | — | 47 | — |
| Zhang Ligong[10] | 47 | — | — | — | — | — | — | — | 47 | — |
| | 94 | — | 3,644 | 5,668 | 22 | 9 | 4,715 | 5,566 | 8,475 | 11,243 |
| *Non-executive directors:* | | | | | | | | | | |
| Raymond Chu Wai Man[6] | 960 | 232 | — | 6,823 | — | 10 | — | — | 960 | 7,065 |
| Chau Pak Kun[5] | — | 568 | — | 640 | — | — | — | — | — | 1,208 |
| General Dato' Seri Mohd Azumi (rtd)[3] | — | 150 | — | — | — | — | — | 31 | — | 181 |
| Tan Sri Dato' Nik Hashim Bin Nik Ab. Raham[4] | 520 | 160 | — | — | — | — | — | — | 520 | 160 |
| | 1,480 | 1,110 | — | 7,463 | — | 10 | — | 31 | 1,480 | 8,614 |
| *Independent non-executive directors:* | | | | | | | | | | |
| Liu Kwok Bond | 240 | 240 | — | — | — | — | 371 | 247 | 611 | 487 |
| Jonathan Michael Caplan QC[3] | — | 149 | — | — | — | — | — | 62 | — | 211 |
| Li Mow Ming Sonny | 240 | 240 | — | — | — | — | 371 | 247 | 611 | 487 |
| Pieter Lambert Diaz Wattimena[2] | 240 | 180 | — | — | — | — | — | — | 240 | 180 |
| | 720 | 809 | — | — | — | — | 742 | 556 | 1,462 | 1,365 |
| | 2,294 | 1,919 | 3,644 | 13,131 | 22 | 19 | 5,457 | 6,153 | 11,417 | 21,222 |

*Notes:*

1 Appointed on 11 February 2010 and resigned on 30 July 2011
2 Appointed on 25 March 2010
3 Resigned on 31 May 2010
4 Appointed on 1 June 2010 and redesigned from independent non-executive director to non-executive director on 4 October 2010
5 Redesigned from executive director to non-executive director on 11 February 2010 and resigned on 4 October 2010
6 Redesigned from executive director to non-executive director on 4 October 2010
7 Retired from executive director on 10 June 2011
8 Resigned from executive director on 30 November 2011
9 Appointed on 27 September 2011
10 Appointed on 27 September 2011

## 11. STAFF COSTS AND THE FIVE HIGHEST PAID INDIVIDUALS (Continued)

### (b) Key management personnel

Remuneration for key management personnel, including directors' remuneration, was as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Salaries and bonus | **9,026** | 18,299 |
| Retirement scheme contribution | **255** | 129 |
| Employee share option benefits | **7,428** | 7,389 |
| | **16,709** | 25,817 |

### (c) Employee

Staff costs, excluding the remuneration for key management personnel and directors' remuneration, were as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Wages, salaries and bonus | **21,312** | 34,942 |
| Retirement scheme contribution | **2,164** | 4,357 |
| Welfare | **1,148** | 2,050 |
| Employee share option benefits | **6,079** | 6,857 |
| | **30,703** | 48,206 |

### (d) Five highest paid individuals

The five highest paid individuals of the Group include three (2010: four) directors of the Company.

The remuneration paid to the five highest paid individuals of the Group during the year was as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Salaries and bonus | **5,476** | 13,537 |
| Retirement scheme contribution | **34** | 117 |
| Employee share option benefits | **6,106** | 6,338 |
| | **11,616** | 19,992 |

## 11. STAFF COSTS AND THE FIVE HIGHEST PAID INDIVIDUALS (Continued)

### (d) Five highest paid individuals (Continued)

The number of the five highest paid individuals whose remuneration fell within the following bands is as follows:

| | 2011 | 2010 |
|---|---|---|
| Nil–HK$1,000,000 | — | — |
| HK$1,000,001–HK$2,000,000 | 3 | 1 |
| HK$2,000,001–HK$3,000,000 | — | 2 |
| HK$3,000,001–HK$4,000,000 | 2 | — |
| HK$4,000,001–HK$5,000,000 | — | — |
| HK$5,000,001–HK$10,000,000 | — | 2 |
| | 5 | 5 |

During the year, no emoluments were paid by the Group to the directors, or any of the independent non-executive directors, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office nor has any director waived or agreed to waive any emoluments.

## 12. FINANCE COSTS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Bank charges | 236 | 881 |
| Interests on interest-bearing borrowings and bank overdrafts wholly repayable within five years | 3,931 | 4,496 |
| Interests on interest-bearing borrowings and bank overdrafts wholly repayable over five years | 1,847 | 2,470 |
| Promissory note (note 36) | 66 | — |
| Interest on obligations under finance leases | 55 | 111 |
| | 6,135 | 7,958 |

## 13. INCOME TAX EXPENSE

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Current tax expense in respect of the current year: | | |
| — Hong Kong | 22 | — |
| — PRC | 588 | — |
| — Malaysia | — | 1,249 |
| (Over)/under provision of tax in the prior years | (671) | 3,393 |
| | (61) | 4,642 |
| Deferred tax expense/(income) recognised in the current year (Note 32) | 1,152 | (379) |
| | 1,091 | 4,263 |

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year.

Malaysian Income Tax is calculated at the statutory tax rate of 25% (2010: 25%) of the estimated assessable profit for the year. The corporate tax rate for companies with paid-up capital of Malaysian Ringgit 2.5 million and below at the beginning of the basis period for the years of assessment are as follows: The first Malaysian Ringgit 500,000 chargeable income is charged at the rate of 20% (2010: 20%) for the year and the amount of chargeable income exceeding Malaysian Ringgit 500,000 is charged at the rate of 25% (2010: 25%) for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The income tax expense for the year 2011 and 2010 can be reconciled to the loss before taxation per the consolidated income statement as follows:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Loss before taxation | (1,549,683) | (2,711) |
| Income tax expense calculated at 25% | (387,421) | (678) |
| Tax effect of recognised temporary difference | 1,152 | (379) |
| Tax effect of income not taxable for tax purposes | (32,376) | (396,815) |
| Tax effect of temporary differences not recognised | — | 1,993 |
| (Over)/under provision in prior years | (671) | 3,393 |
| Tax effect of expenses not deductible for tax purposes | 25,821 | 409,474 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 141,663 | (28,682) |
| Effect of estimated tax losses not recognised | 252,923 | 15,957 |
| | 1,091 | 4,263 |

## 14. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the year is based on the Group's (loss)/profit attributable to owners of the Company of HK$(1,354,937,000) (2010: HK$72,859,000) and the weighted average number of ordinary shares in issue during the year of 418,360,952 (2010: 285,503,967).

During the year ended 31 December 2011, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options because the exercise price of those share options was higher than the average market price for shares for the year. And so the diluted loss per share for the year ended 31 December 2011 was the same as the basic loss per share as there was no diluting event during the current year.

During the year ended 31 December 2010, diluted earnings per share presented as share options were exercised after their respective vesting period. The computation of diluted earnings per share for the year is based on the Group's profit attributable to owners of the Company of approximately HK$72,859,000 and the weight average number of ordinary shares for the purpose of diluted earnings per share during the year ended 31 December 2010 of approximately 286,195,000.

The weighted average number of ordinary shares for the purpose of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

| | 2011 | 2010 |
|---|---|---|
| **Basic (loss)/earnings per share** | | |
| (Loss)/earnings used in the calculation of basic (loss)/earnings per share | **HK$(1,354,937,000)** | HK$72,859,000 |
| Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share | **418,360,952** | 285,503,967 |
| **Diluted (loss)/earnings per share** | | |
| (Loss)/earnings used in the calculation of diluted (loss)/earning per share | **HK$(1,354,937,000)** | HK$72,859,000 |
| Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share | **418,360,952** | 285,503,967 |
| Shares deemed to be issued for no consideration in respect of share options | **–** | 691,059 |
| Weighted average number of ordinary shares used in the calculation of diluted (loss)/earnings per share | **418,360,952** | 286,195,026 |

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

## 15. DIVIDENDS

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

## 16. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Showroom equipment HK$'000 | Mould HK$'000 | Motor vehicles HK$'000 | Development tools HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| As at 1 January 2010 | 109,045 | 53,168 | 65,270 | 3,335 | 2,000 | 5,902 | 65,958 | 304,678 |
| Additions | 4,517 | 3,595 | 2,263 | 332 | — | 2,378 | — | 13,085 |
| Written off | — | (7,894) | (1,248) | (3,212) | — | — | — | (12,354) |
| Disposals | — | (41) | (475) | — | — | (543) | — | (1,059) |
| Exchange alignment | 12,545 | 4,644 | 5,621 | 14 | — | 454 | 28 | 23,306 |
| As at 31 December 2010 and 1 January 2011 | 126,107 | 53,472 | 71,431 | 469 | 2,000 | 8,191 | 65,986 | 327,656 |
| Additions | — | 407 | 777 | — | — | 694 | — | 1,878 |
| Written off | — | — | (6,444) | — | — | — | — | (6,444) |
| Disposal of subsidiary | — | (11) | (502) | — | — | (250) | — | (763) |
| Disposals | — | — | (337) | — | — | (4,021) | — | (4,358) |
| Exchange alignment | (3,155) | (719) | (1,108) | (13) | — | (191) | 5 | (5,181) |
| As at 31 December 2011 | 122,952 | 53,149 | 63,817 | 456 | 2,000 | 4,423 | 65,991 | 312,788 |
| **Accumulated depreciation** | | | | | | | | |
| As at 1 January 2010 | 727 | 12,675 | 24,150 | 3,055 | 2,000 | 3,677 | 51,927 | 98,211 |
| Charge for the year | 2,358 | 5,663 | 11,275 | 223 | — | 1,095 | 9,081 | 29,695 |
| Written off | — | (6,521) | (915) | (3,129) | — | — | — | (10,565) |
| Disposals | — | (24) | (300) | — | — | (182) | — | (506) |
| Exchange alignment | 180 | 514 | 2,221 | 11 | — | 310 | 7 | 3,243 |
| As at 31 December 2010 and 1 January 2011 | 3,265 | 12,307 | 36,431 | 160 | 2,000 | 4,900 | 61,015 | 120,078 |
| Charge for the year | 2,555 | 5,630 | 9,451 | 124 | — | 695 | 4,848 | 23,303 |
| Written off | — | — | (2,347) | — | — | — | — | (2,347) |
| Disposal of subsidiary | — | (1) | (73) | — | — | (34) | — | (108) |
| Disposals | — | — | (141) | — | — | (3,308) | — | (3,449) |
| Exchange alignment | (180) | (112) | (400) | (10) | — | (28) | 2 | (728) |
| As at 31 December 2011 | 5,640 | 17,824 | 42,921 | 274 | 2,000 | 2,225 | 65,865 | 136,749 |
| **Net book value** | | | | | | | | |
| **As at 31 December 2011** | **117,312** | **35,325** | **20,896** | **182** | **—** | **2,198** | **126** | **176,039** |
| As at 31 December 2010 | 122,842 | 41,165 | 35,000 | 309 | — | 3,291 | 4,971 | 207,578 |

The Group's land and buildings with a net book value of approximately HK$131,708,000 (2010: HK$138,111,000) were pledged to secure the interest-bearing borrowings of the Group as at 31 December 2011 and 2010.

