Annual Report 2011

The Hong Kong Building and Loan Agency Limited
香港建屋貸款有限公司

(Stock Code: 145)

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. So Yuen Chun
Mr. Yeung Kwok Leung

Non-executive Director
Mr. Lam Kwok Hing, Wilfred

Independent Non-executive Directors
Mr. Ng Cheuk Fan, Keith
Mr. Yeung Wai Hung, Peter
Mr. Lam Raymond Shiu Cheung

AUDIT COMMITTEE

Mr. Ng Cheuk Fan, Keith *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter
Mr. Lam Raymond Shiu Cheung

NOMINATION COMMITTEE

Mr. Ng Cheuk Fan, Keith *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter
Mr. Lam Raymond Shiu Cheung

REMUNERATION COMMITTEE

Mr. Ng Cheuk Fan, Keith *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter
Mr. Lam Raymond Shiu Cheung

AUDITOR

ZHONGLEI (HK) CPA Company Limited

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Public Bank (Hong Kong) Limited

SOLICITOR

Angela Wang & Co
Kennedys

SHARE REGISTRAR

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

REGISTERED OFFICE

Unit F, 7/F
China Overseas Building
139 Hennessy Road
WanChai
Hong Kong

STOCK CODE

145

WEBSITE

http://www.hkbla.com.hk

COMPANY SECRETARY

Mr. So Yuen Chun

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in investment holding, treasury investments and the provision of loan financing.

During the year under review, the Group recorded a revenue of approximately HK$38 million, representing an increase of approximately 101.1% as compared with HK$18.9 million for the last year. A loss for the year attributable to the owners of the Company of approximately HK$49.3 million (2010: approximately HK$33.7 million) was recorded.

Of the total revenue, approximately HK$38 million (2010: approximately HK$18.9 million) was generated from the Group's loan financing business which contributed a segment profit of approximately HK$34.3 million (2010: approximately HK$18.6 million). Such increase in profit was mainly attributable to the increase in interest income on loan receivables.

With respect to the treasury investments, a segment loss of approximately HK$42.6 million was recorded for the year under review, as compared with approximately HK$45.2 million for the last year.

TOTAL ASSETS

As at 31 December 2011, the total assets decreased to approximately HK$381.6 million (2010: approximately HK$397.1 million). All assets were denominated in Hong Kong dollars except for some bank balances which were denominated in United States dollars; as such, the Group's exposure to foreign exchange currency rate risk was insignificant. Therefore, no instruments have been applied for foreign currency hedging purposes.

As at 31 December 2011, the Group held available-for-sale investments and financial assets at fair value through profit or loss amounting to approximately HK$6.6 million (2010: approximately HK$16.7 million) and HK$20.6 million (2010: approximately HK$28.2 million), respectively. The available-for-sale investments represent the fair value of equity investment in a listed entity of Hong Kong as at 31 December 2011. The financial assets at fair value through profit or loss represent held-for-trading investments in five equity securities listed in Hong Kong.

As at 31 December 2011, the Group held mortgage loans and loan receivables amounting to approximately HK$11.9 million (2010: approximately HK$129.5 million) and approximately HK$280.7 million (2010: approximately HK$124 million), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a liquid position throughout the year. As at 31 December 2011, the Group held bank balances amounting to approximately HK$18 million (2010: approximately HK$77.1 million). The Group had no bank borrowing as at 31 December 2011 (2010: Nil).

Gearing ratio of the Group as at 31 December 2011, which was calculated as net debts (as calculated by total borrowings less cash and cash equivalents) divided by total equity, was zero (2010: zero).

CAPITAL STRUCTURE

As at 31 December 2011, the Company's issued ordinary share capital was HK$435,148,866.70 divided into 4,351,488,667 shares of HK$0.10 each ("**Share(s)**") (31 December 2010: HK$399,470,035.80 divided into 3,994,700,358 Shares).

Pursuant to the open offer of the Company in 2010, the Company has issued a total of 449,999,997 options to the subscribers of the offer shares ("**Option(s)**"). The Option holders are entitled to subscribe in cash for the zero-coupon convertible bonds of the Company due 31 December 2012, during the period from 5 May 2010 to 4 May 2011 (the "**Exercise Period**") (collectively, the "**Convertible Bonds**").

During the current year, Convertible Bonds in the aggregate principal amount of HK$34,698,225 were issued upon the exercises of subscription right attached to 346,982,249 Options, which raised net proceeds of approximately HK$34,678,831; and 346,788,309 new Shares were issued upon the exercises of subscription right attached to Convertible Bonds in the aggregate principal amount of HK$34,678,831. 55,224,130 Options that remained unexercised lapsed upon the expiry of the Exercise Period. As at 31 December 2011, the Company had Convertible Bonds in the principal amount of HK$78,720 outstanding, of which the conversion in full at the initial conversion price of HK$0.10 per conversion share (subject to adjustment) would result in a further issuance of a maximum of 787,200 new Shares.

As at 31 December 2011, the Company had 552,000,000 non-listed warrants ("**Warrants**") outstanding. During the year under review, 10,000,000 new Shares were issued at the initial exercise price of HK$0.147 upon the exercise of subscription right attached to 10,000,000 Warrants and net proceeds of approximately HK$1.47 million were raised.

The authorised share capital of the Company was increased from HK$500,000,000 divided into 5,000,000,000 Shares to HK$3,000,000,000 divided into 30,000,000,000 Shares on 24 June 2011 pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 24 June 2011.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

The Group did not have any charges on its assets and there were no contingent liabilities as at 31 December 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENT

The Group did not have any capital commitment as at 31 December 2011.

MATERIAL ACQUISITION

The sale and purchase agreement dated 23 February 2011 (as amended) (the "**Sale and Purchase Agreement**") was entered into by and between Wise Planner Limited, a wholly-owned subsidiary of the Company (the "**Purchaser**"), Carbon Reserve Investments Limited, Cross Cone Holdings Limited, Newmargin Partners Ltd., Season Best Investments Limited, Smart Promise Limited, SV Technology Company Limited (as the vendors, collectively, the "**Vendors**"), Mr. Wong Ho Yuen, Mr. Wu Gang (the "**SV Technology Guarantors**") and the Company (as the Purchaser's guarantor) with respect to the acquisition of the entire issued share capital of Weldtech Technology Co. Limited ("**Weldtech Technology**") at a total consideration of HK$2,800,000,000 (the "**Consideration**", HK$10,000,000 of the Consideration has been paid by the Company to SV Technology Company Limited (being one of the Vendors) as the refundable deposit and part payment of the Consideration) (collectively, the "**Acquisition**").

Weldtech Technology holds the entire equity interest in 日滔貿易(上海)有限公司, a wholly foreign-owned enterprise established in the People's Republic of China (the "**PRC**") (the "**WFOE**") (Weldtech Technology together with the WFOE referred to as the "**Weldtech Group**"). Pursuant to the business licence of the WFOE, the business scope of the WFOE, among others, includes wholesale of cooling systems, mechanical and electrical products, construction materials and fitting out materials (excluding concrete and steel), building's exterior metal-made products and building's energy-saving and consultancy services. According to the Vendors, the WFOE would provide energy monitoring and energy-saving solutions for commercial buildings, industrial buildings, shopping arcades, hospitals and urban facilities to reduce energy consumption, and to enhance overall energy efficiency of central air-conditioning system via its proprietary ultra performance plant control system ("**UPPC**") and other components.

The Acquisition constituted a very substantial acquisition for the Company under the Listing Rules and was approved by the Shareholders at the extraordinary general meeting of the Company held on 24 June 2011. Later, the third supplemental agreement and the forth supplemental agreement were entered into on 20 July 2011 and 6 October 2011, respectively, thereby, the long stop date of the Sale and Purchase Agreement was extended to 30 December 2011.

On 22 December 2011, the parties to the Sale and Purchase Agreement (the "**VSA Parties**") entered into a fifth supplemental agreement (the "**Fifth Supplemental Agreement**") to amend certain terms and conditions of the Sale and Purchase Agreement (the "**Proposed Amendment**") and to extend the long stop date thereof to 31 January 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION *(continued)*

Furthermore, on 22 December 2011, the Placing Agent, the Company and the Purchaser entered into a supplemental placing agreement (the "**Supplemental Placing Agreement**") to amend certain terms and conditions of the Second Placing Agreement (the details of which are reported under "FUND RAISING ACTIVITIES" below).

During the vetting of the draft announcement of the Company in relation to the Fifth Supplemental Agreement and the Supplement Placing Agreement, the Listing Division of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") considered that the Proposed Amendment was a material variation to the terms of the Sale and Purchase Agreement and the Acquisition under Rule 14.36 of the Listing Rules and ruled that the Company should re-comply with all applicable requirements for a very substantial acquisition under the Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") for the Fifth Supplemental Agreement, including that the Fifth Supplemental Agreement should be made conditional on approval by the Shareholders in general meeting (the "**Ruling**"). Although the Board did not agree with the Ruling and the Company eventually decided not to proceed with the review of the Ruling.

After 31 January 2012, the VSA Parties continued to negotiate on the possible further extension of the long stop date. The VSA Parties are desirous to complete the Acquisition and the discussions amongst the VSA Parties have never broken down. However, in view of the Ruling which cast great uncertainty on the proceeding of the Acquisition under the current structure, on 29 February 2012, the VSA Parties reached an understanding not to further extend the long stop date, and instead discussed about the way to proceed with the Acquisition, including doing so in or under an optimal and/or revised structure (the "**Revised Structure**"). As such, the VSA Parties may, subject to the execution of further supplemental agreement which, amongst others, sets out the terms and conditions of the Acquisition or the Revised Structure, proceed with the Acquisition or the Revised Structure regardless of the fact that the Sale and Purchase Agreement (as supplemented by the Fifth Supplemental Agreement) has lapsed as on 29 February 2012.

The Company will seek counsel's advice on the legality and validity of proceeding with the Acquisition or the Revised Structure, and if the terms and conditions of the further supplemental agreement constitute material changes to the Sale and Purchase Agreement and/or the Acquisition, the Company will comply with the Listing Rules requirements accordingly. While no final decision has been made up to the date of this report, the Directors are optimistic about the outcome of such discussions.

For further details, please refer to the Company's announcements dated 25 February 2011, 21 April 2011, 19 May 2011, 31 May 2011, 24 June 2011, 20 July 2011, 30 September 2011, 6 October 2011, 9 January 2012, 12 January 2012 and 22 March 2012, respectively, and the Company's circular dated 31 May 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

FUND RAISING ACTIVITIES

The Company, in anticipation of the funding requirement for the cash consideration, business development and working capital requirement of the Weldtech Group and/or other future potential investment and business opportunities of the Group, entered into a placing agreement on 9 June 2011 (as amended) (the "**Placing Agreement**") with respect to a placing of up to 6,250,000,000 placing shares (the "**Placing**"). Owing to the then global financial turmoil, the Placing could not be completed by the long stop date on 30 September 2011, accordingly, the Placing Agreement lapsed. For further details, please refer to the Company's announcements dated 9 June 2011, 20 July 2011 and 30 September 2011, respectively, and the Company's circular dated 22 June 2011.

On 18 October 2011, the Company and FT Securities Limited (the "**Placing Agent**") entered into the second placing agreement with respect of a placing of 6,500,000,000 placing shares to replace the Placing Agreement (collectively, the "**Second Placing Agreement**"). On 22 December 2011, the Supplemental Placing Agreement was entered into to amend the Second Placing Agreement. With the lapsing of the Sale and Purchase Agreement on 29 February 2012 reported above, the placing contemplated under the Supplemental Placing Agreement (the "**Revised Placing**") could not proceed in its structure as enshrined under the Supplemental Placing Agreement. The Company and the Placing Agent, on 21 March 2012, entered into an agreement to terminate the Revised Placing unconditionally. For further details, please refer to the Company's announcements dated 18 October 2011, 30 November 2011, 9 January 2012, 12 January 2012 and 22 March 2012, respectively, and the Company's circular dated 15 November 2011.

Furthermore, as reported under the section headed "CAPITAL STRUCTURE" above, during the current year, net proceeds of approximately HK$34.7 million and HK$1.47 million were raised from the exercises of the Options and the issuance of 10,000,000 new Shares upon the exercise of the subscription right attached to 10,000,000 Warrants, respectively. Such net proceeds were fully applied to the Group's general working capital as intended.

As at 31 December 2011, there were 552,000,000 Warrants outstanding, each of which entitled the holder thereof to subscribe for one Share at an initial warrant exercise price of HK$0.147 per share (subject to adjustment) during a period of 24 months ending on 21 June 2012. On this basis, further net proceeds of up to approximately HK$81 million may be raised in the future from the issuance of new Shares upon the exercise in full (if occurs) of the subscription rights attached to such Warrants.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS HELD

Save as reported above, as at 31 December 2011, the Group held no other significant investments.

STAFF AND REMUNERATION

The Group had 10 (2010: 11) employees at 31 December 2011 and total staff costs incurred during the year amounted to approximately HK$2.9 million (2010: approximately HK$3.8 million). The Group offers competitive remuneration packages to its employees.

EVENTS AFTER THE REPORTING PERIOD

On 14 March 2012, The Building and Loan Agency (Asia) Limited (a wholly-owned subsidiary of the Company) filed a winding-up petition in the High Court of Hong Kong with respect to repayment of a loan in the principal amount of HK$200,712,328.77 together with interest accrued thereon. The legal proceeding is still ongoing. For further details, please refer to the Company's announcement dated 14 March 2012.

As reported under "FUND RAISING ACTIVITIES" above, on 21 March 2012, the parties to the Second Placing entered into an agreement to terminate the Revised Placing unconditionally. For further details, please refer to the Company's announcement dated 22 March 2012.

As reported under the "MATERIAL ACQUISITION" above, on 29 February 2012, the VSA Parties reached an understanding not to further extend the long stop date, and instead discussed about the way to proceed with the Acquisition, including doing so in or under the Revised Structure. As such, the VSA Parties may, subject to the execution of further supplemental agreement, proceed with the Acquisition or the Revised Structure regardless of the fact that the VSA Agreement (as supplemented by the Fifth Supplemental Agreement) has lapsed on 29 February 2012. For further details, please refer to the Company's announcement dated 22 March 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK AND PROSPECT

It has been the business strategy of the Group to proactively seek potential investment opportunities that could enhance the value to the shareholders of the Company. In this connection, the Company has identified the Weldtech Group as an appropriate acquisition target to the Group and is of the view that the Acquisition would allow the Group to diversify into a new line of business with significant growth potential.

As reported under the "MATERIAL ACQUISITION" above, the VSA Parties reached an understanding not to further extend the long stop date of the Sale and Purchase Agreement (that has lapsed on 29 February 2012), and instead discussed about the way to proceed with the Acquisition, including doing so in or under the Revised Structure. As such, the Sale and Purchase Parties may, subject to the execution of further supplemental agreement, proceed with the Acquisition or the Revised Structure. The Company will seek counsel's advice on the legality and validity of proceeding with the Acquisition or the Revised Structure, and if the terms and conditions of the further supplemental agreement constitute material changes to the Sale and Purchase Agreement and/or the VSA, the Company will comply with the Listing Rules requirements accordingly.

