MADEX 2011

Annual Report

Madex International (Holdings) Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00231)

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Zhong Guoxing *(Chief Executive Officer)*
Mr. Zhang Guodong

Non-executive Director:

Ms. Liang Huixin

Independent Non-executive Directors:

Dr. Dong Ansheng
Mr. Hung Hing Man
Dr. Tam Hok Lam, Tommy, *JP*

AUDIT COMMITTEE

Mr. Hung Hing Man *(Committee Chairman)*
Dr. Dong Ansheng
Dr. Tam Hok Lam, Tommy, *JP*

REMUNERATION COMMITTEE

Dr. Tam Hok Lam, Tommy, *JP (Committee Chairman)*
Dr. Dong Ansheng
Mr. Zhong Guoxing
Mr. Hung Hing Man

NOMINATION COMMITTEE

Dr. Dong Ansheng *(Committee Chairman)*
Mr. Zhong Guoxing
Mr. Hung Hing Man
Dr. Tam Hok Lam, Tommy, *JP*

AUTHORISED REPRESENTATIVES

Mr. Zhong Guoxing
Mr. Chan Kwan Pak

COMPANY SECRETARY

Mr. Chan Kwan Pak

AUDITORS

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co. Ltd. (Hong Kong) Branch

PRINCIPAL REGISTRARS AND TRANSFER OFFICES

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 3005, 30/F, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

WEBSITE

www.madex.com.hk

STOCK CODE

00231

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

On behalf of the board of directors ("the Directors") of Madex International (Holdings) Limited ("the Company") and its subsidiaries (together "the Group"), I would like to present to the shareholders of the Company the annual report for the year ended 31 December 2011.

RESULTS

For the year ended 31 December 2011, the Group recorded an audited consolidated turnover of approximately HK$27,310,000, representing an increase of approximately 10% as compared to the year ended 31 December 2010, and net profit of approximately HK$49,904,000, representing a decrease of approximately 6% as compared to the year ended 31 December 2010. The decrease in net profit was mainly attributable to the net effect on fair value change on investment properties, derivative financial assets, derivative financial liabilities and contingent consideration.

BUSINESS REVIEW

2011 saw a changing and complicated economic environment, worldwide and domestic alike, and the development of the Chinese economy softened as a result of the macro control. The property market especially in the first-line cities was substantially affected. However, as a developer of commercial properties in the up and coming cities, the effect of economic downturn on us was comparatively modest.

Eyeing on the tremendous potential in the western region of China, the Group conducted a very substantial acquisition of King's Mall, a mall in Chongqing, Sichuan Province, a hub of the vast western region of the PRC during the year. The acquisition was completed and has become our biggest investment project. Some construction works are still underway because an extension is being made to the mall to increase its floor area and an overhead bridge leading to the mass transit railway is still in progress. Those construction works have delayed the opening of the mall. The decoration works of the mall are now at full swing and a grand opening is scheduled for May 2012. Tenancy agreements have been signed with some anchored tenants, such as New Century Department Store and movie house, which are expected to draw the traffic of shoppers, and in turn bring in remarkable revenue and cashflow.

All other existing projects continued to bring steady income to the Group. During the year, we received rental income of approximately HK$18,631,000 from our mall in Harbin. The Group had also got approximately HK$6,627,000 and HK$4,375,000 being royalty fee income and share of profit respectively from the Xiangquan Hotel project and another joint venture project in 2011.

PROSPECTS AND OUTLOOK

Looking forward, while it is still expected that China will continue to outperform most of the advanced economies, China is projected to grow merely 7.5% in 2012. The slowdown of growth will unavoidably affect different sectors across the board, and the property sector is no exception. However, the Company sees the co-existence of challenges and opportunities.

Aiming at becoming a leading developer in the commercial property sector in China, the Group will strive with prudence to explore new business development opportunities on the solid base we have set up. We are confident that the emerging domestic demand will be a driving force for the Group's growth in the long run.

LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS, GEARING AND CAPITAL COMMITMENTS

As at 31 December 2011, the Group's current assets and current liabilities were HK$92,872,000 and HK$613,924,000 respectively. The total secured bank loans amounted to HK$537,614,000.