As at 31 December 2011, the net book value of the Group's motor vehicles included an amount of approximately HK$526,000 (2010: HK$1,258,000) in respect of assets held under finance leases.

For the year ended 31 December 2011

## 16. PROPERTY, PLANT AND EQUIPMENT (Continued)

**The Company**

| | Furniture, fixtures and equipment HK$'000 |
|---|---|
| **Cost** | |
| As at 1 January 2010 | 32 |
| Additions | 4 |
| Written off | (32) |
| As at 31 December 2010 and 31 December 2011 | 4 |
| **Accumulated depreciation** | |
| As at 1 January 2010 | 28 |
| Charge for the year | 4 |
| Written off | (31) |
| As at 31 December 2010 and 1 January 2011 | 1 |
| Charge for the year | 1 |
| As at 31 December 2011 | 2 |
| **Net book value** | |
| **As at 31 December 2011** | **2** |
| As at 31 December 2010 | 3 |

## 17. INVESTMENT PROPERTIES

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| **Fair value** | | |
| As at the beginning of the year | **53,188** | — |
| Additions | **—** | 51,224 |
| Gain arising on change in fair value | **5,311** | 1,964 |
| Exchange alignment | **2,758** | — |
| As at the end of the year | **61,257** | 53,188 |

The investment properties of the Group were revalued at 31 December 2011 and 2010 on a basis of a valuation carried out on that date by Vigers Appraisal and Consulting Limited, independent property valuers. Vigers Appraisal and Consulting Limited have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. The revaluation gave rise to a fair value gain of HK$5,311,000 (2010: HK$1,964,000) which has been recognised in the consolidated income statement.

The Group's land included in investment properties is situated in Mainland China and under a medium-term lease.

The Groups property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

For the year ended 31 December 2011

## 18. PREPAID LEASE PAYMENTS

**The Group**

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| **Cost** | | |
| As at the beginning of the year | 34,668 | 18,471 |
| Additions | — | 14,072 |
| Exchange alignment | 123 | 2,125 |
| As at the end of the year | 34,791 | 34,668 |
| **Accumulated amortisation** | | |
| As at the beginning of the year | 905 | 560 |
| Amortisation during the year | 496 | 272 |
| Exchange alignment | (16) | 73 |
| As at the end of the year | 1,385 | 905 |
| **Net book value** | | |
| As at the end of the year | 33,406 | 33,763 |

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| **Land outside Hong Kong held on:** | | |
| — Leases of within 1 year | 497 | 491 |
| — Leases of later than 1 year and not later than 5 years | 1,964 | 1,973 |
| — Leases of later than 5 years | 30,945 | 31,299 |
| | 33,406 | 33,763 |
| Less: current portion | (497) | (491) |
| | 32,909 | 33,272 |

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Long term lease (i) | 19,012 | 19,763 |
| Medium term lease (ii) | 14,394 | 14,000 |
| | 33,406 | 33,763 |

(i) The prepaid lease payments represented a land in Malaysia with a lease period of 99 years.

(ii) The prepaid lease payments represented a land in PRC with a lease period of 50 years.

For the year ended 31 December 2011

## 19. GOODWILL

**The Group**

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| **Cost** | | |
| As at beginning of the year | 199,777 | 175,120 |
| Additional amounts recognised from business combinations occurred during the year (note 38(b)(i), (ii)) | 20,905 | 4,510 |
| Disposal | (67,371) | — |
| Exchange alignment | 1,168 | 20,147 |
| As at end of the year | 154,479 | 199,777 |
| **Accumulated impairment losses** | | |
| As at the beginning of the year | 146,201 | — |
| Impairment loss recognised during the year (note a & b) | 4,508 | 145,519 |
| Disposal | (17,501) | — |
| Exchange alignment | 366 | 682 |
| As at end of the year | 133,574 | 146,201 |
| **Net book value** | | |
| As at end of the year | 20,905 | 53,576 |

The carrying amount of goodwill allocated to cash-generating units ("CGUs") that are significant individually or in aggregate is as follows:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Hyperstore distribution of IT related products and security equipments (note a) | — | — |
| Computer accessories (note a) | — | — |
| Software development (note b) | — | 53,576 |
| Home business accessories (note c) | 20,905 | — |
| | 20,905 | 53,576 |

The directors of the Company had assessed the recoverable amount of goodwill as at 31 December 2011 by reference to the valuations as at 31 December 2011 performed by Ample Appraisal Limited, an independent firm of qualified valuer.

The directors of the Company has assessed the recoverable amount of goodwill as at 31 December 2010 by reference cash flow forecast projections base on financial budget approved by directors of the Company covering a five-year period.

For the year ended 31 December 2011

## 19. GOODWILL (Continued)

### The Group (Continued)

Note:

(a) The directors of the Company has assessed the recoverable amounts of Computer accessories and Hyperstore distribution of IT related products and security equipment (being the CGUs to which the goodwill has been allocated) as at 31 December 2010 based on cash flow projections prepared from financial budgets approved by the management of the Group covering a 5-year period.

The directors of the Company has determined that an impairment of approximately HK$87,527,000 and HK$41,538,000 were recognised to consolidated income statement in respect of the goodwill arising from the acquisition of Computer accessories and Hyperstore distribution of IT related products and security equipment respectively during the year ended 31 December 2010.

(b) During the year ended 31 December 2011, the business related to Software developments has been ceased and will not generate further income. Total impairment loss of approximately HK$4,508,000 (2010: HK$16,454,000) was recognised in respect of the goodwill by the Company to reduce its carrying amount to its recoverable amount.

The directors of the Company also assessed the recoverable amount of this group of business by appointed the independent valuer, Ample Appraisal Limited to perform valuation for this group of business as at 31 December 2011. The valuation of this group of business was prepared based on asset based approach.

(c) The directors of the Company has appointed an independent valuer to perform a business valuation on the CGU of Home business accessories containing goodwill which was acquired from the business combination, as stated in note 38b(i).

The directors of the Company has determined that there is no impairment on the goodwill arising from the acquisition of Home business accessories as the recoverable amount of Home business accessories (being the CGU to which the goodwill has been allocated) based on the valuation report is in excess of the aggregate carrying amounts of Home business accessories.

The recoverable amount of Home business accessories has been determined on the basis of value in use calculation and is based on certain key assumptions. The value in use calculation is based on cash flow projections prepared from financial budgets approved by the directors of the Company covering a 5-year period and a discount rate of 13.62%. Cash flows beyond the 5-year period are extrapolated using a 5% growth rate and the growth rate does not exceed the average long-term growth rate for the industry.

The cash flow projections are prepared based on the expected gross margins determined based on past performance of Home business accessories and management's expectations for the market development. The discount rates was estimated using pre-tax rates that reflect current market assessments of the time value of money and the risk specific to the relevant CGUs in the market.

## 20. INTANGIBLE ASSETS

**The Group**

The movement of intangible assets during the year was as follows:

| | Logo HK$'000 | Product development and design HK$'000 | Contract rights HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| As at 1 January 2010 | 148 | 344,335 | 1,199,321 | 1,543,804 |
| Additions | — | 218,942 | — | 218,942 |
| Additions arising from acquisition of subsidiaries | — | — | 264,286 | 264,286 |
| As at 31 December 2010 and 1 January 2011 | 148 | 563,277 | 1,463,607 | 2,027,032 |
| Additions | — | 66,360 | — | 66,360 |
| As at 31 December 2011 | 148 | 629,637 | 1,463,607 | 2,093,392 |
| **Accumulated amortisation and impairment** | | | | |
| As at 1 January 2010 | 148 | 34,408 | 207,597 | 242,153 |
| Amortisation for the year | — | 37,739 | 178,665 | 216,404 |
| Impairment loss recognised during the year | — | 15,062 | 324,729 | 339,791 |
| As at 31 December 2010 and 1 January 2011 | 148 | 87,209 | 710,991 | 798,348 |
| Amortisation for the year | — | 74,988 | 123,077 | 198,065 |
| Impairment loss recognised during the year | — | 808 | 629,539 | 630,347 |
| As at 31 December 2011 | 148 | 163,005 | 1,463,607 | 1,626,760 |
| **Net book value** | | | | |
| **As at 31 December 2011** | **—** | **466,632** | **—** | **466,632** |
| As at 31 December 2010 | — | 476,068 | 752,616 | 1,228,684 |

Amortisation charge of approximately HK$198,065,000 (2010: HK$216,404,000) for the year is included in administrative expenses in the consolidated income statement.

The intangible assets "logo", "product development and design" and "contract rights" as above amortised over its estimated useful lives, which are 5, 5 and 10 years respectively and were tested for impairment. An impairment loss of approximately HK$630,347,000 (2010: HK$339,791,000) on intangible assets "product development and design" and "contract rights" were recognised during the year ended 31 December 2011 and 2010.

## 20. INTANGIBLE ASSETS (Continued)

### The Group (Continued)

***Impairment testing***

The directors of the Company had assessed the recoverable amount of intangible assets as at 31 December 2011 and 31 December 2010 by reference to the valuation.

*Contract right*

During the year ended 31 December 2011, the subsidiaries of the Company have lost their supply contracts with their customers. The directors of the Company assess those contact no longer generating any income in the future, by reference to the valuation report performed by Ample Appraisal Limited and Vigers Appraisal, independent firms of qualified value, an impairment loss of approximately HK$629,539,000 was recognized.

*Project development and design*

During the year ended 31 December 2011, the directors of the Company assessed that some of the product designs were outdated and no longer generating revenue, which the product designs did not have any recoverable amount, an impairment loss of approximately HK$808,000 was recognised.