While no final decision has been made as at date of this report, the Directors are optimistic about the outcome of such discussions and shall give their best efforts to cooperate with the VSA Parties to proceed with the Acquisition or the Revised Structure as soon as possible.

Meanwhile, the Company was advised by the Vendors of the Acquisition that the Weldtech Group has, since the release of the circular with respect to the Acquisition dated 31 May 2011 by the Company, executed various agreements with customers including, but not limited to government authorities, real estate developers, hotel chains, semiconductor conglomerates and automobile conglomerates regarding retrofitting of existing building projects and/or new building construction projects with the UPPC system.

The Company will make further announcements to update the shareholders of the Company as and when appropriate, in particular, when there is any material progress on the Acquisition or the Revised Structure, or when further placing exercise is launched and conducted, or when there is any development of the Group.

DIRECTORS' REPORT

The directors of the Company (the "**Directors**") present this report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Group is principally engaged in investment holding, treasury investments and the provision of loan financing. The principal activities and other particulars of the Company's subsidiaries are set out in note 29 to the consolidated financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's revenue and results by principal activity for the year ended 31 December 2011 is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the Consolidated Statement of Comprehensive Income on page 39.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: Nil). No interim dividend was declared for the year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2011, as extracted from the audited consolidated financial statements, is set out on page 104.

EQUIPMENT

Details of movements in equipment of the Group and the Company during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 23 to the consolidated financial statements.

RESERVES

Details of 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 42 and note 26 to the consolidated financial statements, respectively.

DIRECTORS' REPORT

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 29 to the consolidated financial statements.

DIRECTORS

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

Executive Directors:

Mr. So Yuen Chun
Mr. Yeung Kwok Leung *(appointed on 1 March 2012)*
Mr. Au Tin Fung *(resigned on 15 September 2011)*
Mr. Soong Kok Meng *(resigned on 1 December 2011)*
Mr. Chan Chun Wai *(resigned on 1 February 2011)*

Non-executive Director:

Mr. Lam Kwok Hing, Wilfred *(re-designated from an independent non-executive Director to a non-executive Director on 21 October 2011)*

Independent Non-executive Directors:

Mr. Ng Cheuk Fan, Keith
Mr. Yeung Wai Hung, Peter *(appointed on 1 February 2011)*
Mr. Lam Raymond Shiu Cheung *(appointed on 17 February 2012)*
Mr. Chan Chi Yuen *(resigned on 1 February 2011)*

In accordance with Article 110 of the Company's articles of association (the "**Articles of Association**"), Messrs. Lam Raymond Shiu Cheung and Yeung Kwok Leung who were appointed by the Board on 17 February 2012 and 1 March 2012, respectively, will retire at the forthcoming annual general meeting and, each being eligible, offer himself for re-election.

In accordance with Article 120 of the Articles of Association, Messrs. So Yuen Chun and Ng Cheuk Fan, Keith will retire by rotation and, each being eligible, offer himself for re-election.

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

Independence of Independent Non-executive Directors

The Company has received a confirmation from each of its independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' REPORT

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors

Mr. So Yuen Chun, aged 40, was appointed as an independent non-executive Director on 15 January 2010 and re-designated as an executive Director on 1 December 2010. He was also appointed as the company secretary of the Company on 26 March 2011. Mr. So is also a director of certain subsidiaries of the Group. Mr. So is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He possesses more than 17 years of experience in the fields of auditing, accounting and finance. He is currently an executive director of Chinese Global Investors Group Limited (stock code: 5CJ.SI), a shareholder of the Company and listed on the Catalist board of the Singapore Exchange Securities Trading Limited.

Mr. Yeung Kwok Leung, aged 38, was appointed as an executive Director on 1 March 2012. He is also a director of certain subsidiaries of the Group. Mr. Yeung holds a Bachelors Degree in Accountancy and possesses more than 15 years' experience in auditing, financial controlling, accounting, corporate development as well as business strategy. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Yeung is currently an executive director of Morning Star Resources Limited (stock code: 542), a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Mr. Yeung was an executive director and the company secretary of China Fortune Financial Group Limited (stock code: 290) for the period from December 2005 to February 2012, a company listed on the Main Board of the Stock Exchange.

Non-executive Director

Mr. Lam Kwok Hing, Wilfred, aged 52, was appointed as an independent non-executive Director on 1 December 2010 and re-designed as a non-executive Director on 21 October 2011. He was also appointed as a member of the audit committee, the nomination committee and the remuneration committee of the Company, all with effect from 1 December 2010. He has been appointed Justice of the Peace of the Hong Kong Special Administrative Region since 1999 and awarded Queen's Badge of Honour in January 1997. Mr. Lam holds a Bachelor's degree in Law with honours from the University of Hong Kong and a practising solicitor in Hong Kong. He also holds the professional qualification of Estate Agent's (Individual) Licence in Hong Kong.

Being an active member in social and charity activities, Mr. Lam is a Support Force Commander of the Civil Aid Service, Ex Officio Member of New Territories Heung Yee Kuk, Chairman of the Friends of the Community Chest (Kwai Tsing District), Honorary Advisor and Former Vice President of Junior Police Call (Kwai Tsing District), member of and Former Chairman of the Fight Crime Committee (Kwai Tsing District) and Director and Former Chairman of the Community Development Fund (Kwai Tsing District) in Hong Kong. He is also an executive member of the liaison association of the Chinese People's Political Consultative Conference, Guangdong Province.

DIRECTORS' REPORT

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS *(continued)*

Non-executive Director *(continued)*

Mr. Lam is currently an executive director and group vice president of Hong Kong Resources Holdings Company Limited (stock code: 2882), a company listed on Main Board of the Stock Exchange; a non-executive vice-chairman and non-executive director of National Arts Holdings Limited (stock code: 8228), a company listed on the Growth Enterprise Market ("**GEM**") of the Stock Exchange; an independent non-executive director of Value Convergence Holdings Limited (stock code: 821) and PME Group Limited (stock code: 379), both companies are listed on Main Board of the Stock Exchange.

Independent Non-executive Directors

Mr. Ng Cheuk Fan, Keith, aged 50, was appointed as an independent non-executive Director on 15 January 2010. Mr. Ng is also the chairman of the audit committee, the nomination committee and the remuneration committee of the Company. He is a member of the CPA Australia and the Hong Kong Institute of Certified Public Accountants. Mr. Ng graduated from the University of Alberta, Canada, with a Bachelor's degree in Commerce, majoring in Accounting. He also obtained a Master of Commerce degree in Professional Accounting from the University of New South Wales, Australia. Mr. Ng possesses over 21 years of corporate development, corporate re-structuring, accounting and management experience. He is currently an executive director of U-Right International Holdings Limited (stock code: 627) and the managing director of China Fortune Group Limited ("China Fortune") (stock code: 290), both companies are listed on the Main Board of the Stock Exchange. Mr. Ng was an executive director of New Environmental Energy Holdings Limited (stock code: 3989) for the period from August 2010 to May 2011 and an executive director of Hao Tian Resources Group Limited (stock code: 474) for the period from September 2009 to September 2011, both companies are listed on the Main Board of the Stock Exchange.

Mr. Yeung Wai Hung, Peter, aged 54, was appointed as an independent non-executive Director on 1 February 2011. He was also appointed as a member of the audit committee, the nomination committee and the remuneration committee of the Company, all with effect from 1 February 2011. Mr. Yeung holds a bachelor of laws degree from the University of London and a postgraduate certificate in laws from the University of Hong Kong. He is a solicitor of High Court of Hong Kong. Mr. Yeung has been a practicing solicitor for over 22 years and a partner of Messrs. Hau, Lau, Li & Yeung, Solicitors & Notaries since 1992. He possesses extensive experience in the areas of mergers and acquisition and commercial contracts. He was an independent non-executive director of Media Asia Group Holdings Limited (formerly known as ROJAM Entertainment Holdings Limited) (stock code: 8075) for the period from November 2009 to August 2011, a company listed on GEM of the Stock Exchange.

DIRECTORS' REPORT

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS *(continued)*

Independent Non-executive Directors *(continued)*

Mr. Lam Raymond Shiu Cheung, aged 46, was appointed as an independent non-executive Director on 17 February 2012. He was also appointed as a member of the audit committee, the nomination committee and the remuneration committee of the Company, all with effect from 17 February 2012. Mr. Lam graduated from the Victoria University of Melbourne, Australia, with a Bachelor of Business Degree majoring in banking and finance. He also earned a Master Degree in Applied Finance from Macquarie University of Australia. Mr. Lam has 20 years' extensive experience in business development and corporate finance. He started his career in corporate banking, after which he joined one of the biggest oil companies in the USA specializing in the area of business development. Mr. Lam is currently the deputy chief executive officer of China Eco-Farming Limited (stock code: 8166), an independent non-executive director of Chinese Food and Beverage Group Limited (stock code: 8272) and China Assurance Finance Group Limited (stock code: 8090), all of the companies are listed on GEM of the Stock Exchange. He was an independent non-executive director of China Oriental Culture Group Limited (stock code: 2371) for the period from January 2008 to September 2010, a company listed on the Main Board of the Stock Exchange. He also was an independent non-executive director of China Railway Logistics Limited (stock code: 8089) for the period from December 2008 to June 2009 and China Bio-Med Regeneration Technology Limited (stock code: 8158) for the period from June 2008 to June 2009, both companies are listed on GEM of the Stock Exchange.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATES

As at 31 December 2011, none of the Directors, or their respective associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**").

DIRECTORS' REPORT

SHARE OPTION SCHEME

The Company operates a share option scheme adopted by the shareholders of the Company (the "**Shareholders**") on 22 May 2008 (the "**Share Option Scheme**"), pursuant to which the Board may, at its discretion, grant options to any eligible participants.

No options were granted, exercised, cancelled or lapsed during the year ended 31 December 2011 (the "**Year**") pursuant to the Share Option Scheme and there were no option outstanding at the beginning and at the end of the Year.

The purpose of the Share Option Scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any invested entity. Eligible participants include any employee (whether full time or part time), any executive Director and any non-executive Director (including independent non-executive Directors), or any of its subsidiaries or invested entity in which any member of the Group holds any equity interest, any shareholder of any member of the Group or any invested entity or any holder of any securities issued or proposed to be issued by any member of the Group or any invested entity and any other person (such as consultant, adviser, business partner or service provider of any member of the Group) whom the Board considers, in its sole discretion, has contributed or will contribute to the Group.

Under the Share Option Scheme, where any further grant of options to an eligible participant, if exercised in full, would result in the total number of shares already issued or to be issued upon exercise of all options granted and to be granted to such eligible participant (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant exceeding 1% of the total number of shares in issue (the "**Individual Limit**"), such further grant must be separately approved by the Shareholders in general meeting. Save for the foregoing, no eligible participant shall be granted an option if exercised in full, would exceed the Individual Limit. In addition, where any grant of options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such further grant of options must be approved by the Shareholders.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

A consideration of HK$1 is payable on acceptance of the grant of an option. An option may be exercised in whole or in part by the grantee within the option period as determined and notified by the Board to the grantee. The Share Option Scheme does not specify a minimum period for which an option must be held before an option can be exercised. However, the provisions of the Share Option Scheme provide that the Board may impose, at its sole discretion, conditions on the grant of an option.

The subscription price for the shares under the Share Option Scheme will be a price determined by the Board in its absolute discretion but shall not be lower than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

The Share Option Scheme shall be valid and effective for a period of ten years from 22 May 2008 to 21 May 2018, unless terminated by a resolution passed in the general meeting of the Company or otherwise in accordance with the provisions of the Share Option Scheme. At the annual general meeting of the Company held on 22 May 2008, the Company was authorized to issue a maximum of 22,500,000 new shares upon the exercise of options that may be granted under the Share Option Scheme (the "**General Mandate**"). Notwithstanding the forgoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time. As at the date of this report, no option has been granted under the General Mandate, as such, a maximum of 22,500,000 Shares is available for issuance under the Share Option Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the sections headed "SHARE OPTION SCHEME" and "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATES" above, at no time during the year, there subsisted any arrangements to which the Company or the Company's subsidiary or holding company or a subsidiary of the Company's holding company is a party, being arrangements whose objects are, or one of whose objects is, to enable Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, or there have, at any time in that year, subsisted such arrangements as aforesaid to which the Company or the Company's subsidiary or holding company or a subsidiary of the Company's holding company was a party.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2011, to the best knowledge of the Directors, interests or short positions of the persons, other than a Director or chief executive of the Company, in the shares and/or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Capacity	Number of Shares	Number of underlying Shares	Total number of Shares & underlying Shares	Approximately percentage of share capital in issue of the Company *(Note 1)*
CGI (HK) Limited (Note 3)	Beneficial owner	388,000,000 (L)	–	388,000,000 (L)	8.92%
CGI (Offshore) Limited (Note 3)	Interest in controlled corporation	388,000,000 (L)	–	388,000,000 (L)	8.92%
Chinese Global Investors Group Limited (Note 3)	Interest in controlled corporation	388,000,000 (L)	–	388,000,000 (L)	8.92%
Liang Gui Lian (Note 4)	Interest in controlled corporation	273,125,000 (L)	43,700,000 (L)	316,825,000 (L)	7.28%
Express Advantage Limited ("**Express Advantage**") (Note 4)	Interest in controlled corporation	273,125,000 (L)	43,700,000 (L)	316,825,000 (L)	7.28%
Best Leader Asia Investment Limited ("**Best Leader**") (Note 4)	Interest in controlled corporation	273,125,000 (L)	43,700,000 (L)	316,825,000 (L)	7.28%
Newmargin Partners Ltd. ("**Newmargin**") (Note 5)	Beneficial owner	375,000,000 (L)	1,031,250,000 (L)	1,406,250,000 (L)	32.32%
Zhuang Yan (Note 5)	Interest in controlled corporation	375,000,000 (L)	1,031,250,000 (L)	1,406,250,000 (L)	32.32%
Cross Cone Holdings Limited ("**Cross Cone**") (Note 6)	Beneficial owner	187,500,000 (L)	515,625,000 (L)	703,125,000 (L)	16.16%
Xu Yedong (Note 6)	Interest in controlled corporation	187,500,000 (L)	515,625,000 (L)	703,125,000 (L)	16.16%
SV Technology Company Limited ("**SV Technology**") (Note 7)	Beneficial owner	1,575,000,000 (L)	4,331,250,000 (L)	5,906,250,000 (L)	135.73%
JCW Technology Company Limited ("**JCW Technology**") (Note 7 & 8)	Interest in controlled corporation	1,575,000,000 (L)	4,331,250,000 (L)	5,906,250,000 (L)	135.73%
Wu Gang (Note 7)	Interest in controlled corporation	1,575,000,000 (L)	4,331,250,000 (L)	5,906,250,000 (L)	135.73%
Wong Ho Yuen (Note 7 & 8)	Interest in controlled corporation	1,575,000,000 (L)	4,331,250,000 (L)	5,906,250,000 (L)	135.73%
Chong Yan Ling (Note 7 & 8)	Interest in controlled corporation	1,575,000,000 (L)	4,331,250,000 (L)	5,906,250,000 (L)	135.73%
Smart Promise Limited ("**Smart Promise**") (Note 9)	Beneficial owner	862,500,000 (L)	2,371,875,000 (L)	3,234,375,000 (L)	74.33%
Cheng Lut Tim (Note 9)	Interest in controlled corporation	862,500,000 (L)	2,371,875,000 (L)	3,234,375,000 (L)	74.33%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Name	**Capacity**	**Number of Shares**	**Number of underlying Shares**	**Total number of Shares & underlying Shares**	**Approximately percentage of share capital in issue of the Company** *(Note 1)*
Carbon Reserve Investments Limited ("**Carbon Reserve**") (Note 10)	Beneficial owner	562,500,000 (L)	1,546,875,000 (L)	2,109,375,000 (L)	48.47%
China Energy Conservation & Environmental Protection (Hong Kong) Investment Co., Limited (Note 10)	Beneficial owner	562,500,000 (L)	1,546,875,000 (L)	2,109,375,000 (L)	48.47%
China Energy Conservation and Environmental Protection Group (Note 10)	Beneficial owner	562,500,000 (L)	1,546,875,000 (L)	2,109,375,000 (L)	48.47%
Season Best Investments Limited ("**Season Best**") (Note 11)	Trustee (other than a bare trustee)	187,500,000 (L)	515,625,000 (L)	703,125,000 (L)	16.16%
CCB International Asset Management Limited (Note 11)	Interest in controlled corporation	187,500,000 (L)	515,625,000 (L)	703,125,000 (L)	16.16%
CCB International (Holdings) Limited (Note 11)	Beneficial Owner	187,500,000 (L)	515,625,000 (L)	703,125,000 (L)	16.16%
CCB Financial Holdings Limited (Note 11)	Interest in controlled corporation	187,500,000 (L)	515,625,000 (L)	703,125,000 (L)	16.16%
CCB International Group Holdings Limited (Note 11)	Interest in controlled corporation	187,500,000 (L)	515,625,000 (L)	703,125,000 (L)	16.16%
China Construction Bank Corporation (Note 11)	Interest in controlled corporation	187,500,000 (L)	515,625,000 (L)	703,125,000 (L)	16.16%
Central Huijin Investment Limited (Note 11)	Interest in controlled corporation	187,500,000 (L)	515,625,000 (L)	703,125,000 (L)	16.16%