As at 31 December 2011, main charges on assets of the Group included bank balances of HK$4,031,000, investment properties with fair value of HK$2,790,148,000 and leasehold land and buildings with carrying amount of approximately HK$30,290,000.

As at 31 December 2011, the Group had capital commitments of HK$230,552,000 in relation to the acquisition of investment properties under redevelopment.

The Group's gearing ratio as at 31 December 2011 was 64%, which is calculated on the Group's total liabilities divided by its total assets.

FOREIGN EXCHANGE RISK

The Group's operations are principally in the PRC and all assets and liabilities were denominated either in Renminbi or Hong Kong dollars. The Directors considers that the Group does not have any material exposure to fluctuations in exchange. Therefore, no hedging measures have been taken at present.

CONTINGENT LIABILITIES

(a) During the period from 1 January 2004 to 31 December 2006, certain units and shops of the investment properties located in Chongqing had been sold to independent third parties (the "Buyers") under sale and purchase agreements (the SP Agreements"). Leasing agency contracts and mortgage contracts were signed together with SP Agreements among the Buyers, Chongqing Kings Mall Real Estate Development Company Limited ("Kings Development") and Jia Jun Business Management Consultants Limited ("Jia Jun"). Pursuant to the terms of the leasing agency contracts, Jia Jun would pay the Buyers an annual rental income equivalent to ten percent of the purchase price of the properties over twenty years.

    Based on the legal advice from the legal adviser of the Group, the directors of the Company considered that they have strong and valid ground of defence in relation to the potential claims in respect of the Buyers without entering into cancellation agreements regarding the units the Buyers had bought ("Problematic Properties") and the directors of the Company considered that Kings Development would not suffer material financial losses arising from such litigation and has the right to occupy and lease the Problematic Properties to other tenants to generate rental income.

    On 27 February 2011, pursuant to a deed of indemnity executed by Profit China Investments Development Limited ("Profit China") and Mr. Liang Wenguan ("Mr. Liang"), the controlling shareholder of the Company, in favour of the Group at the date of acquisition completion, Profit China and Mr. Liang will indemnify the Group against all costs that the Group may suffer in relation to the investment properties acquired on the acquisition of Kings Development and its subsidiary and holding companies (the "Acquired Group") and any disputes and litigation (whether commencing before or after the acquisition completion) against the Group arising or accruing in relation to the operation of the Acquired Group on or before the date of acquisition completion (the "Indemnified Liabilities").

In addition, on 19 May 2011, Zhu Hai Port Plaza Development Company Limited entered into an undertaking to bear the aforesaid Indemnified Liabilities to the extent that such losses, liabilities and expenses have not been settled by Mr. Liang pursuant to his obligations under the indemnity agreement executed by him in favour of Kings Development that Kings Development may suffer.

(b) During the year ended 31 December 2010, the Group received a legal letter from an independent third party in respect of a dispute arising from a past exclusive distributorship agreement. Alleged losses of RMB12,000,000 were claimed to have been suffered by the independent third party.

The directors of the Company considered that the Group had a valid and strong ground for defence as the independent third party has no right to enter into any exclusive distributorship agreement. As a result, the possibility of the Group to lose the case is remote and the Group is not expected to suffer material financial losses arising from such litigation, if any. Accordingly, no provision for any claim amount and other costs were made as at 31 December 2011 and 2010 in the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

The Group had a total of approximately 250 employees, who were remunerated according to nature of the job and market trend, as well as individual qualifications and performance. The Group has participated in the Mandatory Provident Fund Scheme. On the job training was provided to its staff from time to time.

APPRECIATION

On behalf of the Board, I would like to express our gratitude to the management and staff for their valuable contribution and dedication in the past year. We would also like to thank our shareholders, investors, customers and business partners for their continued support and confidence.