## 21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

### The Group

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Equity securities at cost: | | |
| Unlisted outside Hong Kong (Note (a), (b) & (c)) | **169,200** | 135,000 |
| Equity securities at fair value: | | |
| Listed outside Hong Kong (Note (d)) | **5,070** | — |
| | **174,270** | 135,000 |
| Impairment loss on unlisted equity securities outside Hong Kong | **(131,293)** | (57,141) |
| | **42,977** | 77,859 |

At 31 December 2011, certain unlisted equity securities with carrying amount of approximately HK$37,907,000 (2010: HK$77,859,000) were stated at cost less impairment losses rather than at fair value. The directors of the Company considered that the unlisted equity securities do not have a quoted market price in an active market and which fair value cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment; and (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value. Accordingly, such unlisted equity investments are stated at cost less any impairment losses.

The Directors of the Company do not consider that the Group is able to exert significant influence on A-1, Spartan, Hero View and Xian Hui as the other shareholders significantly control the composition of the board of directors of A-1, Spartan, Hero View and Xian Hui.

## 21. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

### The Company

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Equity securities at fair value: | | |
| Listed outside Hong Kong (Note (d)) | 5,070 | — |

### The Group and Company

For listed equity securities, the fair value as determined based on the quoted market bid prices available on the relevant stock exchange and the industry group.

Note:

(a) As at 31 December 2011, the Group held 15.0% of the equity interest of A-1 Development Inc. ("A-1"), a company incorporated in the British Virgin Islands which is involved in provision of exclusive information technology and business processes outsourcing and consultancy services.

(b) As at 31 December 2011, the Group held 6.0% of the equity interest of Hero View Limited ("Hero View"), a company incorporated in the British Virgin Islands which is involved in provision of manufacturer of fructose in PRC.

(c) As at 31 December 2011, the Group held 3.0% of the equity interest of Xian Hui Investment Ltd ("Xian Hui"), a company incorporated in the British Virgin Islands which is involved in media advertising business.

(d) As at 31 December 2011, the Group held 13,000,000 shares in Spartan Gold Limited ("Spartan"), which is a US based publicly traded company, listed on the Over the Counter Bulletin Board market (OTCBB) under the symbol of "SPAG". Spartan is a diversified junior gold exploration and mining company with gold exploration and development projects in Nevada and Alabama, United States.

### Impairment testing

The directors of the Company has determined that an impairment of approximately HK$74,152,000 (2010: HK$57,141,000) was recognised to the consolidated income statement in respect of the A1 Development Inc. ("A1"). As its business have been ceased during the year and will not generate further income in the future from the cash flow projections, the carrying amounts of A1 has been reduced to its recoverable amounts.

The directors of the Company have also assessed the recoverable amount of A1 by reference to the business valuation performed by Ample Appraisals Limited, an independent valuer as at 31 December 2011. The valuation of A1 was prepared based on asset based approach.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

**The Group**

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Held for trading non derivative financial assets: | | |
| Listed equity securities at Hong Kong | **5,185** | — |

## 23. INVESTMENTS IN SUBSIDIARIES

**The Company**

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **24** | 24 |
| Amounts due from subsidiaries | **1,942,965** | 1,753,603 |
| Less: Impairment loss recognised | **(1,293,753)** | (1,329,860) |
| | **649,212** | 423,743 |
| | **649,236** | 423,767 |

The amounts due from subsidiaries were unsecured, interest-free and had no fixed terms of repayment terms.

For the year ended 31 December 2011 and 2010, the directors of the Company assessed the recoverable amounts of the amounts due from subsidiaries after considering profitability, cash flow position, financial position, forecast business development and future prospects of the subsidiaries. Based on this assessment, the directors of the Company consider that the carrying values of the amounts due from subsidiaries net of the impairment losses recognised, approximated to their recoverable amounts.

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

For the year ended 31 December 2011

## 23. INVESTMENTS IN SUBSIDIARIES (Continued)

### The Company (Continued)

| Name | Place and date of incorporation or establishment | Ordinary share/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| *Directly held* | | | | |
| RCG Holdings Limited | British Virgin Islands ("BVI") 5 January 2005 | US$1 | 100% | Investment holding |
| *Indirectly held* | | | | |
| RCG Hong Kong Holdings Limited | BVI 20 October 1999 | US$200 | 100% | Investment holding |
| RCG International Holdings Limited | BVI 18 April 2005 | US$1,000 | 100% | Investment holding |
| Sharp Asia International Limited | BVI 18 April 2005 | US$1,000 | 100% | Investment holding |
| RCG China Holdings Limited | BVI 8 June 2006 | US$1 | 100% | Investment holding |
| RCG Malaysia Sdn. Bhd. | Malaysia 7 December 2006 | RM2 | 100% | Investment holding |
| RCG Investment Pte Limited | Singapore 4 May 2011 | US$2 | 100% | Investment in financial assets |
| RCG (Hong Kong) Limited | Hong Kong 16 June 2006 | HK$1 | 100% | Biometric and security solutions |
| RCG (Macao Commercial Offshore) Company Limited | Macau 30 September 2004 | MOP100,000 | 100% | Trading of biometric products |
| RCG Corporation Limited | Hong Kong 26 November 1999 | HK$2 | 100% | Hardware and software development |
| RCG (M.E.) Fzco | United Arab Emirates 19 August 2006 | AED500,000 | 100% | Trading of biometric security products |
| RCG Land Sdn. Bhd. | Malaysia 12 December 2006 | RM2 | 100% | Land and property holding |
| *RCG China Limited (宏霸數碼科技(北京)有限公司) | PRC 14 September 2006 | RMB27,505,570 | 100% | Software and hardware development and provision of consultancy services |
| Strong Aim Limited | BVI 16 October 2008 | US$100 | 70% | Development and sale of RFID-related products |
| Tag Station MSC Sdn. Bhd. | Malaysia 22 January 2009 | RM5,000,010 | 100% | Research, development, of RFID solution and provision of consultancy services |
| RCG Matrix Sdn. Bhd. | Malaysia 13 July 2009 | RM40,000,000 | 100% | Business of trading and distribution of the computer technology products |
| Briliant Easy Limited | BVI 2 June 2011 | US$100 | 60% | Investment holding |
| Han Technology Company Limited | Hong Kong 9 April 2005 | HK$10 | 60% | Trading of sensor, transistor and accessories |

* Wholly-owned foreign enterprises in the PRC.

For the year ended 31 December 2011

## 24. INVENTORIES

**The Group**

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Raw materials | **636,691** | 677,109 |
| Finished goods and goods for sale | **44,416** | 52,423 |
| | **681,107** | 729,532 |
| Less: Provision for obsolescent inventories | **(21,643)** | (14,603) |
| | **659,464** | 714,929 |

During the year ended 31 December 2011, there were sales with respect to written down inventories provided for in 2010. As a result, a reversal of written down inventories of approximately HK$60,000 (2010: HK$nil) has been recognised and included in cost of sales in the current year.

All inventories were carried at the lower of cost and net realisable value.

## 25. TRADE RECEIVABLES

**The Group**

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| 0–30 days | **232,320** | 219,038 |
| 31–60 days | **249** | 200,661 |
| 61–90 days | **19,002** | 229,961 |
| 91–180 days | **150,223** | 304,521 |
| Over 180 days | **1,112,195** | 449,792 |
| | **1,513,989** | 1,403,973 |
| Impairment loss on trade receivables | **(647,410)** | (94,630) |
| | **866,579** | 1,309,343 |

The Group has no significant concentrations of credit risk, with exposure spreads over a large number of customers.

The trade receivables are generally on 30-180 day credit terms.

## 25. TRADE RECEIVABLES (Continued)

**The Group (Continued)**

*Past due but not impaired*

Included in the Group's trade receivables balances are debts with carrying amount of HK$474,320,000 (2010:HK$355,162,000) which were past due at the end of the reporting period. In the opinion of the directors of the Company, the amounts were still considered recoverable. The Group does not hold any collateral over these balances.

*Age of receivables that are past due but not impaired*

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Over 180 days | **474,320** | 355,162 |

*Impaired trade receivables*

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base is large and unrelated. Accordingly, the directors of the Company believe that there is no further credit provision required in excess of the impairment of trade receivables.

*Reconciliation of impaired trade receivables*

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Balance at beginning of the year | **94,630** | 21,525 |
| Impairment losses recognised on trade receivables | **634,404** | 72,178 |
| Impairment losses reversed | **(570)** | (262) |
| Disposal of subsidiaries | **(68,184)** | — |
| Amounts written off during the year as uncollectible | **(2,315)** | — |
| Exchange alignment | **(10,555)** | 1,189 |
| Balance at end of the year | **647,410** | 94,630 |

For the year ended 31 December 2011 and 2010, the directors of the Company assessed the recoverable amounts of trade receivables, recognised specific impairment losses on trade receivables of approximately HK$634,404,000 (2010: HK$72,178,000) had been pursued through legal means. The Group does not hold any collateral over these balances.

For the year ended 31 December 2011

## 25. TRADE RECEIVABLES (Continued)

**The Group (Continued)**

*Age of impaired trade receivables*

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| 0–30 days | — | 4,994 |
| 31–60 days | 31 | 1,333 |
| 61–90 days | — | 4,604 |
| 91–180 days | 9,504 | 15,836 |
| Over 180 days | 637,875 | 67,863 |
| | 647,410 | 94,630 |

## 26. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 |
| Trade deposits | 613,974 | 771,301 | — | — |
| Prepayments and other deposits | 3,624 | 4,195 | 216 | 566 |
| Other receivables | 4,132 | 3,096 | — | — |
| | 621,730 | 778,592 | 216 | 566 |

In determining the recoverability of other receivables, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the end of the reporting period. Accordingly, the directors of the Company believe that there is no further credit provision required in excess of the impairment of other receivables.

For the year ended 31 December 2011, the directors of the Company had assess the recoverable amount of other receivables, approximately HK$3,600,000 (2010: Nil) had been expected as not recoverable. Consequently, impairment of HK$3,600,000 was recognized.

## 27. CASH AT BANK AND ON HAND

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 |
| Deposits with banks and other financial institutions | 28,125 | 224,427 | — | — |
| Cash at bank and on hand | 24,558 | 17,873 | 13 | 239 |
| | 52,683 | 242,300 | 13 | 239 |
| Less: Pledged bank deposits | (3,000) | — | — | — |
| Fixed deposits | (21,754) | (21,745) | — | — |
| Cash and cash equivalents | 27,929 | 220,555 | 13 | 239 |

## 27. CASH AT BANK AND ON HAND (Continued)

The Group's bank deposits and fixed deposits of approximately HK$24,754,000 (2010: HK$21,745,000) were pledged to secure the interest-bearing borrowings of the Group as at 31 December 2011.