(L) denotes long position in Shares and/or underlying Shares

Notes:

(1) Based on the number of 4,351,488,667 shares of HK$0.1 each ("**Shares**") of the Company in issue as at 31 December 2011.

(2) The "Consideration Shares", "Conversion Shares" and "Convertible Notes" referred to in the notes to the above table were originally contemplated to be issued by the Company to the vendors with respect of the very substantial acquisition of the entire issued share capital in Weldtech Technology Co. Limited (the "**VSA**") pursuant to the sale and purchase agreement dated 23 February 2011 (as amended) (collectively, the "**Sale and Purchase Agreement**"). The Sale and Purchase Agreement lapsed on 29 February 2012; as such, as at the date of this report, the parties referred to in notes (5) to (11) below were not Shareholders.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Notes: (continued)

(2) *(continued)*

On 29 February 2012, the parties to the Sale and Purchase Agreement reached an understanding with respect to their discussion on the way to proceed with the VSA, including doing so in or under an optimal and/or revised structure (the "**Revised Structure**"). In the event that an agreement is entered into, the VSA, under the Revised Structure, may proceed. For details, please refer to the Company's announcements dated 20 July 2011, 30 September 2011, 6 October 2011, 9 January 2012, 12 January 2012 and 22 March 2012, respectively, and the Company's circular dated 31 May 2011.

(3) Chinese Global Investors Group Limited (formerly known as Auswin Holdings Limited) is deemed to be interested in 388,000,000 Shares by virtue of its 100% beneficial holding in CGI (Offshore) Limited. CGI (Offshore) Limited is deemed to be interested in 388,000,000 Shares by virtue of its 100% beneficial holding in CGI (HK) Limited.

(4) These 316,825,000 Shares comprise (i) 273,125,000 Shares; and (ii) unlisted physically settled derivatives that may be converted into a maximum of 43,700,000 Shares. Express Advantage is owned as to 80% by Best Leader, which is in turn wholly-owned by Liang Gui Lian. Accordingly, each of Best Leader and Liang Gui Lian was taken to be interested in such securities of the Company in which Express Advantage was interested.

(5) These 1,406,250,000 Shares comprise (i) 375,000,000 Consideration Shares representing approximately 8.62% of the issued shares of the Company and (ii) the Convertible Notes in the aggregate principal amount of HK$165,000,000 that may be converted into a maximum of 1,031,250,000 Conversion Shares representing approximately 23.70% of the issued shares of the Company, that may be issued to Newmargin by the Company pursuant to the Sale and Purchase Agreement. Newmargin is wholly-owned by Zhuang Yan. Accordingly, Zhuang Yan is taken to be interested in such securities of the Company in which Newmargin was interested. As at the date of this report, Newmargin was not a Shareholder as explained under note (2) above.

(6) These 703,125,000 Shares comprise (i) 187,500,000 Consideration Shares representing approximately 4.31% of the total issued capital of the Company and (ii) the Convertible Notes in the aggregate principal amount of HK$82,500,000 that may be converted into a maximum of 515,625,000 Conversion Shares representing approximately 11.85% of the issued shares of the Company, that may be issued to Cross Cone by the Company pursuant to the Sale and Purchase Agreement. Cross Cone is wholly-owned by Xu Yedong. Accordingly, Xu Yedong is taken to be interested in such securities of the Company in which Cross Cone was interested. As at the date of this report, Cross Cone was not a Shareholder as explained under note (2) above.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Notes: (continued)

(7) These 5,906,250,000 Shares comprise (i) 1,575,000,000 Consideration Shares representing approximately 36.19% of the total issued capital of the Company and (ii) the Convertible Notes in the aggregate principal amount of HK$693,000,000 that may be converted into a maximum of 4,331,250,000 Conversion Shares representing approximately 99.53% of the issued shares of the Company, that may be issued to SV Technology by the Company pursuant to the Sale and Purchase Agreement. SV Technology is owned as to 52.5% by JCW Technology and 30.5% by Wu Gang. Accordingly, each of JCW Technology and Wu Gang is taken to be interested in such securities of the Company in which SV Technology was interested. As at the date of this report, SV Technology was not a Shareholder as explained under note (2) above.

(8) JCW Technology is owned as to 60% Wong Ho Yuen and 40% by Chong Yan Ling. Accordingly, each of Wong Ho Yuen and Chong Yan Ling is taken to be interested in such securities of the Company in which JCW Technology was interested. As at the date of this report, JCW Technology was not a Shareholder as explained under note (2) above.

(9) These 3,234,375,000 Shares comprise (i) 862,500,000 Consideration Shares representing approximately 19.82% of the issued shares of the Company and (ii) the Convertible Notes in the aggregate principal amount of HK$379,500,000 that may be converted into a maximum of 2,371,875,000 Conversion Shares representing approximately 54.51% of the issued shares of the Company, that may be issued to Smart Promise pursuant to the Sale and Purchase Agreement. Smart Promise is owned as to 60.88% by Cheng Lut Tim. Accordingly, Cheng Lut Tim is taken to be interested in such securities of the Company in which Smart Promise was interested. As at the date of this report, Smart Promise was not a Shareholder as explained under note (2) above.

(10) These 2,109,375,000 Shares comprise (i) 562,500,000 Consideration Shares representing approximately 12.93% of the issued shares of the Company and (ii) the Convertible Notes in the aggregate principal amount of HK$247,500,000 that may be converted into a maximum of 1,546,875,000 Conversion Shares representing approximately 35.55% of the issued shares of the Company, that may be issued to Carbon Reserve pursuant to the Sale and Purchase Agreement. Carbon Reserve is wholly-owned by China Energy Conservation & Environmental Protection (Hong Kong) Investment Co., Limited which is in turn wholly-owned by China Energy Conservation and Environmental Protection Group. Accordingly, each of China Energy Conservation & Environmental Protection (Hong Kong) Investment Co., Limited and China Energy Conservation and Environmental Protection Group is taken to be interested in such securities of the Company in which Carbon Reserve was interested. As at the date of this report, Carbon Reserve was not a Shareholder as explained under note (2) above.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Notes: (continued)

(11) These 703,125,000 Shares comprise (i) 187,500,000 Consideration Shares representing approximately 4.31% of the issued shares of the Company and (ii) the Convertible Notes in the aggregate principal amount of HK$82,500,000 that may be converted into a maximum of 515,625,000 Conversion Shares representing approximately 11.85% of the issued shares of the Company, that may be issued to Season Best pursuant to the Sale and Purchase Agreement. Season Best is wholly-owned by CCB International Asset Management Limited, which is in turn wholly-owned by CCB International (Holdings) Limited, which is in turn wholly-owned by CCB Financial Holdings Limited, which is in turn wholly-owned by CCB International Group Holdings Limited, which is in turn wholly-owned by China Construction Bank Corporation, which is in turn owned as to approximately 57.09% by Central Huijin Investment Limited. Accordingly, each of CCB International Asset Management Limited, CCB International (Holdings) Limited, CCB Financial Holdings Limited, CCB International Group Holdings Limited, China Construction Bank Corporation and Central Huijin Investment Limited is taken to be interested in such securities of the Company in which Season Best was interested. As at the date of this report, Season Best was not a Shareholder as explained under note (2) above.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2011, none of the Directors was considered to have interests in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance with the Company or the Company's subsidiary or holding company or a subsidiary of the Company's holding company, in which a Director is or was materially interested, whether directly or indirectly subsisting during or at the end of the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

EMOLUMENT POLICY

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in notes 9 and 10 to the consolidated financial statements, respectively.

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

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

DIRECTORS' REPORT

PURCHASE, SALE OR REDEMPTION OF SHARES

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's revenue attributed to the five largest customers accounted for approximately 94% of the Group's total revenue while the Group's revenue attributed to the largest customer accounted for approximately 74% of the Group's total revenue. To the best knowledge of the Directors, none of the Directors, their respective associates; or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) has interests in these customers.

The Group had no major suppliers due to the nature of principal activities of the Group.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group and the employer's retirement benefit costs charged to the profit or loss for the year are set out in note 36 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed sufficient public float during the year and up to the date of this report.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurred after the reporting period are set out in note 39 to the consolidated financial statements.

AUDITOR

The financial statements have been audited by Messrs. ZHONGLEI (HK) CPA Company Limited ("**ZHONGLEI**"). During the year, Messrs. Deloitte Touche Tohmatsu resigned as auditors of the Company on 29 November 2011 and ZHONGLEI were appointed by the Board to fill the casual vacancy so arising. There have been no changes of auditors in the past three years. A resolution for the re-appointment of ZHONGLEI as auditors of the Company will be proposed at the forthcoming annual general meeting.

For and on behalf of the Board

So Yuen Chun
Executive Director

Hong Kong, 23 March 2012

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Company and to the enhancement of shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2011, the Company applied the principles of and complied with the code provisions of the Code on Corporate Governance Practices (the "**CG Code**") contained in Appendix 14 to the Listing Rules on the Stock Exchange except for the deviations from the Code Provision A.2.1 of the CG Code and the non-compliance with Rule 3.10(1) of the Listing Rules as reported under the relevant paragraphs below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors, following a specific enquiry by the Company, have confirmed that they have complied with the required standard as set out in the Model Code throughout the year.

BOARD OF DIRECTORS

The Board currently comprises six Directors, with two executive Directors, one non-executive Director and three independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:	Mr. So Yuen Chun Mr. Yeung Kwok Leung
Non-executive Director:	Mr. Lam Kwok Hing, Wilfred
Independent Non-executive Directors:	Mr. Ng Cheuk Fan, Keith Mr. Yeung Wai Hung, Peter Mr. Lam Raymond Shiu Cheung

The brief biographical details of the Directors are set out in the "BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS" section on pages 12 to 14.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

Pursuant to Rule 3.10(1) of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. The Company was not in compliance with Rule 3.10(1) of the Listing Rules since the re-designation of Mr. Lam Kwok Hing, Wilfred from an independent non-executive Director to a non-executive Director took place on 21 October 2011, which the number of independent non-executive Directors dropped to two thereafter. In this regard, the Company immediately informed the Stock Exchange and made proper disclosure in its announcements containing the relevant details and reasons for the Company's failure to meet the requirements. On 17 February 2012, the Company appointed Mr. Lam Raymond Shiu Cheung as an independent non-executive Director and the requirement under Rule 3.10(1) of the Listing Rules was fulfilled since then.

The independent non-executive Directors, with sound professional expertise and experience, have actively participated in the Board and committee meetings and bring independent judgment on issues relating to the Group's strategy, performance and management process. They will take various roles in the Board committees.

As at the date of this report, the Company had three independent non-executive Directors representing more than one-third of the Board. All independent non-executive Directors have the appropriate professional qualifications or related financial management expertise under Rule 3.10(2) of the Listing Rules. The Board has received from each independent non-executive Director an annual confirmation of his independence and considers that all the independent non-executive Directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The independent non-executive Directors have been expressly identified as such in all corporate communications and the website of the Company that disclose the names of Directors. The independent non-executive Directors were appointed for a fixed term of three years, subject to retirement by rotation and re-election requirements under the Articles of Association.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group in addition to the meetings for reviewing and approving the Group's annual and interim results. The attendance of Directors, either in person or through other electronic means of communication, to the number of Board meetings held during the period under review or during their tenure of services, are as follows:–

	Number of Board meetings attended/ eligible to attend
Executive Directors:	
Mr. So Yuen Chun	17/17
Mr. Yeung Kwok Leung *(appointed on 1 March 2011)*	N/A
Mr. Au Tin Fung *(resigned on 15 September 2011)*	13/17
Mr. Soong Kok Meng *(resigned on 1 December 2011)*	11/15
Mr. Chan Chu Wai *(resigned on 1 February 2011)*	1/1
Non-executive Director:	
Mr. Lam Kwok Hing, Wilfred *(re-designated from independent non-executive Director to non-executive Director on 21 October 2011)*	16/17
Independent Non-executive Directors:	
Mr. Ng Cheuk Fan, Keith	16/17
Mr. Yeung Wai Hung, Peter *(appointed on 1 February 2011)*	15/16
Mr. Lam Raymond Shiu Cheung *(appointed on 17 February 2012)*	N/A
Mr. Chan Chi Yuen *(resigned on 1 February 2011)*	N/A

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, financial performance, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. Currently, the Board has delegated the daily operations and administration to the Lending Committee and/or Investment Committee.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

Each year, Board meetings, which are scheduled in advance to facilitate maximum attendance of Directors, are held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a Board meeting is given to all Directors for the regular meetings who are given an opportunity to include matters for discussion in the agenda. The company secretary of the Company (the "**Company Secretary**") assists the Directors in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. Reasonable notices have been given to all Directors generally prior to meetings, except in cases of emergency. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting. Draft minutes of each Board meeting are circulated to all Directors for their comment before being approved by the Board. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

According to the current Board practice, any transaction which involves a conflict of interests for a substantial shareholder or a Director and which is considered by the Board to be material will be dealt with by the Board at a duly convened Board meeting. The Articles of Association also stipulate that a Director should abstain from voting and not be counted in the quorum at meetings for approving transactions in which such Director or any of his associates have a material interest therein. In addition, he has to declare his interests therein in accordance with the Articles of Association.