Zhong Guoxing
CEO & Executive Director

Hong Kong, 30 March 2012

BIOGRAPHIES OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhong Guoxing, aged 45, has been an executive Director since 11 August 2009 and additionally appointed as the CEO of the Company with effect from 11 June 2010. Mr. Zhong was graduated from the Hunan University, majoring in Manufacturing Accounting and holds a Master's Degree in Business Administration from the Asia International Open University (Macau). Mr. Zhong had been a manager of Zhuhai Branch, Bank of China (中國銀行珠海市分行) and an assistant general manager of Guangzhou Branch, China Oriental Asset Management Company (中國東方資產管理公司). He had also been the managing director respectively of Zhuhai International Finance Building (Group) Company (珠海國際金融大廈(集團)公司) and Zhuhai Hongwan Combined Cycle Generation Company Limited (珠海洪灣燃機發電有限公司), Zhuhai Yuhua Polyester Company Limited (珠海裕華聚脂有限公司) as well as the general manager of Oriental Polytec Asset Management Company Limited (東方保利達資產管理有限公司).

Mr. Zhang Guodong, aged 35, has been an executive Director of the Company since 1 March 2009. Mr. Zhang holds a Bachelor's degree in Accountancy. He is a certified accountant in the PRC. Mr. Zhang had worked as a project manager respectively in Beijing and Zhuhai BDO Certified Public Accountants, as well as a department manager in BDO Shenzhen Dahua Tiancheng Certified Public Accountants, and was mainly responsible for financial audit and advisory as well as tax planning work relating to companies listed in the PRC and overseas. He was then appointed as the financial controller of a few companies in the PRC respectively. Mr. Zhang is well versed in the PRC and international accounting standards, rules and regulations and has profound knowledge in finance.

NON-EXECUTIVE DIRECTOR

Ms. Liang Huixin, aged 26, has been a non-executive Director since 11 August 2009. Ms. Liang holds a Bachelor of Science degree in economics and political science from the University of Oregon, the United States. She had served in the banking sector in Singapore before. She has been the managing director of Shanghai Madex Business Management Company, Limited (上海盛鑫商業管理有限公司) since 2008. Ms. Liang is the daughter of Mr. Liang Wenguan, the controlling shareholders of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Dong Ansheng, aged 60, has been an independent non-executive Director since 6 January 2006. Dr. Dong holds a Bachelor of Laws degree from the Political and Law Sciences School of Chinese Northwestern College (西北政法學院); and Master and Doctoral degrees in laws from the Law School of the Renmin University, China (中國人民大學). Dr. Dong is well versed in various areas of law and has been a lecturer in mainland China, Hong Kong, Taiwan and Finland as well as a China law consultant to a number of companies in their listing exercise in mainland China and Hong Kong.

Dr. Dong is serving as an independent non-executive director of BOE Technology Group Company, Limited (listed on the Shenzhen Stock Exchange), Shandong Tongyu Heavy Industry Company, Limited (listed on the Shenzhen Stock Exchange) and Sichuan Western Resources Company, Limited (listed on the Shanghai Stock Exchange). Dr. Dong had served as has been an independent non-executive director of Beijing Capital International Airport Corporation Limited (Stock code: 694, Hong Kong Stock Exchange) and Zhongjin Gold Company, Limited (listed on the Shenzhen Stock Exchange).

Mr. Hung Hing Man, aged 41, has been an independent non-executive Director since 23 September 2009. Mr. Hung holds a Master's degree in Business Administration from the University of Western Sydney. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong and a member of the Society of Chinese Accountants and Auditors. Mr. Hung has extensive experience in the sectors of corporate finance, accounting, auditing and taxation and is currently a proprietor of a certified public accountants firm. Mr. Hung also serves as an independent non-executive director of Premium Land Limited (Stock code: 164, Hong Kong Stock Exchange) and Eternity Investment Limited (Stock Code: 764, Hong Kong Stock Exchange).