Included in cash at bank and on hand are the following amounts denominated in a currency other than the functional currency of the Company to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| British Pounds | **4** | 130,596 | **—** | — |
| Malaysian Ringgit | **45,427** | 42,014 | **—** | — |
| US Dollars | **140** | 67,658 | **1** | — |
| Renminbi | **1,189** | 862 | **—** | — |
| United Arab Emirates Dirham | **309** | 102 | **—** | — |
| Thai Baht | **156** | 51 | **—** | — |
| Singaporean Dollars | **—** | 2 | **—** | — |

## 28. SHARE CAPITAL

**The Group and the Company**

| | | Number of shares issued | | Par value | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | **Notes** | | | **HK$'000** | HK$'000 |
| **Authorised:** | | | | | |
| Ordinary shares of HK$0.01 each | | **9,000,000,000** | 9,000,000,000 | **90,000** | 90,000 |
| **Issued and fully paid:** | | | | | |
| At beginning of the year | | **301,473,555** | 273,563,555 | **3,015** | 2,736 |
| Issue of shares on acquisition of subsidiaries | | **—** | 11,000,000 | **—** | 110 |
| Issue of shares upon subscription | (i) (ii) (iii) | **41,050,000** | 15,500,000 | **410** | 155 |
| Exercise of share options | | **—** | 1,410,000 | **—** | 14 |
| Placing of shares | (iv) (v) | **150,700,000** | — | **1,507** | — |
| At end of the year | | **493,223,555** | 301,473,555 | **4,932** | 3,015 |

The following movements in the Company's authorised and issued share capital took place during the period from 1 January 2011 to 31 December 2011:

(i) Pursuant to the subscription agreement dated 4 January 2011, the Company allotted and issued an aggregate of 6,450,000 shares of HK$0.01 each to an independent subscriber at a price HK$3.10 (25.77 pence) per share on 7 January 2011.

(ii) On 11 January 2011, the Group acquired 6.10% of the entire issued share capital of Spartan Gold Limited ("SPAG") for an aggregated consideration of approximately HK$54,912,000, which was satisfied by the allotment and issue of 15,600,000 ordinary shares of the Company on 14 January 2011 as fully paid.

## 28. SHARE CAPITAL (Continued)

### The Group and the Company (continued)

(iii) Pursuant to the subscription agreements dated 18 February 2011, the Company allotted and issued an aggregate of 19,000,000 shares of HK$0.01 each to independent subscribers at a price HK$2.50 (19.84 pence) per share on 24 February 2011.

(iv) On 27 May 2011, the Company allotted and issued an aggregate of 68,500,000 shares by way of placing to independent investors at a price of HK$1.45 (11.41 pence) per share.

(v) On 13 July 2011, the Company allotted and issued an aggregate of 82,200,000 shares by way of placing to independent investors at a price of HK$1.00 (8.03 pence) per share.

## 29. RESERVES

### The Company

| | Share premium HK$'000 (Note a) | Employee share-based compensation reserve HK$'000 (Note b) | Capital reserve HK$'000 (Note c) | Available-for-sale securities revaluation reserve HK$'000 | Retained earnings HK'000 | Total |
|---|---|---|---|---|---|---|
| As at 1 January 2010 | 1,597,158 | 31,126 | 8,877 | — | (40,930) | 1,596,231 |
| Loss for the year | — | — | — | — | (1,378,393) | (1,378,393) |
| Other comprehensive loss for the year | — | — | — | — | — | — |
| Total comprehensive loss for the year | — | — | — | — | (1,378,393) | (1,378,393) |
| Exercise of share options | 15,582 | (5,812) | — | — | — | 9,770 |
| Acquisition of a subsidiary | 92,840 | — | — | — | — | 92,840 |
| Issue of shares upon subscription | 66,845 | — | — | — | — | 66,845 |
| Share-based payment | — | 14,246 | — | — | — | 14,246 |
| Cancellation of share option | — | (3,361) | — | — | 3,361 | — |
| Lapse of share options | — | (4,354) | — | — | 4,354 | — |
| Shares issuing expenses | (4,785) | — | — | — | — | (4,785) |
| As at 31 December 2010 and 1 January 2011 | 1,767,640 | 31,845 | 8,877 | — | (1,411,608) | 396,754 |
| Loss for the year | — | — | — | — | (22,310) | (22,310) |
| Other comprehensive loss for the year | — | — | — | (34,242) | — | (34,242) |
| Total comprehensive loss for the year | — | — | — | (34,242) | (22,310) | (56,552) |
| Exercise of share options | — | — | — | — | — | — |
| Acquisition of subsidiaries | — | — | — | — | — | — |
| Issue of shares upon subscription | 106,397 | — | — | — | — | 106,397 |
| Share-based payment | — | 13,507 | — | — | — | 13,507 |
| Lapse of share options | — | (24,191) | — | — | 24,191 | — |
| Placing of shares | 180,018 | — | — | — | — | 180,018 |
| Shares issuing expenses | (2,981) | — | — | — | — | (2,981) |
| **As at 31 December 2011** | **2,051,074** | **21,161** | **8,877** | **(34,242)** | **(1,409,727)** | **637,143** |

## 29. RESERVES (Continued)

### The Company (continued)

*Notes:*

(a) **Share premium and distributable reserves**

Under the Company's Bye-Laws or the laws of Bermuda, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

The aggregate amount of distributable reserves, including share premium and retained profits, of the Company as at 31 December 2011 was HK$641,347,000 (2010: HK$356,032,000).

(b) **Employee share-based compensation reserve**

It represents value of employee services in respect of share options granted to a director and employees of the Group recognised.

(c) **Capital reserve**

It represents the difference between the paid-in capital/share capital and share premium of the subsidiaries acquired an the nominal value of the Company's shares issued for the acquisition at the time of group reorganisation prior to its listing on The Stock Exchange of Hong Kong Limited.

## 30. INTEREST-BEARING BORROWINGS

### The Group

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Within one year | **32,611** | 213,649 |
| In the second to fifth years | **23,088** | 22,921 |
| Over fifth years | **21,535** | 27,589 |
| Total bank borrowings | **77,234** | 264,159 |

*Summary of borrowing arrangements*

The bank borrowings bear interest at rates ranging from 1.83% to 6.89% (2010: 1.53% to 5.2%) per annum.

The Malaysian Ringgit bank borrowings of approximately HK$74,517,000 (2010: HK$92,101,000) were secured by the Group's land and buildings in Malaysia with carrying values of approximately HK$112,696,000 (2010: HK$138,111,000); buildings in Malaysia with a net book value of approximately HK$19,012,000 (2010: HK$nil) and bank deposits of approximately HK$21,754,000 (2010: HK$21,745,000).

The Malaysia Ringgit borrowings from bank of approximately HK$Nil (2010: HK$6,551,000) was secured by bank deposits of approximately HK$Nil (2010: HK$2,520,000).

The Hong Kong Dollars bank borrowings of HK$Nil (2010: HK$165,507,000) were secured by bank deposits of approximately HK$Nil (2010: HK$174,231,000).

The RMB bank borrowing HK$2,717,000 were secured by bank deposit of approximately HK$3,000,000.

For the year ended 31 December 2011

## 31. OBLIGATIONS UNDER FINANCE LEASES

### Leasing arrangements

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 5 years (2010: 5 years). Interest rates are charged at commercial rates and fixed at the respective contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

Interest rates underlying all obligations under finance lease are fixed at respective contract dates weighted average rate of 2.11% (2010: 3.09%) per annum.

**The Group**

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amounts payable under finance leases: | | | | |
| Within one year | **98** | 316 | **98** | 254 |
| In the second to fifth years, inclusive | **227** | 417 | **223** | 368 |
| | **325** | 733 | **321** | 622 |
| Less: Future finance charges | **(4)** | (111) | **—** | — |
| Present value of finance leases | **321** | 622 | **321** | 622 |
| Less: Amount due for settlement within one year | | | **(98)** | (254) |
| Amount due for settlement after one year | | | **223** | 368 |

## 32. DEFERRED TAX LIABILITIES

**The Group**

The following is the major deferred tax liabilities recognised by the Group and movements thereon:

| | Fair value adjustment arising from valuation of investment properties | Accelerated tax depreciation HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| As at 1 January 2010 | — | 3,045 | (1,500) | 1,545 |
| Debit/(credit) to income statement (note 13) | 491 | (2,370) | 1,500 | (379) |
| Exchange alignment | 12 | 64 | — | 76 |
| As at 31 December 2010 and 1 January 2011 | 503 | 739 | — | 1,242 |
| Debit/(credit) to income statement (note 13) | 1,328 | (176) | — | 1,152 |
| Exchange alignment | 45 | 13 | — | 58 |
| **As at 31 December 2011** | **1,876** | **576** | **—** | **2,452** |

## 33. TRADE PAYABLES

**The Group**

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| 0–30 days | **502** | 86,051 |
| 31–60 days | **108** | 37,501 |
| 61–90 days | **580** | 27,188 |
| Over 90 days | **12,027** | 14,670 |
| | **13,217** | 165,410 |

Trade payables are generally settled on 0-60 days terms. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

For the year ended 31 December 2011

## 34. ACCRUALS AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Accruals | **10,112** | 30,099 | **7,867** | 1,387 |
| Financial guarantee provision | **—** | — | **24** | 24 |
| Other payables | **48,785** | 500 | **4,128** | 1,623 |
| | **58,897** | 30,599 | **12,019** | 3,034 |

## 35. INTERESTS IN ASSOCIATES

**The Group**

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cost of investment in an associate, unlisted | **28,977** | — |
| Share of post-acquisition profits | **55** | — |
| | **29,032** | — |

During the year, the Group acquired a 15% interest in RCG Xcess Sdn Bhd ("RCG Xcess") and a 25% interest in I-Century Limited from independent third parties for consideration of approximately HK$77,000 and HK$28,977,000 respectively. The consideration amount of HK$28,977,000 represents HK$19,000,000 in cash and promissory note issued at completion date fair value at HK$9,977,000 (note 36).

The directors of the Company were of the opinion that the Group was able to exert significant influence over RCG Xcess and I-Century Limited.