Every Director is entitled to have access to board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. Directors will be updated continuously on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, a written procedure was established in October 2005 to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the Code Provision A.2.1 of the Code on Corporate Governance Practices, the roles of chairman (the "**Chairman**") and chief executive officer ("**CEO**") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing. During the year, the Company did not appoint a Chairman or CEO. The functions of the Chairman and CEO are performed by Directors. The Board will review the current practice from time to time and make appropriate changes if necessary.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Nomination Committee

The nomination committee of the Company (the "**Nomination Committee**") has been established in June 2005. As at the date of this report, the Nomination Committee comprises four members; namely, Messrs. Ng Cheuk Fan, Keith, Lam Kwok Hing, Wilfred, Yeung Wai Hung, Peter and Lam Raymond Shiu Cheung.

The major roles and functions of the Nomination Committee are:

(i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

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

(iii) to assess the independence of independent non-executive Directors;

(iv) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive of the Company;

(v) to do any such things to enable the Nomination Committee to perform its powers and functions conferred on it by the Board; and

(vi) to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

The terms of reference of the Nomination Committee were adopted in June 2005 and revised in March 2012 and have been posted on the Stock Exchange's website and the Company's website.

CORPORATE GOVERNANCE REPORT

APPOINTMENT AND RE-ELECTION OF DIRECTORS *(continued)*

Nomination Committee *(continued)*

During the year, one Nomination Committee meeting was held and the attendance of each member is set out as follows:

Nomination Committee member	**Number of Nomination Committee meetings attended/ eligible to attend**
Mr. Ng Cheuk Fan, Keith *(Chairman)*	1/1
Mr. Lam Kwok Hing, Wilfred	1/1
Mr. Yeung Wai Hung, Peter[1]	1/1
Mr. Lam Raymond Shiu Cheung[2]	N/A
Mr. Chan Chi Yuen[3]	N/A

Notes:

1. *Mr. Yeung Wai Hung, Peter was appointed as an independent non-executive Director and a member of Nomination Committee on 1 February 2011.*

2. *Mr. Lam Raymond Shiu Cheung was appointed as an independent non-executive Director and a member of the Nomination Committee on 17 February 2012. No Nomination Committee meeting was held since his appointment.*

3. *Mr. Chan Chi Yuen resigned from all his offices in the Company on 1 February 2011. No Nomination Committee meeting was held during his tenure this year.*

During the year under review, the names of Directors submitted for appointment, re-designation, election or re-election, have been accompanied by the same biographical details as required under Rule 13.51(2) of the Listing Rules. For those resigned Directors, the Company has also complied with Rule 13.51(2) of the Listing Rules and included in its announcements the reasons given by the Directors for their resignation and a statement confirming whether there are any matters that need to be brought to the attention of Shareholders.

CORPORATE GOVERNANCE REPORT

APPOINTMENT AND RE-ELECTION OF DIRECTORS *(continued)*

Every newly appointed Director will receive an information package from the Company Secretary on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a Director pursuant to the Companies Ordinance, the Listing Rules and the SFO. In addition, this information package includes material to briefly describe the operations and business of the Company. Directors will be continuously updated on major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

INDEPENDENT NON-EXECUTIVE DIRECTOR/NON-EXECUTIVE DIRECTOR

Mr. Lam Kwok Hing, Wilfred was re-designated from independent non-executive Director to Non-executive Director on 21 October 2011 and he entered into a service agreement with the Company for a fixed term of three years with effect from his appointment date. All independent non-executive Directors were appointed for a specific term of three years with effect from their respective appointment dates. All of them are subject to the relevant provisions in the Articles of Association or any other applicable laws whereby the Directors shall vacate or retire from their office.

According to the Articles of Association, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) should retire from office by rotation. Further, any Director appointed to fill a casual vacancy should hold office only until the next following general meeting of the Company whilst for those appointed as an addition to the Board should hold office until the next following annual general meeting and, in both cases, those Directors would then be eligible for re-election at the relevant meeting. Every Director shall be subject to retirement by rotation at least once every three years.

BOARD COMMITTEES

In addition to the Nomination Committee, the Board has established two committees; namely, the remuneration committee (the "**Remuneration Committee**") and the audit committee of the Company (the "**Audit Committee**") . Each of them has its specific written terms of reference or guidelines. Copies of minutes of all meetings and resolutions of the committees, which are duly kept by the Company Secretary, are circulated to all Board members. The committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 25 and 26 in the section "BOARD OF DIRECTORS" above, have been adopted for the committee meetings as far as practicable.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Remuneration Committee

The Remuneration Committee has been established since June 2005 and currently consists of four members; namely, Messrs. Ng Cheuk Fan, Keith, Lam Kwok Hing, Wilfred, Yeung Wai Hung, Peter and Lam Raymond Shiu Cheung. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and functions of the Remuneration Committee are:

(i) to make recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(ii) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management; or make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(iii) to make recommendations to the Board on the remuneration of non-executive Directors;

(iv) to consider salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group;

(v) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(vi) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they consistent with contractual terms and are otherwise reasonable and appropriate;

(vii) to ensure that no Director or any of his associates is involved in deciding his own remuneration;

(viii) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and

(ix) to ensure that the Company shall disclose details of any remuneration payable to the senior management in the annual reports.

The terms of reference of the Remuneration Committee were adopted in June 2005 and revised in March 2012 and have been posted on the Stock Exchange's website and the Company's website.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Remuneration Committee *(continued)*

The Remuneration Committee shall meet at least once a year. One Remuneration Committee meeting was held in 2011 to review (i) the existing policy and structure for the remuneration of Directors and senior management; (ii) the remuneration packages of all the executive Directors and senior management; and (iii) the remuneration of the non-executive Directors and independent non-executive Directors. The attendance of each member is set out as follows:

Remuneration Committee member	Number of Remuneration Committee meetings attended/ eligible to attend
Mr. Ng Cheuk Fan, Keith *(Chairman)*	1/1
Mr. Lam Kwok Hing, Wilfred	1/1
Mr. Yeung Wai Hung, Peter[1]	1/1
Mr. Lam Raymond Shiu Cheung[2]	N/A
Mr. Chan Chi Yuen[3]	N/A

Notes:

1 *Mr. Yeung Wai Hung, Peter was appointed as an independent non-executive Director and a member of Remuneration Committee on 1 February 2011.*

2 *Mr. Lam Raymond Shiu Cheung was appointed as an independent non-executive Director and a member of Remuneration Committee on 17 February 2012. No Remuneration Committee meeting was held since his appointment.*

3 *Mr. Chan Chi Yuen resigned from all his offices in the Company on 1 February 2011. No Remuneration Committee meeting was held during his tenure this year*

The remuneration payable to Directors will depend on their respective contractual terms under their service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 9 to the consolidated financial statements.

During the year, the Remuneration Committee recommended to the Board on the following:

(i) the payment of a director's fee to each of the executive Directors; and

(ii) the remuneration of the non-executive Director and independent non-executive Directors remained appropriate in the current market conditions in Hong Kong.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee

As at the date of this report, the Audit Committee comprises four members, of which the majority are independent non-executive Directors; namely, Messrs. Ng Cheuk Fan, Keith, Lam Kwok Hing, Wilfred, Yeung Wai Hung, Peter and Lam Raymond Shiu Cheung. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The major roles and functions of the Audit Committee are:

(i) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(ii) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(iii) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(iv) to monitor integrity of financial statements of the Company and its annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;

(v) to review the Company's financial controls, internal control and risk management systems;

(vi) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function;

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

(vii) to consider of major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(viii) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(ix) to review the group's financial and accounting policies and practices;

(x) to review the external auditor's management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;

(xi) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(xii) to report to the Board on the matters set out in the CG Code; and

(xiii) to consider other topics, as defined by the Board.

The terms of reference of Audit Committee were adopted in January 2009 and revised in March 2012 and have been posted on the Stock Exchange's website and the Company's website.

The Audit Committee shall meet at least twice a year. The attendance of each Audit Committee member, either present in person or through other electronic means of communication, to the number of Audit Committee meetings held during the period under review or during their tenure of services, is as follows:

Audit Committee member	**Number of Audit Committee meetings attended/ eligible to attend**
Mr. Ng Cheuk Fan, Keith *(Chairman)*[1]	3/3
Mr. Lam Kwok Hing, Wilfred	3/3
Mr. Yeung Wai Hung, Peter[2]	3/3
Mr. Lam Raymond Shiu Cheung[3]	N/A
Mr. Chan Chi Yuen[4]	N/A

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

Notes:

[1] *Mr. Ng Cheuk Fan, Keith was appointed as the chairman of Audit Committee on 23 March 2011.*

[2] *Mr. Yeung Wai Hung, Peter was appointed as an independent non-executive Director and a member of Audit Committee on 1 February 2011.*

[3] *Mr. Lam Raymond Shiu Cheung was appointed as an independent non-executive Director and a member of Audit Committee on 17 February 2012. No Audit Committee meeting was held since his appointment.*

[4] *Mr. Chan Chi Yuen resigned from all his offices in the Company on 1 February 2011. No Audit Committee meeting was held during his tenure this year.*

During the meetings held in 2011, the Audit Committee had performed the work as summarised below:

(i) recommended to the Board for the re-appointment and removal of the Group's auditors for the year ended 31 December 2010, 31 December 2011 and for the six months ended 30 June 2011;

(ii) reviewed and recommended to the Board for approval the engagement letters issued by Messrs. Deloitte Touche Tohmatsu ("**DTT**") for the confirmation of various matters relating to DTT's engagement as auditors of the Group for the year ended 31 December 2010 and for the six months ended 30 June 2011;

(iii) reviewed and recommended to the Board for approval the engagement letter issued by ZHONGLEI for the confirmation of various matters relating to ZHONGLEI's engagement as auditors of the Group for the year ended 31 December 2011;

(iv) reviewed the letter of representation and the financial statements for the year ended 31 December 2010 and recommended the same to the Board for approval;

(v) reviewed the letter of representation and unaudited interim financial information for the six months ended 30 June 2011 and recommended the same to the Board for approval; and

(vi) reviewed the auditor's independent review report for the six months ended 30 June 2011.

Full minutes of Audit Committee meetings were kept by the Company Secretary. Draft and final versions of minutes were sent to all members of Audit Committee within reasonable time after the meeting for their comments and records, respectively.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing, with support from the accounting department, the consolidated financial statements of the Group. In preparing the consolidated financial statements for the year ended 31 December 2011, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules and the Companies Ordinance were complied with.

The reporting responsibilities of the Company's external auditors, ZHONGLEI, are set out in the Independent Auditor's Report on pages 37 and 38.

Internal Controls

The Group's internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and manage rather than eliminate risks of failure in operational systems. In 2011, the Board, through the Audit Committee, has reviewed the effectiveness of the internal control systems of the Group.

The Board will review the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget annually.

External Auditors' Remuneration

During the year, the remuneration paid/payable to the Company's external auditors is set out as follows:

Services rendered for the Group

	Fee paid/ payable *HK$'000*
Audit services	350
Non-audit services (including taxation advisory service fees, interim review)	311
Total	661

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with Shareholders. Information in relation to the Group is disseminated to Shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information as well as the recent development of the Group are also made available on the Stock Exchange's website and the Company's website.

The Company's annual general meeting (the "**AGM**") is a valuable forum for the Board to communicate directly with the Shareholders. The Directors participated in the 2011 AGM and answered questions from the Shareholders. An AGM circular was distributed to all Shareholders at least 20 clear business days prior to the 2011 AGM, setting out the details of each proposed resolution and other relevant information.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Listing Rules but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our Shareholders to promote and improve our transparency are also welcome.

On behalf of the Board

So Yuen Chun
Executive Director

Hong Kong, 23 March 2012

INDEPENDENT AUDITOR'S REPORT

中磊（香港）會計師事務所有限公司
ZHONGLEI (HK) CPA Company Limited

TO THE MEMBERS OF THE HONG KONG BUILDING AND LOAN AGENCY LIMITED
香港建屋貸款有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of The Hong Kong Building and Loan Agency Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 103, which comprise the consolidated and Company's statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

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

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

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 Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

ZHONGLEI (HK) CPA Company Limited
Certified Public Accountants (Practising)
Chan Mei Mei
Practising Certificate Number: P05256

Suites 313-317, 3/F., Shui On Centre,
6-8 Harbour Road,
Wan Chai,
Hong Kong

23 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	5a	**37,995**	18,850
Interest income		**37,995**	18,850
Fair value changes on financial assets at fair value through profit or loss		**(42,562)**	(44,621)
Other income	5b	**7**	1,644
Operating expenses		**(42,801)**	(11,197)
Impairment loss recognised in respect of available-for-sale investment		**(241)**	–
Interest expense on trading accounts		**–**	(624)
Gain on disposal of a subsidiary		**–**	553
Loss before tax		**(47,602)**	(35,395)
Income tax (expense) credit	7	**(1,703)**	1,668
Loss for the year	8	**(49,305)**	(33,727)
Other comprehensive (expense) income			
Fair value changes on available-for-sale investments		**(10,320)**	10,320
Deferred tax relating to fair value changes on available-for-sale investments		**1,703**	(1,703)
Other comprehensive (expense) income for the year, net of income tax		**(8,617)**	8,617
Total comprehensive expense for the year		**(57,922)**	(25,110)
Loss for the year attributable to the owners of the Company		**(49,305)**	(33,727)
Total comprehensive expense attributable to the owners of the Company		**(57,922)**	(25,110)
		HK cents	*HK cents*
Loss per share	12		
– Basic		**(1.17)**	(1.18)
– Diluted		**(1.17)**	(1.18)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 *HK$'000*	2010 *HK$'000*
NON-CURRENT ASSETS			
Equipment	13	**369**	134
Mortgage loans	14	**11,235**	128,295
Loan receivables	16	**–**	64,000
Deposit paid for acquisition of a subsidiary	17	**10,000**	–
Available-for-sale investments	18	**6,619**	16,680
		28,223	209,109
CURRENT ASSETS			
Mortgage loans	14	**654**	1,245
Financial assets at fair value through profit or loss	19	**20,626**	28,243
Loan receivables	16	**280,712**	60,000
Prepayments, deposits and other receivables	20	**33,383**	21,476
Tax recoverable		**35**	–
Bank balances	21	**17,994**	77,055
		353,404	188,019
CURRENT LIABILITIES			
Other payables and accruals	22	**9,024**	2,769
Tax liabilities		**–**	2
		9,024	2,771
NET CURRENT ASSETS		**344,380**	185,248
NET ASSETS		**372,603**	394,357
CAPITAL AND RESERVES			
Share capital	23	**435,149**	399,470
Reserves		**(62,546)**	(5,113)
TOTAL EQUITY		**372,603**	394,357