Dr. Tam Hok Lam, Tommy Ph.D., *JP*, aged 62, has been an independent non-executive Director since 11 June 2010. Dr. Tam is a fellow member of the Association of International Accountants and the Hong Kong Institute of Certified Public Accountants. He is also an honorary director of Hong Kong Watch Manufacturer's Association Limited and a council member of the Hong Kong Institute of Directors. Dr. Tam is serving as an independent non-executive director of Elegance International Holdings Limited (Stock code: 907, Hong Kong Stock Exchange). Dr. Tam is currently a director of Nano and Advanced Materials Institute Limited (NAMI). He is the Managing Director of Tomson Holdings Limited, which is an investment holding company; and is also the Chairman of Artistic Precision Holdings Limited, which is involved in watch design, production and trading. Dr. Tam is a Standing Committee Member of the Chinese People's Political Consultative Conference in Shandong Province, the PRC.

CORPORATE GOVERNANCE REPORT

The board of directors ("Board") is committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance with emphasis on transparency, independence and accountability. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly tightened regulatory requirements.

The Code on Corporate Governance Practices ("CGP Code") issued by The Stock Exchange of Hong Kong Limited ("Stock Exchange") in its Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") sets out two levels of corporate governance practices, ie, mandatory code provisions that a listed company must comply with or explain its non-compliance, and recommended best practices that listed companies are encouraged to comply with but need not disclose in the case of non-compliance. The Company is in compliance with the mandatory code provisions of the CGP Code, save for the deviations discussed below.

THE BOARD

The Board is responsible for guiding and leading the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders.

The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors. The Board has established committees to oversee different areas of the Company's affairs. The composition of the Board and the committees are given below and their respective responsibilities are discussed in this report. The Board members have no financial, business, family or other material/relevant relationships with each other.

The numbers of meetings of the Board and various committees attended by each Director during the year under review are set out in the following table. Figure in brackets indicates maximum number of meetings in the period in which the individual could attend as a Board member and member of various committees, as the case may be.

	Meetings Attended/(Held)			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors				
Mr. Zhong Guoxing	7/(7)	N/A	0/(0)	1/(1)
Mr. Zhang Guodong	7/(7)	N/A	N/A	N/A
Non-executive Director				
Ms. Liang Huixin	6/(7)	N/A	N/A	N/A
Independent Non-executive Directors				
Dr. Dong Ansheng	7/(7)	2/(2)	0/(0)	1/(1)
Mr. Hung Hing Man	7/(7)	2/(2)	0/(0)	1/(1)
Dr. Tam Hok Lam, Tommy, *JP*	7/(7)	2/(2)	0/(0)	1/(1)

Each of the independent non-executive Directors have confirmed in writing their independence from the Company in accordance with the guidelines on director independence of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

Biographical details of the Directors as at the date of this report are set out on pages 6 to 7 of this annual report. Given the composition of the Board and the skills, knowledge and expertise of the Director, the Board believes that it is appropriately structured to provide sufficient checks and balances to protect the interests of the Group and the shareholders. The Board will review its composition regularly to ensure that it has the appropriate balance of expertise, skills and experience to continue to effectively oversee the business of the Company.

The Directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. Details of emoluments of the Directors from the Group for the year are disclosed in note 14 to the financial statements.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Appointment of any new Director are considered upon recommendation by the Nomination Committee and approved by the Board by taking into account criteria such as expertise, experience, integrity and commitment.

In accordance with the Bye-laws of the Company ("Bye-laws"), all Directors are subject to retirement by rotation and re-election at annual general meetings of the Company. New Directors appointed by the Board during the year are required to retire and submit themselves for re-election at the first general meeting immediately following their appointments. Further, at each annual general meeting, one-third of the Directors, or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third are required to retire from office.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same person. No Board Chairman has been appointed by the Company, and decisions are made collectively by the executive Directors. The position of CEO has been assumed by Mr. Zhong Guoxing since 11 June 2010, an executive Director of the Company. The Board believes that the present arrangement enables the Company to make and implement decisions promptly, and thus achieve the Company's objectives efficiently and effectively in response to the changing environment.

TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

Code provision A.4.1 requires that non-executive directors should be appointed for a specific term and subject to re-election. Currently, all independent non-executive Directors have no specific term of office with the Company. All of them are subject to retirement by rotation in accordance with Company's Bye-laws. As such, the Company considers that sufficient measures have been taken to serve the purpose of this code provision.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee comprises all independent non-executive Directors and is chaired by Mr. Hung Hing Man. The Committee is responsible for review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures. The Committee is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. In performing its duties, it has unrestricted access to personnel, records and external auditors and senior management.