In August 2011, the Company entered into a conditional sale and purchase agreement with an independent third party relating to the disposal of 15% equity interest in RCG Xcess at a consideration of approximately HK$77,000 (equivalent to RM30,000). The consideration will be satisfied in cash. RCG Xcess was principally engaged in the business of banking equipment and other related products. The disposal was completed in August 2011. The transaction has resulted in the recognition of a gain on disposal of an associate in income statement and calculated as follows:

| | **HK$'000** |
|---|---|
| Fair value of investment as at acquisition date | 77 |
| Share of post-acquisition losses up to disposal date | (77) |
| Fair value of investment retained | — |
| Consideration received | 77 |
| Gain on disposal of an associate | 77 |

## 35. INVESTMENTS IN ASSOCIATES (Continued)

**The Group (Continued)**

*Summary financial information of an associate at 31 December 2011*

| | Assets HK$'000 | Liabilities HK$'000 | Equity HK$'000 | Revenue HK$'000 | Loss HK$'000 |
|---|---|---|---|---|---|
| 100 per cent | 1,177 | (695) | 482 | 490 | (1,229) |
| Group's effective interest | 294 | (174) | 120 | 123 | (21) |

Details of the Group's associate at the end of the reporting period are as follows.

| Name of associate | Principal activity | Place of incorporation | Place of operation | Proportion of ownership interest and voting power held by the Group | |
|---|---|---|---|---|---|
| | | | | 31/12/11 | 31/12/10 |
| I-Century Limited | Investment holding | British Virgin Island | Hong Kong | 25% | — |

## 36. PROMISSORY NOTE

On 15 November 2011, the Company issued a promissory note (the "Promissory Note") in a principal amount of HK$10,000,000 due on 15 November 2012. The Promissory Note was issued for acquiring the 25% shareholding interests in I-Century Limited and bear interest at 5% per annum, payable annually in arrears. The effective interest rate is 5.23%.

| | The Group and the Company HK$'000 |
|---|---|
| At 1 January 2010, 31 December 2010 and 1 January 2011 | — |
| Fair value of promissory note (note) | 9,977 |
| Interest expenses (note 12) | 66 |
| At 31 December 2011 | 10,043 |

Note:

The fair value of the promissory note issued has been arrived on the basis of a valuation carried out on the completion date of the acquisition by Ample Appraisal Limited, an independent professional valuers. The valuation was arrived at by reference to discount cash flow approach.

## 37. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

## 38. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Disposal of subsidiaries

Skycomp Technology Sdn Bhd ("Skycomp"), UCH Technology Sdn Bhd ("UCH"), E-ctasia Technology Sdn Bhd ("ECT"), Towards Soft Technology Sdn Bhd ("Towards Soft"), Virtual Storage Center Sdn Bhd ("VSC"), RCG Network Sdn Bhd ("Network"), Chance Best Technology Ltd. ("CBT"), Vast Base Technology Ltd. ("VBT") and RCG Solutions Sdn Bhd ("Solutions").

For the year ended 31 December 2011, the Company's subsidiaries, RCG International Holdings Limited, RCG (Malaysia) Sdn. Bhd. and RCG China Holdings Limited entered into sale agreements with independent third parties to dispose of Skycomp, UCH, ECT, Towards Soft, VSC, Network, Solutions, CBT and VBT.

## 38. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (a) Disposal of subsidiaries (Continued)

Details of the aggregate assets and liabilities disposed of, and the calculation of the loss on disposal, are disclosed below.

**Consideration received**

| | HK$'000 |
|---|---|
| For the year ended 31 December 2011 | |
| Cash consideration received | 7,289 |

| | HK$'000 |
|---|---|
| Property, plant and equipment | 655 |
| Trade receivables | 52,939 |
| Inventories | 10,833 |
| Prepayments, deposits and other receivables | 6,313 |
| Amount due from the Group | 83,059 |
| Cash and cash equivalents | 6,037 |
| Trade payables | (60,378) |
| Accruals and other payables | (10,681) |
| Obligation under finance leases | (87) |
| Tax recoverable | 643 |
| Net assets disposed of | 89,333 |
| Non-controlling interest | (2,361) |
| The Group's share of net assets | 86,972 |

| | HK$'000 |
|---|---|
| Amount due from the Group assigned to the purchaser | 83,059 |
| Release of goodwill | (49,870) |
| Reclassification adjustment of the cumulative exchange gain on translation of the disposal from its functional currency to HK$ upon disposal | 32,465 |
| Consideration received | 7,289 |
| Net assets disposal of | (86,972) |
| Loss on disposal of subsidiaries | (14,029) |

**Net cash inflow on disposal of subsidiaries**

| | HK$'000 |
|---|---|
| Consideration received | 7,289 |
| Less: cash and cash equivalent balances disposed of | (6,037) |
| | 1,252 |

## 38. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (b) Acquisitions of subsidiaries

(i) During the year ended 31 December 2011, the Group had acquired 60% of the entire issued share capital of Brilliant Easy Limited ("Brilliant") principally engaged in trading of sensor, transistor and accessories, for an aggregate consideration of approximately HK$22,000,000 (the "Acquisition").

The directors of the Company determined that this acquisition should be accounted as business in accordance with HKFRS 3 "Business Combination".

The carrying amounts and fair value of the assets and liabilities acquired in the Acquisition and the goodwill arising are as follows:

| | Acquiree's carrying amounts before combination HK$'000 | Fair value adjustments HK$'000 | Fair value HK$'000 |
|---|---|---|---|
| Trade receivables | 4,457 | — | 4,457 |
| Amounts due from directors | 2,562 | — | 2,562 |
| Cash and cash equivalents | 2,047 | — | 2,047 |
| Trade payables | (6,737) | — | (6,737) |
| Accrued and other payables | (149) | — | (149) |
| Provision for taxation | (355) | — | (355) |
| Net assets acquired | | | 1,825 |
| Non-controlling interests | | | (730) |
| Goodwill | | | 20,905 |
| Total consideration | | | 22,000 |
| **Satisfied by:** | | | |
| — Cash consideration | | | 22,000 |
| **Net cash outflow arising on acquisition:** | | | |
| — Cash consideration paid | | | 22,000 |
| — Cash and cash equivalent acquired | | | (2,047) |
| | | | 19,953 |

Acquisition related cost of HK$120,000 are included in the income statements.

Brilliant contributed loss of approximately HK$355,000 to the Group during the year ended 31 December 2011.

Had the above acquisitions taken place at the beginning of the year, the Group's turnover and loss for the year would have been approximately HK$1,397,768,000 and HK$1,354,234,000 respectively.

For the year ended 31 December 2011

## 38. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (b) Acquisitions of subsidiaries (Continued)

(ii) During the year ended 31 December 2010, the Group had acquired 70% of the entire issued share capital of Strong Aim Limited ("Strong Aim"), for an aggregate consideration of approximately HK$189,500,000 (the "Acquisition").

The carrying amounts and fair value of the assets and liabilities acquired in the Acquisition and the goodwill arising are as follows:

| | Acquiree's carrying amounts before combination HK$'000 | Fair value adjustments HK$'000 | Fair value HK$'000 |
|---|---|---|---|
| Intangible assets | — | 264,286 | 264,286 |
| Amount due from shareholders | 1 | — | 1 |
| Other payables | (15) | — | (15) |
| Net assets acquired | | | 264,272 |
| Non-controlling interests | | | (79,282) |
| Goodwill | | | 4,510 |
| Total consideration | | | 189,500 |
| **Satisfied by:** | | | |
| — Issue of shares | | | 92,950 |
| — Contingent consideration arrangement | | | 59,150 |
| — Cash | | | 37,400 |
| | | | 189,500 |
| **Net cash outflow arising on acquisition:** | | | |
| — Cash consideration paid | | | 37,400 |

Acquisition-related costs of HK$45,000 are included in the income statement.

The contingent consideration arrangement represents 7,000,000 ordinary shares of the Company with par value of HK$0.01 each to be issued to a vendor of Strong Aim by reference to the accumulated audited consolidated net profit after taxation of Strong Aim achieved in proportion to HK$250 million (the "Target Profit") during the four year period between 1 January 2010 and 31 December 2013. The ordinary shares are to be issued at the end of each financial year ending 31 December after the audited consolidated net profit after taxation of Strong Aim is determined.

Strong Aim contributed profit of approximately HK$149,931,000 to the Group during the year ended 31 December 2010.

## 39. ACQUISITIONS OF ASSETS

During the year ended 31 December 2011, the Group acquired 54.5% of the entire issued share capital of Eramen Technology Limited ("Eramen"), for an aggregate consideration of approximately USD$60,000 (the "Acquisition"). Major assets of Eramen are cash at bank and other receivables, the purpose of the Acquisition is for the Group to collaborate on the development and launch of its SIMCash Solution, a mobile phone based payment solution in future (the "future project") but the future project was in preliminary planning stage as at 31 December 2011 and as such, the Acquisition has been accounted for as acquisition of assets rather than businesses.

| | HK$'000 |
|---|---|
| Total consideration | 468 |

The assets acquired and liabilities recognised at the date of the Acquisition are as follows:

| | HK$'000 |
|---|---|
| Cash at bank | 776 |
| Other receivables | 187 |
| Other payables | (257) |
| | 706 |
| Less: Non-controlling interest | (321) |
| Loss on acquisition of assets | 83 |
| | 468 |

| | HK$'000 |
|---|---|
| **Net cash outflow arising on acquisition:** | |
| — Cash consideration paid | 468 |
| — Cash and cash equivalent acquired | (776) |
| | (308) |

For the year ended 31 December 2011

## 40. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

**The Group**

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at fair value through profit or loss | **5,185** | — |
| Loan and receivables (including cash at bank and on hand) | **1,537,368** | 2,326,040 |
| Available-for-sale financial assets | **42,977** | 77,859 |
| **Financial liabilities** | | |
| Amortised cost | **159,712** | 460,790 |

**The Company**

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loan and receivables (including cash at bank and on hand) | **649,225** | 423,982 |
| Available-for-sale financial assets | **5,070** | — |
| **Financial liabilities** | | |
| Amortised cost | **12,462** | 24,806 |

The Group's management monitors and manages the financial risks relating to the operations of the Group through its analysis on the exposures by degree and magnitude of risks. The risks relating to the operations of the Group are mainly credit risk, market risk and liquidity risk.

### (b) Financial risk management objective and policies

*Credit risk*

The carrying amounts of trade receivables included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk. The Group has no significant concentration of credit risk due to the Group's large customer base.

The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectability of all trade receivables.