The consolidated financial statements on pages 39 to 103 were approved and authorised for issue by the Board of Directors on 23 March 2012 and are signed on its behalf by:

So Yuen Chun *Director*	**Yeung Kwok Leung** *Director*

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Equipment	13	**82**	134
Mortgage loans	14	**–**	16
Deposit paid for acquisition of a subsidiary	17	**10,000**	–
Amounts due from subsidiaries	30	**–**	191,000
Investments in subsidiaries	29	**390**	152
		10,472	191,302
CURRENT ASSETS			
Mortgage loans	14	**10**	62
Prepayments, deposits and other receivables	20	**3,596**	15,399
Amounts due from subsidiaries	30	**365,235**	116,817
Bank balances	21	**2,643**	72,972
		371,484	205,250
CURRENT LIABILITIES			
Other payables and accruals	22	**8,064**	2,741
Amount due to a subsidiary	31	**383**	113
		8,447	2,854
NET CURRENT ASSETS		**363,037**	202,396
NET ASSETS		**373,509**	393,698
CAPITAL AND RESERVES			
Share capital	23	**435,149**	399,470
Reserves	26	**(61,640)**	(5,772)
TOTAL EQUITY		**373,509**	393,698

The financial statements on pages 39 to 103 were approved and authorised for issue by the Board of Directors on 23 March 2012 and are signed on its behalf by:

So Yuen Chun
Director

Yeung Kwok Leung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital HK$'000	Share premium HK$'000	Convertible bonds HK$'000	Convertible bond options HK$'000	Warrants HK$'000	Investments revaluation reserve HK$'000	Retained profits (accumulated losses) HK$'000	Total HK$'000
At 1 January 2010	225,000	–	–	–	–	–	6,089	231,089
Loss for the year	–	–	–	–	–	–	(33,727)	(33,727)
Fair value changes on available-for-sale investments	–	–	–	–	–	10,320	–	10,320
Deferred tax relating to fair value changes on available-for-sale investments	–	–	–	–	–	(1,703)	–	(1,703)
Total comprehensive income (expense) for the year	–	–	–	–	–	8,617	(33,727)	(25,110)
Issue of ordinary shares and options for convertible bonds (note 23c)	56,250	–	–	51,763	–	–	(51,763)	56,250
Issue of convertible bonds upon conversion of convertible bond options (note 24)	–	–	10,277	(5,498)	–	–	–	4,779
Issue of shares upon conversion of convertible bonds (note 24)	4,720	5,429	(10,149)	–	–	–	–	–
Issue of warrants (note 25)	–	–	–	–	5,620	–	–	5,620
Issue of ordinary shares by placement (note 23d)	113,500	11,350	–	–	–	–	–	124,850
Transaction cost attributable to issue of shares	–	(3,121)	–	–	–	–	–	(3,121)
At 31 December 2010	399,470	13,658	128	46,265	5,620	8,617	(79,401)	394,357
Loss for the year	–	–	–	–	–	–	(49,305)	(49,305)
Fair value changes on available-for-sale investments	–	–	–	–	–	(10,320)	–	(10,320)
Deferred tax relating to fair value changes on available-for-sale investments	–	–	–	–	–	1,703	–	1,703
Total comprehensive expense for the year	–	–	–	–	–	(8,617)	(49,305)	(57,922)
Lapse of convertible bond options (note 24)	–	–	–	(6,352)	–	–	6,352	–
Issue of convertible bonds upon conversion of convertible bond options (note 24)	–	–	74,611	(39,913)	–	–	–	34,698
Issue of shares upon conversion of convertible bonds (note 24)	34,679	39,891	(74,570)	–	–	–	–	–
Issue of shares upon conversion of warrants (note 25)	1,000	570	–	–	(100)	–	–	1,470
At 31 December 2011	**435,149**	**54,119**	**169**	**–**	**5,520**	**–**	**(122,354)**	**372,603**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
OPERATING ACTIVITIES		
Loss before tax	**(47,602)**	(35,395)
Adjustments for:		
Impairment loss recognised in respect of interest receivables and other receivables	**11,448**	–
Impairment loss recognised in respect of available-for-sales investment	**241**	–
Interest expenses	**–**	624
Depreciation	**97**	76
Share issuance expenses	**–**	2,420
Write-back of impairment allowances on mortgage loans	**(45)**	(123)
Fair value changes on financial assets at fair value through profit or loss	**42,562**	44,621
Gain on disposal of a subsidiary	**–**	(553)
Impairment loss recognised in respect of loan receivables	**1,000**	–
Operating cash flows before movements in working capital	**7,701**	11,670
Decrease (increase) in mortgage loans	**117,696**	(59,587)
Increase in other payables and accruals	**6,255**	1,458
Increase in loan receivables	**(157,712)**	(114,000)
(Increase) decrease in financial assets at fair value through profit or loss	**(34,945)**	27,904
(Increase) decrease in prepayments, deposits and other receivables	**(23,855)**	7,574
Cash used in operations	**(84,860)**	(124,981)
Interest paid	**–**	(624)
Income tax (paid) refunded	**(37)**	94
NET CASH USED IN OPERATING ACTIVITIES	**(84,897)**	(125,511)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES		
Net cash flow from disposal of a subsidiary	**500**	(10)
Deposit paid for acquisition of a subsidiary	**(10,000)**	–
Purchase of available-for-sale investments	**(500)**	(6,360)
Purchase of equipment	**(332)**	(26)
NET CASH USED IN INVESTING ACTIVITIES	**(10,332)**	(6,396)
FINANCING ACTIVITIES		
Proceeds from issue of shares upon conversion of convertible bonds	**34,698**	4,779
Proceeds from issue of shares upon conversion of warrants	**1,470**	5,620
Proceeds from issue of shares by placement	**–**	124,850
Proceeds from issue of shares and options for convertible bonds	**–**	56,250
Share issuance costs	**–**	(5,541)
NET CASH FROM FINANCING ACTIVITIES	**36,168**	185,958
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(59,061)**	54,051
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**77,055**	23,004
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**17,994**	77,055

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL

The Hong Kong Building and Loan Agency Limited (the "Company") is a public limited company incorporated in Hong Kong and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and the principal place of business of the Company are Unit F, 7/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company and its subsidiaries (collectively referred to as the "Group").

The principal activities of the Group are investment holding, treasury investments and the provision of loan financing and other related services.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the consolidated statement of changes in equity.

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

HKFRS 13 Fair Value Measurement

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

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

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below:

Basis of consolidation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interests in subsidiaries

Interests in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivables. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) interest income from a financial asset including financial assets at fair value through profit and loss and available-for-sale investments is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable;

(ii) dealings in financial assets at fair value through profit or loss are recognised on a trade date basis when the relevant contract notes are exchanged;

(iii) dividend income from investments is recognised when the shareholder's rights to receive payment have been established; and

(iv) consulting service income is recognised when services are provided.

Equipment

Equipment is stated in the Group's and the Company's statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Financial instruments

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

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

Financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Effective interest method

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

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

Financial assets at fair value through profit or loss

The financial assets at FVTPL of the Group and the Company comprise financial assets held-for-trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held-for-trading if:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Financial assets at fair value through profit or loss *(continued)*

A financial asset other than a financial asset held-for-trading may be designated as at FVTPL 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 HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "fair value changes on financial assets at fair value through profit or loss" in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 19 to the consolidated financial statements.

Loans and receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group classified its investments in certain listed and unlisted equity securities as available-for-sale financial assets.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

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

Impairment of financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(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 default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as mortgage loans and loan 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 record.

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

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 mortgage loans and loan receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a mortgage loan or loan receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

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

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

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

Financial liabilities and equity instruments

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

Equity instrument

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments (continued)

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities, representing other payables and accruals and amount due to a subsidiary, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Options to subscribe for convertible bonds and convertible bonds

Options to subscribe for convertible bonds and the convertible bonds are classified as equity instruments based on the contractual terms of the options and convertible bonds. On initial recognition, the fair value of the options to subscribe for convertible bonds is determined using option pricing model and recognised in “convertible bond options” included in equity. When the options are exercised, the carrying amount of options to subscribe for convertible bonds in “convertible bond options” will be transferred to “convertible bonds” together with the consideration received. Where the options to subscribe for convertible bonds remained unexercised at the expiry date, the balance stated in “convertible bond options” will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the options to subscribe for convertible bonds.

When the conversion options of the convertible bonds are exercised, the balance in the “convertible bonds” will be transferred to the share capital and share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments (continued)

Derecognition

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

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

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

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

The Group as lease

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.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Income tax

At 31 December 2011, no deferred tax assets have been recognised in the Group's and the Company's statements of financial position in relation to unused tax losses due to unpredictability of future assessable profit streams. The estimated unused tax losses of the Group and the Company amounted to HK$71,341,000 and HK$7,044,000 (2010: HK$72,996,000 and HK$32,190,000) respectively. In cases where the actual future assessable profits generated are more than expected, deferred tax asset may arise, which would be recognised in the profit or loss for the period in which such a recognition takes place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Impairment allowances on mortgage loans and loan receivables

The Group and the Company have established impairment allowances in respect of estimated incurred loss in mortgage loans and loan receivables. The allowances on mortgage loans and loan receivables are set out in notes 15 and 16 to the consolidated financial statements.

In determining individual impairment allowances, management considers objective evidence of impairment. When a loan is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The quantum of the allowance is also impacted by the collateral value and this, in turn, may be discounted in certain circumstances to take into account the impact of forced sale or quick liquidation.

In determining collective impairment allowances, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio adjusted for current conditions.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

At 31 December 2011, the details of mortgage loans and loan receivables are disclosed in notes 14 and 16 to the consolidated financial statements respectively.

Impairment of available-for-sale investments

In determining whether there is any objective evidence that impairment losses on available-for-sale investments has occurred, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investees' financial conditions. This requires a significant level of judgment of the management, which would affect the amount of the impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5a. REVENUE

Revenue represents interest income from loan financing and interest income from treasury investments.

An analysis of the revenue of the Group by principal activity is as follows:

	2011	2010
	HK$'000	*HK$'000*
Loan financing:		
Interest on mortgage loans	**1,277**	13,784
Interest on loan receivables	**36,716**	4,968
Treasury investments:		
Interest on bank deposits	**2**	3
Interest on financial assets designated at fair value through profit or loss	**–**	95
	37,995	18,850

5b. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Consultancy fee income	**–**	1,500
Management fee income	**–**	125
Other	**7**	19
	7	1,644

During the year ended 31 December 2010, the consultancy fee income represented the income received from Weldtech Technology Co. Limited for consultancy service rendered in relation to the fund-raising purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two operating divisions by nature of the business, namely, loan financing and treasury investments.

These divisions are the basis on which, the board of directors of the Company, being the chief operating decision maker, reviews the operating results and financial information.

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

	Loan financing		Treasury investments		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**37,993**	18,752	**2**	98	**37,995**	18,850
Segment profit (loss)	**34,326**	18,578	**(42,594)**	(45,213)	**(8,268)**	(26,635)
Centralised administration costs					**(39,334)**	(10,813)
Unallocated other income					**–**	1,500
Gain on disposal of a subsidiary					**–**	553
Loss before tax					**(47,602)**	(35,395)
Income tax (expense) credit					**(1,703)**	1,668
Loss for the year					**(49,305)**	(33,727)
Segment assets	**337,019**	263,341	**29,888**	117,895	**366,907**	381,236
Unallocated assets					**14,720**	15,892
Total assets					**381,627**	397,128
Other information:						
Interest income	**37,993**	18,752	**2**	98	**37,995**	18,850
Write-back of impairment allowances on mortgage loans	**45**	123	**–**	–	**45**	123
Impairment loss recognised in respect of interest receivables	**(2,248)**	–	**–**	–	**(2,248)**	–
Impairment loss recognised in respect of loan receivables	**(1,000)**	–	**–**	–	**(1,000)**	–
Net foreign exchange gain (loss)	**–**	–	**2**	(190)	**2**	(190)
Fair value changes on financial assets at fair value through profit or loss	**–**	–	**(42,562)**	(44,621)	**(42,562)**	(44,621)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. SEGMENT INFORMATION *(continued)*

During the current and prior year, there were no inter-segment transactions.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3 to the consolidated financial statements.

Segment profit/loss represents the pre-tax profit earned by/loss from each segment without allocation of central administration costs such as directors' emoluments, staff salaries, operating lease rentals and legal and professional fees. This is the measure reported to the board of directors of the Company for the purposes of resource allocation and performance assessment.

Segment assets represent the assets allocated to reportable and operating segments other than equipment, deposit paid for acquisition of a subsidiary, prepayments, tax recoverable and certain other receivables.

There is no segment liability at 31 December 2011 and 2010.

The Group's operations are based in Hong Kong and the Group's revenue is derived from customers and counterparties located in Hong Kong.