The Audit Committee has specific written terms of reference which are of no less exacting terms than those stipulated in Code provision.

REMUNERATION COMMITTEE

The Remuneration Committee, comprised all independent non-executive Directors and the CEO, is responsible for reviewing and determining the compensation and benefits of the Directors and senior management. The Remuneration Committee is chaired by Dr. Tam Hok Lam, Tommy, an independent non-executive Director.

The Remuneration Committee has specific written terms of reference which are of no less exacting terms than those stipulated in the Code Provision.

NOMINATION COMMITTEE

The Nomination Committee, comprised all independent non-executive Directors and the CEO, is responsible for reviewing and making recommendation to the Board on matters relating to the Board structure and appointment and re-appointment of Directors. The Nomination Committee is chaired by Dr. Dong Ansheng, an independent non-executive Director.

The Nomination Committee has specific written terms of reference which are of no less exacting terms than those stipulated in the Code Provision.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently, and that judgments and estimates made are prudent and reasonable.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority to safeguard its assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable assurance against material misstatement or loss, and to oversee the Group's operational systems for the achievement of the Group's business objectives.

AUDITOR'S REMUNERATION

Total auditors remuneration in relation to statutory audit work of the Group amounted to HK$900,000 (2010: HK$600,000). HK$1,440,000 (2010: Nil) was incurred for other non-audit services provided by the auditor for the Company and its subsidiaries during the year, in relation to a very substantial acquisition.

The responsibilities of the auditor with respect to financial reporting are set out in the section of "Independent Auditor's Report" on page 19.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code during the year and they all confirmed that they had fully complied with the required standard set out in the Model Code.

COMMUNICATION WITH SHAREHOLDERS

The Company attaches great importance to establishing effective communications with its shareholders and investors. As a means of communications, the Company provides information relating to the Company and its business in its interim and annual reports.

The Company regards its annual general meetings as an opportunity for direct communications between the Board and its shareholders. All Directors, senior management and external auditors make an effort to attend the annual general meetings to address shareholders' queries. The Company also responds to requests for information and queries from the shareholders and investors and welcomes the views of shareholders on matters concerning the Group and encourages them to attend shareholders' meetings to communicate any concerns they might have with the Board or management direct.

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries and jointly controlled entity are set out in detail in notes 42 and 23, respectively, to the financial statements. There was no change in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2011 is set out in note 8 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Group at that date are set out in the financial statements on pages 21 to 28.

The Directors do not recommend the payment of any dividends in respect of the year ended 31 December 2011 (2010: Nil).

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 financial statements and reclassified as appropriate, is set out on page 103. The summary is not part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 20 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 37 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group are set out in note 44 to the financial statements and on page 26 respectively.

DISTRIBUTABLE RESERVES

At 31 December 2011 the Company did not have any reserves available for distribution to equity shareholders of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for more than 30% of the total sales for the year, and the purchases attributable of the five largest suppliers accounted for less than 30% of the Group's total purchases. Information about major customers are set out in note 8 to the financial statements.

DIRECTORS

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

Executive Directors

Mr. Zhong Guoxing
Mr. Zhang Guodong

Non-executive Director

Ms. Liang Huixin

Independent Non-executive Directors

Dr. Dong Ansheng
Mr. Hung Hing Man
Dr. Tam Hok Lam, Tommy, *JP*

Mr. Zhang Guodong and Ms. Liang Huixin shall retire at the AGM in accordance with Bye-law 109(A), and both being eligible, offer themselves for re-election as Directors at the AGM.

CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information on directors of the Company are set out below:

- Changes in directors' emoluments during the year are set out in note 14 to the consolidated financial statements.

DIRECTORS' SERVICE AGREEMENTS

Mr. Zhang Guodong, Mr. Zhong Guoxing and Ms. Liang Huixin have each entered into a service agreement with the Company for an initial term of three years commencing on 1 March 2012, 11 August 2009 and 11 August 2009 respectively and shall continue thereafter unless terminated in accordance with the terms of the service agreements.