For the year ended 31 December 2011

## 40. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objective and policies (Continued)

*Liquidity risk*

The following tables detail the Group's remaining contractual maturity for its non-derivate financial liabilities as at 31 December 2011 and 31 December 2010. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

**The Group**

| | Weighted average effective interest rate | Contractual undiscounted cash outflow | | | | | Total carrying amount |
|---|---|---|---|---|---|---|---|
| | | Within 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total | |
| | | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **As at 31 December 2011** | | | | | | | |
| Trade payables | — | 13,217 | — | — | — | 13,217 | 13,217 |
| Accruals and other payables | — | 58,897 | — | — | — | 58,897 | 58,897 |
| Interest-bearing borrowings | 4.61% | 35,761 | 7,497 | 22,491 | 21,007 | 86,756 | 77,234 |
| Promissory note | 5.23% | 10,500 | — | — | — | 10,500 | 10,043 |
| Obligation under finance lease | 2.11% | 98 | 68 | 136 | 22 | 324 | 321 |
| | | 118,473 | 7,565 | 22,627 | 21,029 | 169,694 | 159,712 |
| **As at 31 December 2010** | | | | | | | |
| Trade payables | — | 165,410 | — | — | — | 165,410 | 165,410 |
| Accruals and other payables | — | 30,599 | — | — | — | 30,599 | 30,599 |
| Interest-bearing borrowings | 2.67% | 218,452 | 5,842 | 20,329 | 33,407 | 278,030 | 264,159 |
| Obligation under finance lease | 3.09% | 315 | 146 | 258 | 12 | 731 | 622 |
| | | 414,776 | 5,988 | 20,587 | 33,419 | 474,770 | 460,790 |

**The Company**

| | Weighted average effective interest rate | Contractual undiscounted cash outflow | | | | | Total carrying amount |
|---|---|---|---|---|---|---|---|
| | | Within 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total | |
| | | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **As at 31 December 2011** | | | | | | | |
| Amounts due to subsidiaries | — | 403 | — | — | — | 403 | 443 |
| Accruals and other payables | — | 12,019 | — | — | — | 12,019 | 12,019 |
| | | 12,422 | — | — | — | 12,422 | 12,462 |
| **As at 31 December 2010** | | | | | | | |
| Amounts due to subsidiaries | — | 21,772 | — | — | — | 21,772 | 21,772 |
| Accruals and other payables | — | 3,034 | — | — | — | 3,034 | 3,034 |
| | | 24,806 | — | — | — | 24,806 | 24,806 |

## 40. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objective and policies (Continued)

*Foreign currency risk*

Certain bank balances of the Group are denominated in British Pounds, Malaysian Ringgit, United States Dollars, Renminbi which is a currency other than the functional currency of the relevant group entities, which exposes the Group to foreign currency risk. The Group has not used any financial instruments to hedge against this currency risk. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong Dollars against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each of reporting period for a 5% change in foreign currency exchange rates. The sensitivity analysis represents the bank balances and cash where the denomination of the bank balances and cash is in British Pounds, Malaysian Ringgit, United States Dollars, Renminbi.

The table below analyses the effect on the Group's exchange difference in the income statement arising from the cash in bank in the next year should the foreign currencies exchange rate be changed.

| | **2011<br>HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| **The Group** | | |
| **Change of exchange difference** | | |
| Change of foreign currencies exchange rate by 5%: | | |
| British Pounds | **1** | 6,530 |
| Malaysian Ringgit | **2,271** | 2,101 |
| US Dollars | **7** | 3,383 |
| Renminbi | **59** | 43 |
| Thai Baht | **8** | 3 |

| | **2011<br>HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| **The Company** | | |
| **Change of exchange difference** | | |
| Change of foreign currencies exchange rate by 5%: | | |
| US Dollars | **1** | — |

*Cash flow and fair value interest rate risk*

The Group's interest rate risk mainly arises from interest-bearing borrowings and obligations under finance leases. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk during the year.

The table below analyses the effect on the Group's financial cost in the income statement arising from interest-bearing borrowings and obligations under finance leases should the interest rate be changed.

## 40. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objective and policies (Continued)

*Cash flow and fair value interest rate risk (Continued)*

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| **The Group** | | |
| **Change of finance costs** | | |
| Change of interest rate by 0.5% | **386** | 1,324 |

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risks.

### (c) Fair value estimation

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

— The fair value of the available-for-sale financial assets that are not traded in an active market is determined by using valuation techniques such as discounted cash flow;

— The fair value of long-term borrowings for disclosure propose is estimated by discounting the future contractual cash flows at current market interest rate that is available to the Group for similar financial instruments; and

— The carrying value less impairment provision of trade and other receivables, trade and other payables and short-term borrowings approximate to their fair values due to their short maturities.

The Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

— Level 1: 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: fair values measured using valuation techniques in which any significant input is not based on observable market data

## 40. FINANCIAL INSTRUMENTS (Continued)

### (c) Fair value estimation (Continued)

The following table provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value:

As at 31 December 2011

| | Level 1<br>HK$'000 |
|---|---|
| Financial assets at fair value through profit or loss: | |
| Listed equity securities at Hong Kong | 5,185 |
| Available-for-sales financial assets: | |
| Listed equity securities outside Hong Kong | 5,070 |
| | 10,255 |

There were no transfers between Level 1 and 2 during the year.

As at 31 December 2010, the Group did not have any financial instrument carried at fair value.

### (d) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity balance. The Group's overall strategy remains unchanged from 2010.

The capital structure of the Group consists of net debts (borrowings as details in note 30 offset by cash at bank and in hand) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests as stated in consolidated statement of changes in equity).

The gearing ratio at end of the reporting period was as follows.

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Debt (i) | **77,234** | 264,159 |
| Less: Cash at bank and in hand (note 27) | **(52,683)** | (242,300) |
| Net debt | **24,551** | 21,859 |
| Equity (ii) | **2,902,644** | 4,054,626 |
| Net debt to equity ratio | **0.85%** | 0.54% |

(i) Debt is defined as long- and short-term borrowing as described in note 30.

(ii) Equity includes all capital and reserves of the Group that are managed as capital.

## 41. MAJOR NON-CASH TRANSACTIONS

The Group entered into the following non-cash transactions which are not reflected in the consolidated cash flow statement:

— The Group acquired 25% of entire issued share capital of I-Century Limited, for an aggregate consideration of HK$28,977,000 as described in note 35.

— The Group acquired 70% of entire issued share capital of Strong Aim, for an aggregate consideration of HK$189,500,000 as described in note 38(b).

— The Group granted share options to its directors and employees as part of the staff remuneration. Share-based payment expenses of approximately HK$13,507,000 were recognised during the year ended 31 December 2011 (2010: HK$14,246,000).

## 42. FINANCING FACILITIES

**The Group**

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Secured bank borrowings facilities: | | |
| Amount utilised | **77,234** | 284,266 |
| Amount unutilised | **23,360** | 82,898 |
| | **100,594** | 367,164 |

The Group utilized Documentary Credit facilities amounting to approximately HK$25,361,000 (2010: HK$20,107,000), secured bank deposits amounting to approximately HK$21,754,000 (2010: 23,411,000).

## 43. CONTINGENT LIABILITIES

**The Group**

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

**The Company**

The Company had acted as a guarantor of its subsidiaries to secure interest-bearing borrowings, which amounted to approximately HK$3,470,000 (2010: HK$264,159,000) as at 31 December 2011.

The carrying amount of the financial guarantee contract recognised in the balance was approximately HK$24,000 (2010: HK$24,000) as at 31 December 2011. The financial guarantee contract was eliminated on consolidation.

For the year ended 31 December 2011

## 44. OPERATING LEASE ARRANGEMENTS

**The Group as lessee**

Operating leases relate to leases of land and buildings with lease terms of between 1 and 2 years. The Group does not have an option to purchase the leased land and buildings at the expiry of the lease periods.

As at the reporting period date, the total future minimum lease payments on land and buildings under non-cancellable operating lease are payable as follows:

| | Land and buildings | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Within one year | **1,084** | 7,821 |
| Within two to five years | **61** | 55 |
| | **1,145** | 7,876 |

**The Group as lessor**

Operating leases relate to the investment property owned by the Group with lease terms of between 1 to 4 years. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental income earned by the Group from its investment properties and direct operating expenses arising on the investment properties for the year are set out in note 9 and 10.

As at the reporting date, the total future minimum lease receivables on investment properties under non-cancelable operating leases are receivable as follows:

| | Land and buildings | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Within one year | **1,662** | 2,269 |
| Within two to five years | **2,424** | 4,324 |
| | **4,086** | 6,593 |

## 45. COMMITMENTS FOR EXPENDITURE

The Group had entered into product development contracts and no capital commitment as at 31 December 2011 (2010: HK$66,360,000).

## 46. EMPLOYEE SHARE-BASED COMPENSATION RESERVE

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| As at the beginning of the year | **31,845** | 31,126 |
| Employee share option benefits | **13,507** | 14,246 |
| Exercise/cancellation/lapse of share options | **(24,191)** | (13,527) |
| As at the end of the year | **21,161** | 31,845 |

(a) A share option scheme (the "Share Option Scheme") was adopted by the Company on 28 June 2004 and was amended on 7 June 2006. The Share Option Scheme was terminated upon listing of the shares on The Stock Exchange of Hong Kong Limited on 10 February 2009 because certain terms were not in compliance with Listing Rules.

During the year ended 31 December 2004, share options were granted by the Company to 3 executive directors, 3 directors of subsidiaries of the Company, the chief financial adviser of the Group for the purpose of recognising and acknowledging the contributions that had been made or may be made to the Group. An aggregate of 10,000,000 shares were granted at the nominal value of the shares. The granted options are exercisable between 28 June 2005 and 27 June 2010 at an exercise price of 10 pence and had a vesting period of 1 year.

During the year ended 31 December 2005, an extra 3,000,000 share options were granted to 14 staff (including 3 executive directors). Options were granted on 20 April 2005 which are exercisable between 20 April 2009 and 19 April 2015 at an exercise price of 34.5 pence and had a vesting period of 3 years.

During the year ended 31 December 2006, an extra 4,500,000 share options were granted to 7 staff (including 4 executive directors and 2 non-executive directors). Options were granted on 4 October 2006 which are exercisable between 4 October 2007 and 3 October 2016 at an exercise price of 64.25 pence and had a vesting period of 1 year.