Information about major customers

Interest income from customers in loan financing business segment contributing over 10% of the total revenue of the Group are as follows:

	2011	2010
	HK$'000	*HK$'000*
Customer A	**N/A**[1]	11,618
Customer B	**N/A**[1]	4,790
Customer C	**27,962**	N/A[1]
Customer D	**5,063**	N/A[1]

[1] The corresponding revenue did not contribute over 10% of the total revenue of the Group in the respective year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. INCOME TAX EXPENSE (CREDIT)

	2011	2010
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
– Provision for the year	**–**	35
Deferred taxation (note 32)	**1,703**	(1,703)
Income tax expense (credit) for the year	**1,703**	(1,668)

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

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

	2011	2010
	HK$'000	*HK$'000*
Loss before tax	**(47,602)**	(35,395)
Tax at the Hong Kong Profits Tax rate of 16.5% (2010: 16.5%)	**(7,854)**	(5,840)
Tax effect of income not taxable for tax purpose	**(9,862)**	(31)
Tax effect of expenses not deductible for tax purpose	**13,418**	432
Utilisation of tax losses previously not recognised	**(4,149)**	(3,014)
Recognition of tax loss previously not recognised	**–**	(1,703)
Tax effect of deductible temporary differences	**1,703**	–
Tax effect of tax losses not recognised	**8,447**	8,490
Others	**–**	(2)
Income tax expense (credit) for the year	**1,703**	(1,668)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging (crediting):

	2011	2010
	HK$'000	*HK$'000*
Employee benefits expense (including directors' emoluments) (note 9):		
Salaries, bonus and other benefits	**2,967**	3,718
Contributions to retirement benefits scheme (note 36)	**55**	81
	3,022	3,799
Depreciation	**97**	76
Auditor's remuneration	**350**	430
Operating lease payments	**1,416**	758
Write-back of impairment allowances on mortgage loans	**(45)**	(123)
Impairment loss recognised in respect of interest receivables and other receivables	**11,448**	–
Impairment loss recognised in respect of loan receivables	**1,000**	–
Net foreign exchange (gain) loss	**(2)**	190
Legal and professional fees	**16,977**	1,833

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of 8 (2010: 9) directors were as follow:

2011

	Fees *HK$'000*	Salaries, bonus and other benefits *HK$'000*	Contributions to retirement benefits scheme *HK$'000*	Total *HK$'000*
Executive directors				
Mr. So Yuen Chun (note i)	–	260	11	271
Mr. Soong Kok Meng (note ii)	–	298	–	298
Mr. Au Tin Fung (note iii)	–	488	9	497
Mr. Chan Chun Wai (note iv)	–	160	1	161
	–	1,206	21	1,227
Non-executive director				
Mr. Lam Kwok Hing, Wilfred (note v)	19	–	–	19
Independent non-executive directors				
Mr. Lam Kwok Hing, Wilfred (note v)	81	–	–	81
Mr. Ng Cheuk Fan, Keith (note vi)	100	–	–	100
Mr. Yeung Wai Hung, Peter (note vii)	92	–	–	92
Mr. Chan Chi Yuen (note viii)	67	–	–	67
	340	–	–	340
Total	359	1,206	21	1,586

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. DIRECTORS' EMOLUMENTS *(continued)*

2010

	Fees *HK$'000*	Salaries, bonus and other benefits *HK$'000*	Contributions to retirement benefits scheme *HK$'000*	Total *HK$'000*
Executive directors				
Mr. So Yuen Chun (note i)	–	22	1	23
Mr. Soong Kok Meng (note ii)	–	22	1	23
Mr. Au Tin Fung (note iii)	–	520	12	532
Mr. Chan Chun Wai (note iv)	–	520	12	532
Mr. Lau Yu Fung, Wilson (note ix)	–	440	11	451
	–	1,524	37	1,561
Non-executive director				
Mr. Tang Yu Ming, Nelson (note x)	200	–	–	200
Independent non-executive directors				
Mr. So Yuen Chun (note i)	88	–	–	88
Mr. Chan Chi Yuen (note viii)	200	–	–	200
Mr. Lam Kwok Hing, Wilfred (note v)	8	–	–	8
Mr. Ng Cheuk Fan, Keith (note vi)	96	–	–	96
	392	–	–	392
Total	592	1,524	37	2,153

There were no arrangements under which a director waived or agreed to waive any emoluments during the year ended 31 December 2011 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. DIRECTORS' EMOLUMENTS *(continued)*

Notes:

i) Mr. So Yuen Chun was appointed as independent non-executive director on 15 January 2010 and re-designated as executive director on 1 December 2010.

ii) Mr. Soong Kok Meng was appointed on 1 December 2010 and was resigned on 1 December 2011.

iii) Mr. Au Tin Fung was resigned on 15 September 2011.

iv) Mr. Chan Chun Wai was resigned on 1 February 2011.

v) Mr. Lam Kwok Hing, Wilfred was appointed as independent non-executive director on 1 December 2010 and re-designated as non-executive director on 21 October 2011.

vi) Mr. Ng Cheuk Fan, Keith was appointed on 15 January 2010.

vii) Mr. Yeung Wai Hung, Peter was appointed on 1 February 2011.

viii) Mr. Chan Chi Yuen was resigned on 1 February 2011.

ix) Mr. Lau Yu Fung, Wilson was resigned on 1 December 2010.

x) Mr. Tang Yu Ming, Nelson was resigned on 14 May 2010.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2010: three) were directors of the Company whose emoluments are included in note 9 to the consolidated financial statements. The emoluments of the remaining two (2010: two) individuals were as follows:

	2011 ***HK$'000***	2010 *HK$'000*
Salaries, bonus and other benefits	**770**	844
Contributions to retirement benefits scheme	**24**	24
	794	868

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. EMPLOYEES' EMOLUMENTS *(continued)*

Their emoluments were within the following band:

	2011 Number of employees	2010 Number of employees
Nil – HK$1,000,000	**2**	2

11. DIVIDENDS

No dividend was paid or proposed during the year ended 2011 and 2010, nor has any dividend been proposed since the end of the reporting periods.

12. LOSS PER SHARE

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

	2011 HK$'000	2010 HK$'000
Loss for the purposes of basic loss per share and diluted loss per share		
Loss for the year attributable to owners of the Company	**(49,305)**	(33,727)

	2011 Number of shares '000	2010 Number of shares '000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**4,209,312**	2,848,023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. LOSS PER SHARE *(continued)*

The computation of diluted loss per share for the year ended 31 December 2011 and 2010 does not assume the exercise or conversion of the Company's outstanding options for convertible bonds, convertible bonds or warrants since their exercise or conversion would result in a decrease in the loss per share.

The weighted average number of ordinary shares for the purpose of basic loss per share for the year of 2010, have been adjusted for the share subdivision on 10 February 2010 and the bonus element in an open offer on 5 May 2010 as disclosed in notes 23a and c to the consolidated financial statements, respectively.

13. EQUIPMENT

	The Group				
	Office equipment	**Furniture and fixtures**	**Computer**	**Motor vehicle**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1 January 2010	13	27	273	–	313
Additions	2	18	6	–	26
At 31 December 2010	15	45	279	–	339
Additions	4	2	3	323	332
At 31 December 2011	**19**	**47**	**282**	**323**	**671**
ACCUMULATED DEPRECATION					
At 1 January 2010	5	1	123	–	129
Provided for the year	3	8	65	–	76
At 31 December 2010	8	9	188	–	205
Provided for the year	3	9	47	38	97
At 31 December 2011	**11**	**18**	**235**	**38**	**302**
CARRYING VALUES					
At 31 December 2011	**8**	**29**	**47**	**285**	**369**
At 31 December 2010	7	36	91	–	134

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

13. EQUIPMENT *(continued)*

	The Company			
	Office equipment	**Furniture and fixtures**	**Computer**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1 January 2010	8	27	266	301
Additions	2	18	6	26
At 31 December 2010	10	45	272	327
Additions	4	2	–	6
At 31 December 2011	**14**	**47**	**272**	**333**
ACCUMULATED DEPRECATION				
At 1 January 2010	1	1	116	118
Provided for the year	2	8	65	75
At 31 December 2010	3	9	181	193
Provided for the year	3	9	46	58
At 31 December 2011	**6**	**18**	**227**	**251**
CARRYING VALUES				
At 31 December 2011	**8**	**29**	**45**	**82**
At 31 December 2010	7	36	91	134

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

Office equipment	25%
Furniture and fixtures	20%
Computer	25%
Motor vehicle	20%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. MORTGAGE LOANS

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**11,390**	1,699
Variable-rate loan receivables	**499**	127,841
	11,889	129,540
Carrying amount analysed for reporting purposes:		
Current assets (receivables within 12 months from the end of the reporting period)	**654**	1,245
Non-current assets (receivables after 12 months from the end of the reporting period)	**11,235**	128,295
	11,889	129,540

Included in the variable-rate loan receivables as at 31 December 2010 were two mortgage loans to a corporate customer (original borrower) amounting to HK$127,000,000. The loans bore variable interest rate based on the best lending rate offered by the Hong Kong and Shanghai Banking Corporation Limited and would mature during January to May 2011. On 13 January 2011, the Group entered into an agreement with the original borrower to extend the repayment of the loan to January 2012 with additional drawdown of HK$73,000,000. On 26 January 2011, since the loan and the related interest receivable of HK$712,000 amounting to a total of HK$200,712,000 was restructured whereby the variable interest rate was increased the named borrower was changed to another company (new borrower) and the security was changed to a floating charge on the entire assets (mainly include a residential property located in Hong Kong which was the security of the original loan) of the guarantor, which is the original borrowers, as collateral, the mortgage loan has been reclassified as loan receivable (note 16 to the consolidated financial statements) during the year ended 31 December 2011 accordingly.

The credit quality of the above loan receivable is satisfactory as the loan is secured by the pledge of properties with a fair value of HK$430,000,000 at 31 December 2010. The directors of the Company are of the view that the properties collateral can fully cover the outstanding loans after taking into account other mortgages of the properties. Accordingly, no impairment allowance is considered necessary.

The mortgage loans of approximately HK$11,889,000 (2010: approximately HK$2,540,000) are secured by mortgage properties. These mortgage loans at 31 December 2011 are net of impairment allowances of nil (2010: approximately HK$45,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. MORTGAGE LOANS *(continued)*

The maturity profile of these mortgage loans, net of impairment allowances, at the end of reporting period, is analysed by the remaining periods to their contractual maturity dates as follows:

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Repayable:		
Within 3 months	**159**	897
Over 3 months but less than 1 year	**495**	348
Over 1 year but less than 5 years	**11,179**	1,169
Over 5 years	**56**	126
	11,889	2,540

Before accepting any new customer, the Group uses internal assessment system to assess the potential credit quality and determines credit limits by customer. The mortgage loans of approximately HK$11,889,000 (2010: approximately HK$1,705,000) that are neither past due nor impaired have timely repayment of principal and interest.

The ageing of mortgage loans, net of impairment allowances, which are past due but not impaired, at the end of the reporting period is analysed as follows:

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Within 3 months	**–**	835

The directors of the Company are of the view that no individual impairment allowance is necessary since the outstanding loans are fully secured by the respective mortgage properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. MORTGAGE LOANS *(continued)*

	The Company	
	2011	2010
	HK$'000	*HK$'000*
Variable-rate loan receivables	**10**	78
Carrying amount analysed for reporting purposes:		
Current assets (receivables within 12 months from the end of the reporting period)	**10**	62
Non-current assets (receivables after 12 months from the end of the reporting period)	**–**	16
	10	78

Variable-rate loan receivables are secured by mortgage properties and bear interest at market interest rates.

The maturity profile of variable-rate mortgage loans, net of impairment allowances, at the end of the reporting period, is analysed by the remaining periods to their contractual maturity dates as follows:

	The Company	
	2011	2010
	HK$'000	*HK$'000*
Repayable:		
Within 3 months	**10**	11
Over 3 months but less than 1 year	**–**	51
Over 1 year but less than 5 years	**–**	16
	10	78

All the mortgage loans of the Company are neither past due nor impaired.

All the mortgage loans of the Group and the Company oustanding at 31 December 2011 and 2010 are denominated in Hong Kong dollars.

The fair value of the Group's and the Company's mortgage loans, determined based on the present value of the estimated future cash flows discounted using the applicable interest rate at the end of the reporting period, approximates the carrying amount of the mortgage loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

15. IMPAIRMENT ALLOWANCES ON MORTGAGE LOANS

	The Group HK$'000
Collective impairment allowances	
At 1 January 2010	168
Write-back during the year	(123)
At 31 December 2010	45
Write-back during the year	(45)
At 31 December 2011	–

There are no individual impairment allowances made for mortgage loans of the Company as at 31 December 2011 and 2010.

Individual impairment is made when the mortgage loan borrower is unable to repay the principal on time and the present value of the collateral held by the Group and the Company is not sufficient to cover the carrying amount of the loan.

In addition to conducting individual assessment of impairment, the Group and the Company have also carried out collective assessment. Mortgage loan impairment allowances were made on a collective basis with reference to historical loss experience.

16. LOAN RECEIVABLES

	The Group	
	2011 ***HK$'000***	2010 *HK$'000*
Fixed-rate loan receivables	**81,000**	124,000
Variable-rate loan receivables	**200,712**	–
	281,712	124,000
Less: accumulated impairment allowance on fixed-rate loan receivables	**(1,000)**	–
	280,712	124,000
Carrying amount analysed for reporting purposes:		
Current assets (receivables within 12 months from the end of the reporting period)	**280,712**	60,000
Non-current assets (receivables after 12 months from the end of the reporting period)	**–**	64,000
	280,712	124,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. LOAN RECEIVABLES *(continued)*

i) The loan receivables outstanding at 31 December 2011 and 2010 are denominated in Hong Kong dollars.

ii) At 31 December 2011, a loan receivable amounting to HK$60,000,000 (2010: HK$60,000,000), carries fixed interest at 9% per annum (2010: 8%) and is secured by a convertible bond issued by a listed entity in Hong Kong.

iii) A loan receivable amounting to approximately HK$200,712,000 (2010: nil) is secured by a floating charge on the entire assets (mainly included a residential property located in Hong Kong) of the guarantor. The loan bore variable interest rate based on the best lending rate offered by the Hong Kong and Shanghai Banking Corporation Limited which was reclassified from mortgage loan receivables during the year ended 31 December 2011 as details disclosed in note 14 to the consolidated financial statements.

In December 2011, the Group called for repayment on the principal amount of loan and respective accrued interest. Therefore, the loan receivable of approximately HK$200,712,000 became due immediately as details disclosed in note 39 to the consolidated financial statements.

At 31 December 2011, according to the valuation report dated 12 March 2012 (the "Valuation Report") issued by an independent professional valuer, Malcolm & Associates Appraisal Limited, the fair value of the residential property located in Hong Kong owned by the guarantor (the "Property") is HK$400,000,000. With regard to the effect of the winding-up petition filed in the High Court of Hong Kong against the guarantor, the fair value of the Property would be discounted by a range of 10% of the fair value stated in the Valuation Report. The directors of the Company are of the opinion that the fair value of the Property exceeded the carrying values of the principal amount of the loan and the interest receivables. Accordingly, no impairment allowance is considered necessary.

iv) A loan receivable amounting to HK$15,000,000 (2010: nil) is secured by a corporate guarantee issued by a listed entity in Hong Kong and carries fixed interest rates at 9% per annum. The remaining loan receivables of HK$6,000,000 are unsecured and carry fixed interest rates at a range of 9% to 20% per annum.

v) At 31 December 2010, a loan receivable amounting to HK$64,000,000 is secured by promissory notes issued by a listed entity in Hong Kong and carried a fixed interest rate of 8% per annum. The loan was fully repaid during the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. LOAN RECEIVABLES *(continued)*

vi) The maturity profile of these loan receivables at the end of the reporting period, analysed by the remaining periods to their contracted maturity, is as follow:

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Within 3 months	**203,712**	64,000
Over 3 months but less than 1 year	**77,000**	60,000
Over 1 year but less than 5 years	**–**	–
	280,712	124,000

Included in the carrying amount of the fixed-rate loan receivables of HK$3,000,000 as at 31 December 2011 is unsecured loan borrowed by a listed entity in Hong Kong.

Movement in the accumulated impairment allowance on loan receivables:

	The Group
	HK$'000
At 1 January 2010 and 31 December 2010	–
Charge during the year	1,000
At 31 December 2011	**1,000**

The fair value of the Group's loan receivables, determined based on the present value of the estimated future cash flows discounted using the applicable interest rate at the end of the reporting period, approximates the carrying amount of the loan receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY

	The Group and the Company	
	2011	2010
	HK$'000	*HK$'000*
Deposit paid for acquisition of a subsidiary	**10,000**	–

As at 31 December 2011, the deposit represents deposit paid for the acquisition of 100% equity interest in Weldtech Technology Co. Limited (the "Acquisition"). The amount is non-interest bearing.