None of the independent non-executive Directors have entered into a service agreement with the Company. They have no specific term of office but shall be subject to retirement by rotation and be eligible for re-election at the AGM of the Company pursuant to the Bye-laws.

Save as disclosed above, no Director proposed for re-election at the forthcoming AGM has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had any beneficial interest, either direct or indirect, in any significant contract to which the Company, any of its holding companies or any of its subsidiaries was a party at the year end date or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

At 31 December 2011, none of the Directors were interested in any business apart from the Group's businesses which competed or was likely to compete, either directly or indirectly, with business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2011, the Directors and chief executives of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

Name of Director	Nature of interests	Number or attributable number of shares held or short positions	Approximate percentage or attributable percentage of shareholding
Mr. Zhong Guoxing ("Mr. Zhong") *(Note 1)*	Family	550,000 (L)	0.01%

(L) denotes long position

Note 1: Mr. Zhong is deemed to have a family interest in the said shares held by his spouse.

Save as disclosed above, as at 31 December 2011, none of the Directors and chief executives of the Company or their associates had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the interests of substantial shareholders (other than the Directors or chief executives) in the Shares or the underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

(a) Interest in Shares:

Name of substantial shareholder	Nature of interests	Number or attributable number of shares held or short positions	Approximate percentage or attributable percentage of shareholding
Mr. Liang Wenguan ("Mr. Liang")	Personal	4,137,209,292 (L)	49.80%
	Interest of controlled corporation *(Note 2)*	1,689,549,171 (L)	20.34%

(L) denotes long position

Note 2: The Shares were held by Madex International Company Limited, a company which is 100% owned by Mr. Liang.

(b) Interest in underlying shares:

Name of substantial shareholder	Nature of interests	Description of securities	Number of underlying shares	Approximate % of interests
Mr. Liang	Beneficial	Convertible Notes *(Note 3)*	4,880,601,219 (L)	58.75%

(L) denotes long position

Note 3: Pursuant to a very substantial acquisition and connected transaction as detailed in a circular of the Company dated 25 May 2011, the Company will, subject to the fulfillment of certain conditions, allot a maximum of 5,721,961,219 convertible shares (under convertible notes in the principal amount of HK$732,411,036.12) to Profit China Investment Development Limited ("Profit China"), which is 100% held by Ms. Tam Ping Foon Calana in trust for Mr. Liang. As at 31 December 2011, the outstanding principal amount of convertible notes held by Profit China was HK$624,716,956.03 (representing 4,880,601,219 convertible shares).

Save as disclosed above, as at 31 December 2011, there was no other person (other than the Directors or chief executives of the Company) who had any interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 23 June 2011, the terms of the share option scheme was adopted by providing incentive to eligible participants to work better for the interests of the Group, under which the board of directors ("Board") may, at its discretion, offer to grant an option to any full-time or part-time employee and directors of the Company or any of its subsidiaries and service providers of the Group (collectively the "Grantees").

The maximum number of shares in respect of which options may be granted under the share option scheme must not in aggregate exceed 10% of the total number of shares in issue on the date of adoption of the share option scheme, being 393,332,950 shares, excluding those shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the share option scheme. The total number of shares which may fall to be issued upon exercise of the share option granted under the share option scheme to each Grantee in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant.

Any grant of options to a director, chief executive or substantial shareholder of the Company or any of their respective associates is required to be approved by the independent non-executive directors. If the Board proposed to grant options to a substantial shareholder or any independent non-executive director or their respective associates which will result in the number of shares to be issued upon exercise of the option granted and to be granted to such person in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the shares in issue on the date of grant and having an aggregate value in excess of HK$5 million, based on the closing price of the shares at the date of each grant, such further grant of option will be subjected to the shareholders' approval in general meeting.