During the year ended 31 December 2007, an extra 5,000,000 share options were granted to 53 staff (including 4 executive directors). Options were granted on 29 March 2007 which are exercisable between 29 March 2009 and 28 March 2017 at an exercise price of 136 pence and had a vesting period of 1 year.

A post listing share option scheme (the "Post Listing Scheme") was adopted by the Company on 16 October 2008. The terms of the Post Listing Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

During the year ended 31 December 2010, the Company granted 7,760,000 share options to 3 staff (including 3 executive directors and 4 non-executive directors) pursuant to the Post Listing Scheme at an exercise price of HK$8.21 per Share. Amongst these, 2,760,000 share options were granted subject to the condition that the relevant staff agreeing to surrender the outstanding options exercisable into the same number of shares which were granted to him or her under the Share Options Scheme, for cancellation. There is no vesting period for the 2,760,000 share options with exercise period ending on 28 March 2017. The remaining 5,000,000 share options with exercise period ending on 28 April 2020 are subject to a one year vesting period.

During the year ended 31 December 2011, the Company had not granted any share options to staff.

All options are to be settled in cash. Staff who had resigned from the Group would forfeit their respective granted share options.

For the year ended 31 December 2011

## 46. EMPLOYEE SHARE-BASED COMPENSATION RESERVE (Continued)

(b) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | Post Listing Scheme | | | | Share Option Scheme | | | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | | 2010 | | **2011** | | 2010 | |
| | **Weighted average exercise price per share** | **Number of options** | Weighted average exercise price per share | Number of options | **Weighted average exercise price per share** | **Number of options** | Weighted average exercise price per share | Number of options |
| Outstanding as at the beginning of the year | **HK$8.21** | **6,215,000** | – | – | **53.94p** | **4,135,000** | 86.20p | 9,460,000 |
| Granted | **–** | **–** | HK$8.21 | 5,000,000 | **–** | **–** | – | – |
| Exercised | **–** | **–** | HK$8.21 | (960,000) | **–** | **–** | 34.50p | (450,000) |
| Replaced | **–** | **–** | HK$8.21 | 2,760,000 | **–** | **–** | 136.00p | (2,760,000) |
| Lapsed | **HK$8.21** | **(3,965,000)** | HK$8.21 | (585,000) | **61.96p** | **(1,300,000)** | 75.15p | (1,415,000) |
| Cancelled | **–** | **–** | – | – | **–** | **–** | 136p | (700,000) |
| Outstanding as at the end of the year | **HK$8.21** | **2,250,000** | HK$8.21 | 6,215,000 | **50.24p** | **2,835,000** | 53.94p | 4,135,000 |

As at 31 December 2011, 2,250,000 (2010: 6,215,000) share options were outstanding with a weighted average exercise price of 8.21 pence (2010: 8.21 pence) under the Post Listing Scheme and 2,835,000 (2010: 4,135,000) share options were outstanding with a weighted average exercise price of 50.24 pence (2010: 53.94 pence) under Share Option Scheme.

(c) As at 31 December 2011 and 31 December 2010, outstanding share options have the following remaining contractual lives and exercise prices:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| **Exercise price** | **Remaining contractual life** | **Number of options** | Remaining contractual life | Number of options |
| *Share Option Scheme* | | | | |
| 34.50p | **3.30 years** | **1,335,000** | 4.30 years | 1,435,000 |
| 64.25p | **4.75 years** | **1,500,000** | 5.75 years | 2,700,000 |
| | **4.07 years** | **2,835,000** | 5.25 years | 4,135,000 |
| *Post Listing Scheme* | | | | |
| HK$8.21 | **8.30 years** | **2,250,000** | 9.30 years | 6,215,000 |
| | **8.30 years** | **2,250,000** | 9.30 years | 6,215,000 |

## 46. EMPLOYEE SHARE-BASED COMPENSATION RESERVE (Continued)

(d) According to the Black-Scholes Options Pricing Model, the values and adjusted values of the options granted are as follows:

| Date of grant | 28 June 2004 | 20 April 2005 | 4 October 2006 | 29 March 2007 | 29 April 2010 |
|---|---|---|---|---|---|
| **Option value** | HK$0.44 | HK$2.67 | HK$2.17 | HK$4.80 | HK$4.64 |
| **Variables:** | | | | | |
| — Exercise price | GBP 0.1 | GBP 0.345 | GBP 0.6425 | GBP 1.36 | HK$8.21 |
| — Closing price at date of grant | GBP 0.1 | GBP 0.345 | GBP 0.6425 | GBP 1.35 | HK$8.20 |
| — Risk free rate | 4% | 4% | 5% | 5% | 2.57% |
| — Expected volatility (note (i)) | 75.49% | 75.49% | 58.13% | 60.49% | 66% |
| — Expiration of the option | 27 June 2010 | 19 April 2015 | 3 October 2016 | 28 March 2017 | 28 April 2020 |
| — Option life (expected weighted average life) | 1 year | 3 years | 1.75 years | 1.59 years | 10 years |
| — Expected ordinary dividends | Nil | Nil | 10% | 10% | 0.92% |

(i) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily prices over the one year immediately preceding the grant date.

(ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in AIM set out as above.

## 47. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following significant related party transactions:

(a) The remuneration of directors and other members of key personnel during the year was as follows:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Salaries and bonus | 7,786 | 18,299 |
| Retirement scheme contribution | 255 | 129 |
| Employee share option benefits | 6,686 | 7,389 |
| | 14,727 | 25,817 |

(b) As at 31 December 2011, the Company acted as a guarantor of its subsidiaries to secure interest-bearing borrowings.

(c) Purchase amount approximately HK$3,265,000 from a related company in which certain director of the Company's subsidiary is the director of the related company.

## 48. EVENTS AFTER THE REPORTING PERIOD

The Group does not have material events after the end of the reporting period.

## 49. AUTHORISATION FOR ISSUE OF CONSOLIDATION FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2012.

## STOCK SYMBOLS

The Company's ordinary shares trade under the following stock symbols as of the Latest Practicable Date prior to printing this report:

| | |
|---|---|
| AIM of LSE | RCG |
| PLUS | RCG |
| HKSE | 802 |

## SHAREHOLDERS PROFILE (AS AT 31 DECEMBER 2011)

| Shareholding (Shares) | Number of Shareholders |
|---|---|
| 0–1,000 | 25 |
| 1,001–5,000 | 10 |
| 5,001–10,000 | 8 |
| 10,001–50,000 | 7 |
| 50,001–100,000 | 2 |
| 100,001–200,000 | 0 |
| 200,001–500,000 | 1 |
| 500,001 and above | 3* |

* Jersey Register is counted as one in this column

## SHARE PRICE

The highest and lowest mid-market closing prices at which the Shares were traded and listed on AIM and HKSE respectively in each of the previous twelve months immediately prior to the Latest Practicable Date were as follows:

**AIM**

| | High (pence) | Low (pence) | Month End (pence) | Average Closing (pence) |
|---|---|---|---|---|
| **2011** | | | | |
| April | 18.63 | 16.25 | 16.75 | 17.28 |
| May | 15.75 | 9.50 | 10.25 | 12.52 |
| June | 12.63 | 7.06 | 8.00 | 9.21 |
| July | 8.50 | 7.25 | 7.50 | 7.86 |
| August | 6.75 | 3.38 | 3.38 | 5.09 |
| September | 5.00 | 3.25 | 3.25 | 3.76 |
| October | 7.98 | 3.25 | 7.98 | 4.24 |
| November | 8.50 | 4.75 | 5.88 | 6.66 |
| December | 6.25 | 5.50 | 5.75 | 5.83 |
| **2012** | | | | |
| January | 8.38 | 5.45 | 7.13 | 6.74 |
| February | 7.50 | 6.75 | 7.13 | 7.18 |
| March | 7.80 | 6.00 | 7.11 | 7.01 |
| April (up to and including the Latest Practicable Date) | 7.53 | 6.80 | 7.25 | 7.26 |

## SHARE PRICE (Continued)

### HKSE

| | High (HK$) | Low (HK$) | Month End (HK$) | Average Closing (HK$) |
|---|---|---|---|---|
| **2011** | | | | |
| April | 2.400 | 2.100 | 2.100 | 2.212 |
| May | 2.100 | 1.150 | 1.350 | 1.554 |
| June | 1.630 | 0.980 | 1.070 | 1.212 |
| July | 1.130 | 0.920 | 0.920 | 1.000 |
| August | 0.950 | 0.380 | 0.405 | 0.630 |
| September | 0.465 | 0.340 | 0.380 | 0.396 |
| October | 1.470 | 0.350 | 1.220 | 0.599 |
| November | 1.340 | 0.850 | 0.960 | 1.087 |
| December | 1.110 | 0.830 | 1.000 | 0.937 |
| **2012** | | | | |
| January | 1.230 | 0.860 | 0.910 | 0.976 |
| February | 1.050 | 0.900 | 0.960 | 0.960 |
| March | 1.200 | 0.880 | 1.000 | 1.013 |
| April (up to and including the Latest Practicable Date) | 1.030 | 0.910 | 0.920 | 0.949 |

## CLOSURE OF REGISTER OF MEMBERS FOR AGM

The Register of Members of the Company will be closed from Friday, 22 June 2012 to Tuesday, 26 June 2012, both days inclusive, during which period no transfer of ordinary shares will be effected.

The 2012 AGM will be held at Lot 1, Jalan Teknologi 3/5, Taman Sains Selangor 1, Kota Damansara, Petaling Jaya, Selangor, Malaysia on 26 June 2012 at 3:00 pm (HK time). The notice of 2012 AGM together with a circular in respect of the Annual General Meeting and proxy forms have been dispatched to shareholders on 30 April 2012. Copies of the same are also available on the Company's website (www.rcg.tv) under the investor relations section and investor relations webpage (www.rcg.todayir.com).