Pursuant to the announcement of the Company dated 25 February 2011, Wise Planner Limited ("Wise Planner"), a wholly-owned subsidiary of the Company, has entered into a conditional sale and purchase agreement (the "Sale and Purchase Agreement") with (i) Carbon Reserve Investments Limited; (ii) Newmargin Partners Ltd; (iii) Season Best Investments Limited; (iv) Cross Cone Holdings Limited; (v) Smart Promise Limited; and (iv) SV Technology Company Limited (collectively referred to as the "Vendors") to acquire the entire share capital of Weldtech Technology Co. Limited ("Weldtech Technology"), a company incorporated in Hong Kong, at a consideration of HK$2,800,000,000. Weldtech Technology is engaged in the provision of energy monitoring and energy saving solutions and urban facilities to reduce energy consumption and to enhance overall energy efficiency.

The consideration shall be satisfied by (i) HK$231,000,000 by way of cash; (ii) HK$1,650,000,000 by way of issue of the convertible notes with the conversion price of HK$0.16 per conversion share; (iii) HK$319,000,000 by way of issue of the promissory notes; and (iv) HK$600,000,000 by way of allotment and issue of the consideration shares at the issue price of HK$0.16 per consideration share. At 31 December 2011, HK$10,000,000 cash has been paid as deposit.

On 24 June 2011, the Acquisition has been approved by the shareholders of the Company at the extraordinary general meeting. On 22 December 2011, Wise Planner and the Vendors have entered into a supplementary agreement to extend the long stop date of the Sale and Purchase Agreement. As such, the Sale and Purchase Agreement has not lapsed and would continue to proceed. Subsequent to this report date, Wise Planner and the Vendors reached an understanding not to further extend the long stop date of the Sale and Purchase Agreement, as details disclosure in note 39 to the consolidated financial statements.

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For the year ended 31 December 2011

18. AVAILABLE-FOR-SALE INVESTMENTS

	2011	2010
	HK$'000	*HK$'000*
Listed investments:		
Equity securities listed in Hong Kong	**6,360**	16,680
Unlisted investments:		
Equity securities in Hong Kong, at cost	**500**	–
Less: impairment recognised during the year	**(241)**	–
Equity securities in Hong Kong, net	**259**	–
Total	**6,619**	16,680

The equity securities listed in Hong Kong represent the fair value of an equity investment in 4.95% of total outstanding issued shares of listed entity at the end of the reporting period. The fair value of the listed equity securities was determined with reference to the quoted market bid price available on the Stock Exchange at 31 December 2011.

The unlisted investments represent investments in unlisted equity securities in 5% of the total outstanding issued shares of a company incorporated in Hong Kong at the end of the reporting period. They are measured at cost less identified impairment losses at the end of the reporting period because their fair values cannot be measured reliably.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
	HK$'000	*HK$'000*
Held-for-trading investments:		
Equity securities listed in Hong Kong	**20,626**	28,243

At 31 December 2011, the fair value of the listed equity securities was determined based on the quoted market bid prices available on the Stock Exchange.

At 31 December 2010, fair value of the listed equity securities, amounting to HK$14,760,000, was determined based on the quoted market bid prices available on the Stock Exchange. As the trading of the shares of the other listed equity security, has been suspended from 30 November 2010 to 17 January 2011, the fair value as at 31 December 2010, amounting to HK$13,483,000, was determined with reference to the closing bid price as at 29 November 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Interest receivables	**31,315**	5,718
Prepayments	**1,431**	1,794
Receivables from securities brokers	**2,577**	2,519
Receivable from disposal of a subsidiary (note 33)	**9,200**	9,700
Others	**308**	1,745
	44,831	21,476
Less: accumulated impairment allowance	**(11,448)**	–
	33,383	21,476

The movement in the accumulated impairment allowance on interest receivables and other receivables is as follows:

	Impairment allowance on interest receivables	**Impairment allowance on other receivables**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2010 and 31 December 2010	–	–	–
Charge during the year	2,248	9,200	11,448
At 31 December 2011	**2,248**	**9,200**	**11,448**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

At 31 December 2011, the receivable from disposal of a subsidiary amounting to HK$9,200,000 was overdue and an impairment allowance of HK$9,200,000 was provided.

	The Company	
	2011	2010
	HK$'000	*HK$'000*
Prepayments	**1,431**	1,794
Receivables from securities brokers	**2,162**	2,160
Receivable from disposal of a subsidiary (note 33)	**9,200**	9,700
Others	**3**	1,745
	12,796	15,399
Less: accumulated impairment allowance	**(9,200)**	–
	3,596	15,399

The movement in the accumulated impairment allowance on receivable from disposal of a subsidiary is as follows:

	HK$'000
At 1 January 2010 and 31 December 2010	–
Charge during the year	9,200
At 31 December 2011	**9,200**

Included in receivables from securities brokers are the following amounts denominated in a currency other than the functional currency of the Group:

	The Group	
	2011	2010
	'000	*'000*
USD	**277**	277

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. BANK BALANCES AND CASH

The amounts comprise bank balances held by the Group and the Company and short-term bank deposits bearing market interest rates ranging from 0.1% to 0.2% (2010: 0.1% to 0.2%) per annum. The fair value of these assets approximates the corresponding carrying amount.

22. OTHER PAYABLES AND ACCRUALS

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Accrued service fees for acquisition of a subsidiary	**7,478**	–
Accrued expenses	**1,327**	2,410
Other payables	**219**	359
	9,024	2,769

	The Company	
	2011	2010
	HK$'000	*HK$'000*
Accrued service fees for acquisition of a subsidiary	**7,478**	–
Accrued expenses	**367**	2,382
Other payables	**219**	359
	8,064	2,741

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. SHARE CAPITAL OF THE COMPANY

	Number of shares	*HK$'000*
Ordinary shares of par value HK$0.1 each		
Authorised:		
At 1 January 2010	300,000,000	300,000
Share subdivision (note a)	2,700,000,000	N/A
Increase in authorised share capital (note a)	2,000,000,000	200,000
At 1 January 2011	5,000,000,000	500,000
Increase in authorised share capital (note b)	25,000,000,000	2,500,000
At 31 December 2011	**30,000,000,000**	**3,000,000**
Issued and fully paid:		
At 1 January 2010	225,000,000	225,000
Share subdivision (note a)	2,025,000,000	N/A
Issue of ordinary shares (note c)	562,500,000	56,250
Shares placement on 23 December 2010 (note d)	1,135,000,000	113,500
Issue of shares upon conversion of convertible bonds (note 24)	47,200,358	4,720
At 31 December 2010 and 1 January 2011	3,994,700,358	399,470
Issue of shares upon conversion of convertible bonds (note 24)	346,788,309	34,679
Exercise of warrants (note 25)	10,000,000	1,000
At 31 December 2011	**4,351,488,667**	**435,149**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

23. SHARE CAPITAL OF THE COMPANY *(continued)*

Notes:

(a) Pursuant to an extraordinary general meeting of the Company held on 10 February 2010, each of the issued and unissued shares of HK$1.00 each in the share capital of the Company was subdivided into 10 shares (the "Share Subdivision") of HK$0.1 each (the "Subdivided Shares"). Following the Share Subdivision, the authorised share capital of the Company was further increased from HK$300,000,000 to HK$500,000,000 by the creation of an additional 2,000,000,000 shares of HK$0.10 each at the same extraordinary general meeting. The new shares rank pari passu in all respects with the existing issued shares of the Company.

(b) Pursuant to an extraordinary general meeting of the Company held on 24 June 2011, the authorised share capital of the Company was increased from HK$500,000,000 to HK$3,000,000,000 by the creation of an additional 25,000,000,000 shares of HK$0.1 each. The new shares shall rank pari passu in all respects with the existing issued shares of the Company.

(c) On 5 May 2010, the Company allotted and issued 562,500,000 ordinary shares of HK$0.1 each at a subscription price of HK$0.1 per share to the existing qualifying shareholders on the basis of one offer share for every four existing shares (the "Open Offer") and 449,999,997 options to subscribe for convertible bonds in a principal amount of HK$45,000,000 that can be convertible to the Company's shares with a conversion price of HK$0.1 per share. The fair value of options for convertible bonds amounting to approximately HK$51.8 million, which was estimated after taking into account the market prices of the Company's ordinary shares, at issue date of the options, is recognised in equity and the difference between the deemed consideration received (which is nil) and fair value of the options to subscribe for convertible bonds is deducted from retained profits. The net proceeds of approximately HK$54 million from the Open Offer, after deducting the issue expense of HK$2.2 million, were used as general working capital of the Group. Details of the Open Offer are set out in the Company's prospectus dated 15 April 2010.

(d) On 28 December 2010, the Company allotted and issued 1,135,000,000 shares through placement at the price of HK$0.11 per share. The total gross proceeds of the placement amounted to approximately HK$124.85 million. The net proceeds from the placing, after the deduction of the placing commission and other related expenses, amounted to approximately HK$121.73 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

24. OPTIONS TO SUBSCRIBE FOR CONVERTIBLE BONDS AND CONVERTIBLE BONDS

Pursuant to the Open Offer as disclosed in note 23c to the consolidated financial statements, the Company issued 449,999,997 options to the subscribers of the offer shares conferring the rights to the holders of the options thereof to subscribe in cash for convertible bonds of the Company in the principal amount of HK$45,000,000 of HK$0.1 each at any time during the period from 5 May 2010 to 4 May 2011.

The fair value of the convertible bond options on date of issuance are calculated by the Binomial Model with the following key attributes:

Volatility	101.24%
Share price of the Company	HK$0.18 *(note)*
Expected life	1 year
Dividend yield	0%
Risk free rate	0.988%

Note: The share price of the Company was adjusted for the impact of the Open Offer as details in note 23c to the consolidated financial statements.

During the period up to maturity date, the convertible bond holders shall be able to convert, but not redeem the convertible bonds, in their entirety (and not in portions). The Company may, during the same period, unilaterally enforce redemption in its sole and absolute discretion, upon obtaining the written confirmation from the convertible bond holders, at 90% of the principal amount without interest. The convertible bonds are zero-coupon, denominated in Hong Kong dollars and will mature on 31 December 2012. The directors of the Company consider the convertible bonds as equity instruments of the Company based on the substance of the contractual terms and the definition of a financial liability and an equity instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

24. OPTIONS TO SUBSCRIBE FOR CONVERTIBLE BONDS AND CONVERTIBLE BONDS *(continued)*

Unless previously converted by the convertible bond holders before maturity date, on the maturity date, the Company shall have the sole and absolute discretion to determine whether to redeem the convertible bonds on the maturity date at 100% of the principal amount of the convertible bonds or to issue ordinary shares of the Company to the convertible bond holders based on the conversion price of HK$0.1 per share.

During the year ended 31 December 2011, 346,982,249 (2010: 47,793,618) options were exercised by the convertible bond option holders and the Company has issued convertible bonds in the principal amount of HK$34,698,225 (2010: HK$4,779,362) accordingly.

On 4 May 2011, 55,224,130 options were lapsed upon expiry of exercise period and the remaining amount of approximately HK$6,352,000 was transferred to accumulated loss.

During the year ended 31 December 2011, convertible bonds in the principal amount of HK$34,687,831 (2010: HK$4,720,036) were converted into 346,788,309 (2010: 47,200,358) ordinary shares of HK$0.1 each of the Company. At 31 December 2011, the Company had convertible bonds in the principal amount of HK$78,720 (2010: HK$59,326) outstanding and no (2010: 402,206,379) outstanding options.

25. WARRANTS

On 10 May 2010, the Company and Fortune (HK) Securities Limited entered into a placing agreement in respect of the placement of 562,000,000 warrants of the Company to independent investors at a price of HK$0.01 per warrant. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.1 each at a subscription price of HK$0.18. Subsequently, the placing agent and the Company agreed to vary the warrant placement by terminating the warrant placing agreement dated 10 May 2010 and entering into a supplemental warrant placing agreement on 7 June 2010. Pursuant to the supplemental warrant placing agreement dated 7 June 2010, the exercise price was amended from HK$0.18 to HK$0.147 per warrant. The placement was completed on 22 June 2010 with the warrants expiring on 21 June 2012. Details of the above are set out in the Company's announcements dated 11 May 2010, 7 June 2010 and 22 June 2010, respectively.

During the year ended 31 December 2011, 10,000,000 warrants (2010: nil) were exercised at HK$0.147 and 10,000,000 (2010: nil) shares were issued. The total proceeds of the conversion of warrants amounted to HK$1,470,000. At 31 December 2011, the Company had 552,000,000 (2010: 562,000,000) outstanding warrants, the exercise in full of these warrants would result in further issuance of 552,000,000 (2010: 562,000,000) ordinary shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

26. RESERVES OF THE COMPANY

	Share premium HK$'000	Convertible bonds HK$'000	Convertible bond options HK$'000	Warrants HK$'000	Retained profits (accumulated losses) HK$'000	Total HK$'000
At 1 January 2010	–	–	–	–	11,932	11,932
Loss for the year, representing total comprehensive expense for the year	–	–	–	–	(31,612)	(31,612)
Issue of ordinary shares and options for convertible bonds (note 23c)	–	–	51,763	–	(51,763)	–
Issue of convertible bonds upon conversion of convertible bond options (note 24)	–	10,277	(5,498)	–	–	4,779
Issue of shares upon conversion of convertible bonds (note 24)	5,429	(10,149)	–	–	–	(4,720)
Issue of warrants (note 25)	–	–	–	5,620	–	5,620
Issue of ordinary shares by placement (note 23d)	11,350	–	–	–	–	11,350
Transaction cost attributable to issue of shares	(3,121)	–	–	–	–	(3,121)
At 31 December 2010	13,658	128	46,265	5,620	(71,443)	(5,772)
Loss for the year, representing total comprehensive expense for the year	–	–	–	–	(56,357)	(56,357)
Lapse of convertible bond options (note 24)	–	–	(6,352)	–	6,352	–
Issue of convertible bonds shares upon conversion bond options (note 24)	–	74,611	(39,913)	–	–	34,698
Issue of shares upon conversion of convertible bonds (note 24)	39,891	(74,570)	–	–	–	(34,679)
Issue of shares upon conversion of warrants (note 25)	570	–	–	(100)	–	470
At 31 December 2011	**54,119**	**169**	**–**	**5,520**	**(121,448)**	**(61,640)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

27. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and reserves. The management reviews the capital structure by considering the cost of capital. In view of this, the Group manages its overall capital structure through monitoring the cash level, payment of dividends and issuance of share capital and convertible bonds (options), if the need arise.

28. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale investments	**6,619**	16,680
Financial assets at fair value through profit or loss	**20,626**	28,243
Loans and receivables (including cash and cash equivalents)	**342,547**	350,277
	369,792	395,200
Financial liabilities		
Other financial liabilities at amortised cost	**9,024**	2,769

	The Company	
	2011	2010
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**370,053**	394,472
Financial liabilities		
Other financial liabilities at amortised cost	**8,447**	2,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. These risks include market risks (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's and the Company's activities expose them primarily to the financial risks of changes in foreign currency exchange rates, interest rates and prices of held-for-trading equity investments and available-for-sale investments.