## SHAREHOLDER ENQUIRIES AND COMMUNICATIONS

Any enquiries relating to your shareholding, for example transfers of shares, change of name or address, lost share certificates or dividend cheques, should be sent to the Registrars:

Principal share registrar in Bermuda
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HK08
Bermuda

Jersey branch share registrar
Capita IRG (Offshore) Limited
Victoria Chambers
Liberation Square
1–3 The Esplande
St Helier, Jersey
Channel Islands

Hong Kong branch share registrar
Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17/F Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## INVESTOR RELATIONS

Enquiries relating to RCG's strategy or operations may be directed to:

Unit 509–10, Core E, Cyberport 3, 100 Cyberport Road, Hong Kong
ir@rcg.tv

## WHERE MORE INFORMATION ABOUT RCG IS AVAILABLE

This Annual Report 2011, and other information on RCG, may be reviewed on RCG's website: www.rcg.tv and RCG's investor relations webpage: www.rcg.todayir.com

## DIRECTORS

**Executive Directors:**

Mr. Li Jinglong
Mr. Zhang Ligong

**Non-executive Directors:**

Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman
Mr. Raymond Chu Wai Man

**Independent Non-executive Directors:**

Mr. Li Mow Ming, Sonny
Mr. Liu Kwok Bond
Mr. Pieter Lambert Diaz Wattimena

## COMPANY SECRETARY

Mr. Lo Wah Wai

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## PRINCIPAL PLACE OF BUSINESS OUTSIDE HONG KONG AND HEADQUARTERS

Lot 1, Jalan Teknologi 3/5, Taman Sains Selangor 1
Kota Damansara, Petaling Jaya, Selangor
Malaysia

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 509–10, Core E
Cyberport 3
100 Cyberport Road
Hong Kong

## WEBSITE

www.rcg.tv

## WEBPAGE

www.rcg.todayir.com

## PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HK08
Bermuda

## JERSEY BRANCH SHARE REGISTRAR

Capita IRG (Offshore) Limited
Victoria Chambers
Liberation Square
1–3 The Esplande
St Helier, Jersey
Channel Islands

## HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17/F Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## COMPLIANCE ADVISER (FOR HKSE)

CLSA Equity Capital Markets Limited
18/F One Pacific Place
88 Queensway
Hong Kong

## NOMINATED ADVISER (FOR AIM)

Smith & Williamson Corporate Finance Limited
25 Moorgate
London EC2R 6AY
United Kingdom

## STOCKBROKERS (FOR AIM)

Smith & Williamson Corporate Finance Limited
25 Moorgate
London EC2R 6AY
United Kingdom

## UK LEGAL ADVISERS

Travers Smith LLP
10 Snow Hill
London EC1A 2AL
United Kingdom

## HONG KONG LEGAL ADVISERS

Reed Smith Richards Butler
20/F Alexandra House
18 Chater Road
Central
Hong Kong

## BERMUDA LEGAL ADVISERS

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

## REGISTERED AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

## REGISTERED VALUERS

Vigers Appraisal and Consulting Limited
10/F The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

## PRINCIPAL BANKERS

HSBC
HSBC Main Building
1 Queen's Road Central
Hong Kong

CIMB Bank Berhad
5/F Menara
A&M Garden Business Centre
Jalan Istana 41000
Klang Selangor Darul Ehsan
Malaysia

Nomura International (Hong Kong) Limited
30/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

| | |
|---|---|
| "AGM" | the annual general meeting of the Company to be held on 26 June 2012 (Hong Kong time); |
| "AIM" | AIM, a market operated by the LSE; |
| "Audit Committee" | a committee of the Board formed to review and monitor the financial and legal affairs of the Company; |
| "Board" | the board of Directors; |
| "Bye-laws" | the bye-laws of the Company, as amended by special resolution of the Company on 16 October 2008; |
| "Combined Code" | the code of best practice including the principles of good governance published in June 2006 by the UK Financial Reporting Council; |
| "Company" | RCG Holdings Limited (formerly known as RC Group (Holdings) Limited), a company incorporated in Bermuda with limited liability; |
| "Director(s)" | the director(s) of the Company; |
| "E-ctasia Technology" | E-ctasia Technology Sdn Bhd, a company incorporated on 25 October 2011 in Malaysia with limited liability and was indirect wholly-owned subsidiary of the Company. |
| "Executive Committee" | a committee of the Board with responsibility for overseeing the management of the Group's business and development; |
| "Group" or "RCG" | the Company and its subsidiaries; |
| "HKSE" | The Stock Exchange of Hong Kong Limited; |
| "Hong Kong Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; |
| "IoT City Project" | the project in development properties and facilities in Xiangyang city which will focus on implementation of Internet of Things, RFID, biometrics, security and green technologies; |
| "Latest Practicable Date" | 19 April 2012; |
| "LSE" | The London Stock Exchange plc; |
| "Nomination Committee" | a committee of the Board with responsibility for identifying the need for new appointments to the Board, reviewing the Board's purpose and the general criteria and specific qualifications of candidates to join the Board; |
| "PLUS" | an equity stock exchange based in London, England, in the form of a quote-driven electronic trading platform; |
| "Pounds" or "£" | Pounds sterling, the lawful currency of the UK; |
| "PRC" | the People's Republic of China; |
| "RCG China" | RCG China Limited (宏霸數碼科技(北京)有限公司), a wholly foreign owned company established under the laws of the PRC on 14 September 2006 and an indirectly wholly-owned subsidiary of the Company; |

| | |
|---|---|
| “RCG Malaysia” | RCG (Malaysia) Sdn Bhd, a company incorporated on 7 December 2006 in Malaysia with limited liability and an indirectly wholly-owned subsidiary of the Company; |
| “RCG ME” | RCG (M.E.) FZCO, a company incorporated on 19 August 2006 in United Arab Emirates with limited liability and an indirectly wholly-owned subsidiary of the Company; |
| “RCG Network” | RCG Network Sdn Bhd a company incorporated on 13 November 2009 in Malaysia with limited liability whose principal activity is the sales and distribution of IT products including personal computers and notebooks and was an indirectly owned subsidiary of the Company; |
| “R&D” | research and development; |
| “Remuneration Committee” | a committee of the Board with responsibility for overseeing the remuneration of the executive Directors and senior executives of the Company; |
| “Renminbi” or “RMB” | Renminbi, the lawful currency of the PRC; |
| “Ringgit” or “MYR” | Ringgit, the lawful currency of Malaysia; |
| “Skycomp Technology” | Skycomp Technology Sdn Bhd, a company incorporated on 14 September 1999 in Malaysia with limited liability and was indirect wholly-owned subsidiary of the Company. |
| “Spartan Gold Limited” | a company incorporated in Nevada, US; |
| “Strong Aim” | Strong Aim Limited, a company incorporated in the British Virgin Islands on 16 October 2008 and an indirect wholly-owned subsidiary of the Company; |
| “Towards Soft Technology” | Towards Soft Technology Sdn Bhd, a company incorporated on 23 June 2005 in Malaysia with limited liability and was indirect wholly-owned subsidiary of the Company. |
| “UAE” | United Arab Emirates; |
| “UCH Technology” | UCH Technology Sdn Bhd, a company incorporated on 7 May 1991 in Malaysia with limited liability and was an indirectly wholly-owned subsidiary of the Company; |
| “United States dollars” or “US$” | United States dollars, the lawful currency of the United States; |
| “Virtual Storage Center” | Virtual Storage Center Sdn Bhd, a company incorporated on 13 April 2004 in Malaysia with limited liability and was indirect wholly-owned subsidiary of the Company. |
| “Xiangyang” | a city located in Hubei Province, PRC which previously known as Xiangfan and renamed on 6 December 2010; and |
| “Xiangyang Development Committee” | Xiangyang High Technology Development Zone Committee of the Xiangyang Government, Hubei Province, PRC. |

| | |
|---|---|
| "application" | a functional system made up of software or hardware, or a combination of both, that performs a specific task; |
| "biometrics" | the identification of a unique, measurable characteristic of a human being. This may be a physical or behavioural characteristic. Common types of biometric technologies include fingerprint recognition, iris scan, facial recognition, vein recognition, hand geometry recognition and voice recognition; |
| "device" | a machine or tool for a particular purpose; |
| "EL-1000" | a controller with advance features to manage door access, time attendance and security alarm, a product of the Group; |
| "facial recognition" | identification of individuals through the analysis of facial features; |
| "fingerprint authentication" | verification of individuals through the analysis of fingerprint; |
| "FL-1000" | a industrial controller for access control, a product of the Group; |
| "FxGuard Windows Logon" | biometric facial recognition software designed for computer access security, a product of the Group; |
| "g-series" | a product family of biometric drawer-lock using fingerprint recognition and high speed processor, products of the Group; |
| "GTM 1000" | a RFID-handheld reader of guard tour monitoring solution, a product of the Group; |
| "hardware" | a comprehensive term for all of the physical parts of a computer, as distinguished from the data it contains or operates on and the software that provides instructions for the hardware to accomplish tasks; |
| "i-series" | a product family of access control devices using fingerprint recognition and high speed processor, products of the Group; |
| "i4F" | fingerprint access control with high compatibility with XL 1000, a product of the Group; |
| "i4X" | fingerprint access control with high compatibility with FL-1000, a product of the Group; |
| "Internet of Things" or "IoT" | a network of devices tagged with RFID or sensors interconnected via Internet, forming a business intelligence; |
| "IT" | "Information Technology", anything related to computing technology, such as networking, hardware, software, the Internet, or the people that work with these technologies; |
| "iTrain" | an interactive e-learning device combining hardware and software that uses infra-red and RFID technology, a product of the Group; |
| "K-series" | a product family of multi-modal biometrics security devices for access control and customer relationship management combining fingerprint authentication, facial recognition, RFID and password authentications, products of the Group; |

| | |
|---|---|
| "m-series" | a product family of fingerprint recognition door lock security system, products of the Group; |
| "Mifare" | a series of chips widely used in contactless smart cards and proximity cards; |
| "M2M" or "Machine-to-Machine" | data communications between machines; |
| "r-series" | a product family of RFID readers developed by the Group, products of the Group; |
| "RFID" | "Radio Frequency Identification", a technology for data acquisition by way of radio frequency between transponders and a host system; |
| "RIC 2000" | RFID-enabled Mifare card readers compatible with e-wallet system, a product of the Group; |
| "RIC 3000" | RFID-enabled Mifare card readers compatible with e-wallet system, a product of the Group; |
| "RTP-1000" | a RFID Laundry multiple tags reader with power isolation features, a product of the Group; |
| "RUS-series" | a product family of RFID readers for access control and personal identification applications, products of the Group; |
| "s-series" | a product family of slim fingerprint recognition access control devices deploying capacitive sensor, products of the Group; |
| "sensor" | any device that receives a signal or stimulus and responds to it in a distinctive manner; |
| "software" | a system or utility or application programme expressed in a computer readable language; |
| "VLH 1000" | a vehicle interlocking system, a product of the Group; |
| "XL-1000" | a controller to manage door access, time attendance and security alarm, a product of the Group; and |
| "XS-1000" | an industrial controller for access control, a product of the Group. |

www.todayir.com

RCG Holdings Limited
宏霸數碼集團(控股)有限公司*