Foreign currency risk management

The Group and the Company have US$ denominated bank balances and cash and other receivables, which expose the Group and the Company to foreign currency risk.

No sensitivity analysis is presented for foreign currency risk as the directors of the Company considered that the effect is insignificant under the linked exchange rate system between HK$ and US$.

Interest rate risk management

The Group's exposure to cashflow interest rate risk is mainly caused by variable-rate mortgage loans and loan receivables.

If interest rates had been 100 (2010: 100) basis points higher/lower and all other variables were held constant, the Group's loss after tax for the year ended 31 December 2011 would decrease/increase by approximately HK$1,680,000 (2010: loss after tax increase/decrease by HK$1,067,000).

The sensitivity analysis have been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. The analysis is prepared assuming the amount of structured secured loan and variable-rate mortgage loans at the reporting date were outstanding for the whole year. A 100 basis point increase or decrease in the Hong Kong lending rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The Group currently has no hedging approach to the cashflow interest rate risk and fair values interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. FINANCIAL INSTRUMENTS *(continued)*

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

Price risks

The Group is exposed to price risk through its investments in listed equity securities during the reporting period. The price risk is monitored by the management of the Group and appropriate action will be taken to mitigate the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to price risk at the reporting date.

If market prices of held-for-trading equity investments have been 20% (2010: 20%) higher/lower, loss before tax for the year ended 31 December 2011 would decrease/increase by approximately HK$4,125,000 (2010: HK$4,717,000).

If market prices of available-for-sale equity securities have been 20% higher/lower, investments revaluation reserve as at 31 December 2011 would increase/decrease by approximately HK$1,272,000 (2010: HK$2,786,000).

The Group's and the Company's sensitivity to prices have decreased during the current year mainly due to drop in fair value of the listed equity securities.

Credit risk

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position and statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue loans. In addition, the Group and the Company review the recoverable amount of each individual mortgage loan and loan receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The credit risk on liquid funds is limited because the counterparties are banks located in Hong Kong subject to the supervision by the Hong Kong Monetary Authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk (continued)

At 31 December 2011, the Group had concentration of credit risk on mortgage loans of HK$10,200,000 (2010: HK$127,000,000 to one borrower) to 3 borrowers and loan receivables of HK$281,712,000 to 6 borrowers (2010: HK$124,000,000 to 2 borrowers). The directors of the Company closely monitor the risk exposure of the customers and collateral and would take appropriate action to ensure the risk exposure is acceptable. The directors of the Company are of the view that the expected cash flow of the mortgage loan and loan receivables are sufficient to cover the carrying amount of the mortgage loan and loan receivables as at 31 December 2011. The Group has no other significant concentration of credit risk, with exposures spread over a number of counterparties in Hong Kong.

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

No analysis of maturity profile on financial liabilities is prepared as, in the opinion of directors of the Company, the Group and the Company's financial liabilities are repayable on demand by virtue of their nature.

Fair value of financial instruments

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. FINANCIAL INSTRUMENTS *(continued)*

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

Fair value of financial instruments (continued)

	The Group			
	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at FVTPL				
Equity securities listed in Hong Kong	**20,626**	**–**	**–**	**20,626**
Available-for-sale investments				
Listed investments	**6,360**	**–**	**–**	**6,360**
Total	**26,986**	**–**	**–**	**26,986**

	The Group			
	31 December 2010			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at FVTPL				
Equity securities listed in Hong Kong	28,243	–	–	28,243
Available-for-sale investments				
Listed investments	16,680	–	–	16,680
Total	44,923	–	–	44,923

The Company does not hold any financial investments measured at fair value as at 31 December 2011 and 2010.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2011	2010
	HK$'000	*HK$'000*
Unlisted shares, at cost	**390**	152

Particulars of subsidiaries at 31 December 2011 and 2010 are as follows:

Name of company	Place of incorporation and operation	Issued and fully paid ordinary share capital	Percentage of equity attributable to the Company 2011	2010	Principal activities
The Building and Loan Agency (Asia) Limited ("The BLA (Asia)")	Hong Kong	HK$2	**100%**	100%	Money lending
Winbest Holdings Limited	British Virgin Islands	US$1	**100%**	100%	Struck off[1]
Alpha Gain Limited	Hong Kong	HK$2	**100%**	100%	Inactive
Palmy Right Limited	British Virgin Islands	US$1	**100%**	100%	Securities investment
United Warrior Limited	British Virgin Islands	US$1	**100%**	100%	Inactive
Wise Planner Limited ("Wise Planner")	British Virgin Islands	US$1	**100%**	100%	Inactive[2]
Total Global Holdings Limited	British Virgin Islands	US$50,000	**100%**	–	Inactive
Diamond Team Limited	British Virgin Islands	US$1	**100%**	100%	Inactive

1 Winbest Holdings Limited has been struck off on 2 May 2011.

2 Except for Wise Planner, all other subsidiaries were directly held by the Company.

None of the subsidiaries had any debt securities at 31 December 2011 and 2010 or at any time during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

30. AMOUNTS DUE FROM SUBSIDIARIES

	The Company	
	2011	2010
	HK$'000	*HK$'000*
Amounts due from subsidiaries	**480,270**	363,102
Accumulated allowance for impairment loss	**(115,035)**	(55,285)
	365,235	307,817

	The Company	
	2011	2010
	HK$'000	*HK$'000*
Carrying amount analysed for reporting purpose:		
Current assets (receivables within 12 months from the end of the reporting period)	**365,235**	116,817
Non-current assets (receivables after 12 months from the end of the reporting period)	**–**	191,000
	365,235	307,817

The amounts due from subsidiaries totalling HK$90,235,000 (2010: HK$56,817,000) are unsecured, interest-free and have no fixed repayment terms and the amounts due from subsidiaries totalling HK$275,000,000 (2010: HK$251,000,000) are unsecured, bear interest at rates ranging from 7.25% to 12.25% per annum (2010: 7.25% to 11.25% per annum) and have no fixed repayment terms.

Movement in the accumulated allowance for impairment loss

	The Company	
	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of year	**55,285**	7,894
Charge during the year	**59,750**	47,391
Balance at end of year	**115,035**	55,285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

31. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

32. DEFERRED TAXATION

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

	Available-for-sale investments	Investment revaluation	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2010	–	–	–
Credit to profit or loss	1,703	–	1,703
Charge to other comprehensive income	–	(1,703)	(1,703)
At 31 December 2010 and 1 January 2011	1,703	(1,703)	–
Charge to profit or loss	(1,703)	–	(1,703)
Credit to other comprehensive income	–	1,703	1,703
At 31 December 2011	**–**	**–**	**–**

At the end of the reporting period, the Group has tax losses of approximately HK$71,341,000 (2010: approximately HK$72,996,000) available for offset against future profits.

No deferred tax assets has been recognised in respect of the Group's estimated unused tax losses of HK$81,661,000 (2010: HK$62,676,000) as it is uncertain that there will be sufficient future profits available to utilise the balances. The unrecognised tax losses may be carried forward indefinitely.

At the end of the reporting period, the Company has tax losses of approximately HK$7,044,000 (2010: HK$32,190,000) available for offset against future profits. No deferred tax assets has been recognised in respect of the estimated unused tax losses of the Company as it is uncertain that there will be sufficient future profits available to utilise the balances. The unrecognised tax losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

33. DISPOSAL OF A SUBSIDIARY

On 29 December 2010, the Company disposed of its 100% equity interest of its subsidiary, Tack On Limited, to a third party for a consideration of HK$9,700,000 in cash.

The net assets of the disposed subsidiary are as follows:

	Carrying amount before disposal *HK$'000*
Net assets disposed of:	
Financial assets at fair value through profit or loss	9,173
Bank balance	10
Accruals	(36)
Amount due to the Company	(9,349)
	(202)
Debt from Tack On assigned to purchaser	9,349
Gain on disposal	553
Total consideration receivable	9,700
Net cash flow arising on disposal:	
Cash consideration received	–
Bank balance disposed of	(10)
	(10)

34. CAPITAL COMMITMENT

Pursuant to the Company's announcement dated 25 February 2011, Wise Planner entered into the Sale and Purchase Agreement with the Vendors to acquire the entire share capital of Weldtech Technology, at a consideration of HK$2,800,000,000. At 31 December 2011, HK$10,000,000 cash has been paid as deposit. Details are set out in note 17 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. CAPITAL COMMITMENT *(continued)*

Capital commitments in respect of the Acquisition outstanding at each of the end of the reporting period not provided for in the consolidated financial statements were as follows:

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Contracted for	**2,790,000**	–

Subsequent to this report date, Wise Planner and the Vendors reached an understanding not to further extend the long stop date of the Sale and Purchase Agreement, as details disclosure in note 39 to the consolidated financial statements.

35. OPERATING LEASES

At the end of the reporting period, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases for certain of its office premises as follows:

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Within one year	**1,538**	788
In the second to fifth years inclusive	**771**	–
	2,309	788

	The Company	
	2011	2010
	HK$'000	*HK$'000*
Within one year	**64**	752
In the second to fifth years inclusive	**17**	–
	81	752

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

36. RETIREMENT BENEFIT SCHEME

The Group and the Company participate in a defined contribution scheme which is registered under a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the scheme are held separately from those of the Group and the Company, in funds under the control of trustee.

For members of the MPF Scheme, the Group and the Company contribute 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost charged to the profit or loss of approximately HK$55,000 (2010: HK$81,000) represents contributions payable to the MPF Scheme by the Group in respect of the current year.

37. SHARE OPTION SCHEME

On 22 May 2008, the Company adopted a share option scheme (the "Share Option Scheme"), pursuant to which the board of directors of the Company (the "Board") may, at its discretion, grant options to the eligible participants (as defined in the Share Option Scheme) including employees, directors, shareholders and other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group. The subscription price for the shares under the Share Option Scheme will be a price determined by the Board in its absolute discretion but shall not be lower than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of a share. The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option scheme(s) of the Company must not exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to a director, chief executive or substantial shareholder or any of their respective associates in excess of 0.1% of the Company's share capital and with a value in excess of HK$5,000,000 must be approved by the Company's shareholders. Options granted under the Share Option Scheme will entitle the holder to subscribe for shares from the date of grant up to 21 May 2018. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

No options were granted to any directors and employees of the Group pursuant to the Share Option Scheme and there were no option outstanding during the two years ended 31 December 2011 and 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

38. RELATED PARTY TRANSACTIONS

During the year, the Group and the Company entered into the following transactions with related parties:

(a) Income or expense items:

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Services fee paid to a company, which is a subsidiary of one of the substantial shareholders of the Company	**1,375**	–

The directors of the Company are of the opinion that the transaction was entered into on normal commercial terms and in the ordinary course of the Group's business.

(b) Compensation of key management personnel

The key management of the Group comprises all directors of the Company, details of their remuneration are disclosed in note 9 to the consolidated financial statements. The remuneration of Directors is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

39. EVENTS AFTER THE REPORTING PERIOD

(1) The BLA (Asia) (the "Lender") filed a winding-up petition in the High Court of Hong Kong against Joy Rich Development Limited (the "Guarantor") for default on full repayment of a loan (the "Loan") in the principal amount of approximately HK$200,712,000 together with interest accrued thereon (collectively, the "Petition") on 14 March 2012.

The Lender, Greatstep International Limited (the "Borrower") and the Guarantor entered into a loan agreement with respect to the Loan on 26 January 2011 (collectively, the "Loan Agreement"). The Loan is secured by a floating charge over the entire assets of the Guarantor or the Borrower (the "Floating Charge"). The carrying values of the principal amount of the Loan and the interest receivables was approximately HK$200,712,000 and HK$27,962,000 and are included in the loan receivables (note 16) and other receivables (note 20) as at 31 December 2011, respectively.

Following the failure of the Borrower and/or the Guarantor to repay all or part of the Loan upon demand, the Floating Charge crystallised and converted into a fixed charge over the whole of the Borrower's and/or the Guarantor's property, undertaking, rights, income and assets, including, but not limited to the residential property (the "Charged Property") located in Hong Kong which is owned by the Guarantor and which was registered in the Land Registry on 29 February 2012. Upon the filing of the Petition, this legal proceeding is still ongoing as at the date hereof.

Taking into account of the valuation report issued by Malcolm & Associates Appraisal Limited, an independent professional valuer, which stated that the fair value of the Charged Property exceeded the carrying values of the principal amount of the Loan and the interest receivables as at 31 December 2011, the directors of the Company are of the opinion that no impairment allowance is necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

39. EVENTS AFTER THE REPORTING PERIOD *(continued)*

(2) On 22 December 2011, Wise Planner, a wholly-owned subsidiary of the Company, (i) Carbon Reserve Investments Limited; (ii) Newmargin Partners Ltd; (iii) Season Best Investments Limited; (iv) Cross Cone Holdings Limited; (v) Smart Promise Limited; and (iv) SV Technology Company Limited, the SV Technology Company Limited's guarantors and the Company (collectively referred to as the "VSA Parties") have entered into a fifth supplementary agreement to extend the long stop date of the conditional sale and purchase agreement dated 25 February 2011 (the "Sale and Purchase Agreement") to 31 January 2012 and amend certain terms and conditions of the Sale and Purchase Agreement. On 29 February 2012, the VSA Parties reached an understanding not to further extend the long stop date, and instead discussed about the way to proceed with the acquisition of 100% equity interest in Weldtech Technology Co. Limited, including doing so in or under an optimal and / or revised structure (the "Revised Structure").

While no final decision has been made at the time of the consolidated financial statements was authorised for issue, the directors of the Company are optimistic about the outcome of such discussions and shall give their best efforts to cooperate with the VSA Parties to proceed with the Acquisition or the Revised Structure as soon as possible.

Details of the Acquisition had been disclosed in the Company's announcements dated 25 February 2011, 21 April 2011, 19 May 2011, 31 May 2011, 24 June 2011, 20 July 2011, 30 September 2011, 6 October 2011, 9 January 2012, 12 January 2012 and 22 March 2012, respectively, and the Company's circular dated 31 May 2011.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the five financial years ended 31 December 2011, as extracted from the audited consolidated financial statements, is as set out below.

RESULTS

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**37,995**	18,850	3,845	7,553	11,556
(Loss) profit for the year attributable to owners of the Company	**(49,305)**	(33,727)	3,384	(1,465)	(2,711)
(Loss) earnings per share					
– Basic	**(1.17)**	(1.18)	0.12	(0.07)	(0.12)
– Diluted	**(1.17)**	(1.18)	N/A	N/A	N/A

ASSETS AND LIABILITIES

	At 31 December				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**381,627**	397,128	232,436	230,364	231,033
Total liabilities	**(9,024)**	(2,771)	(1,347)	(1,784)	(1,773)
Net assets	**372,603**	394,357	231,089	228,580	229,260