The offer of a grant of share options may be accepted within 28 days from the offer date or within such other period of time as may be determined by the Board. Upon acceptance of the option, the Grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

The subscription price of a share in respect of any option granted under the share option scheme shall be priced as the Board in its absolute discretion shall determine, but must be (i) at least the higher of the closing price of the Company's shares as quoted on the SEHK on the date of grant; (ii) the average closing price of the Company's shares as quoted on the SEHK for the five consecutive business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

The period during which an option may be exercise will be determined by the Board in its absolute direction, An option may be exercised in accordance with the terms of the share option scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The shares to be allotted upon the exercise of an option will not carry voting rights until the completion of the registration of the Grantee.

No share option under the share option scheme were granted or exercised during the year nor remained outstanding as at 31 December 2011.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the year.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 45 to the financial statements.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS AND MATERIAL RELATED PARTY TRANSACTIONS

Details of the connected transactions and material related party transactions are provided in note 38 to the financial statements.

MATERIAL CONTRACTS

Save as disclosed below, there were no material contracts (other than contracts entered into in the ordinary course of business) which have been entered into by the Company or its subsidiaries during the year, which are or may be material:

(a) During the year ended 31 December 2011, the Group entered into a loan agreement with a bank and an independent third party for unsecured loans facilities granted by the independent third party through the bank to the Group amounting to RMB30,000,000 (equivalent to approximately HK$37,037,000) with fixed interest rate of 18% per annum. The loan was denominated in RMB and fully repaid during the year.

(b) During the year ended 31 December 2011, the Group entered into a loan agreement with a bank and an independent third party for unsecured loans facilities granted by the independent third party through the bank to the Group amounting to RMB8,000,000 (equivalent to approximately HK$9,877,000) with fixed interest rate of 25% per annum from 29 November 2011 to 28 May 2012. The loan was denominated in RMB.

(c) The Group entered into the Acquisition Agreement and the Supplemental Agreement on 27 February 2011 and 19 May 2011 respectively, by virtue of which the Group acquired the entire interest in Glory Point Investments Limited ("Glory Point") and Da Hong Investments Limited ("Da Hong") from Profit China Investments Development Limited ("Profit China") (the "Acquisitions"). Glory Point and Da Hong in aggregate hold the entire interest of Madex Infrastructure Limited and its subsidiary, Chongqing Kings Mall Real Estate Developments Company Limited ("King Development") (Glory Point, Da Hong, Madex Infrastructure Limited and Kings Development collectively referred to as the "Acquired Group") and the entire amount of loan of approximately HK$396,603,000 owing from Profit China to the Acquired Group on 7 July 2011, being the date of acquisition completion. Kings Development mainly holds a shopping mall located at Chongqing in the PRC and other assets and liabilities. The Group has acquired the net assets, mainly the investment properties under redevelopment for a consideration of approximately HK$1,213,551,000. Please refer to a circular of the Company dated 25 May 2011 for the details of the transaction.

REPORT OF THE DIRECTORS

CONTINGENT LIABILITIES

Details of the contingent liabilities are provided in note 43 to the financial statements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date hereof, there is sufficient public float of not less than 25% of the Company's issued shares as required by the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed and approved the Group's annual results for the year ended 31 March 2011 in conjunction with the Company's external auditor prior to their approval by the Board. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 8 to 11.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2011 have been audited by SHINEWING (HK) CPA Limited ("SHINEWING"). SHINEWING was appointed on 23 September 2009 as the independent auditor of the Company to fill the casual vacancy following the retirement of CCIF CPA Limited on 30 June 2009. SHINEWING will retire at the conclusion of the forthcoming annual general meeting ("AGM") and, being eligible, offer itself for reappointment at the AGM. A resolution for reappointment of SHINEWING as auditor of the Company will be proposed at the AGM.

ON BEHALF OF THE BOARD

Zhang Guodong
Executive Director

Hong Kong, 30 March 2012

信永中和 ShineWing

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

TO THE MEMBERS OF MADEX INTERNATIONAL (HOLDINGS) LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Madex International (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 102, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of 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 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

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

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates that the Group's current liabilities exceeded its current assets by approximately HK$521,052,000 as at 31 December 2011. This condition indicates the existence of a material uncertainty which may cast doubt about the Group's ability to continue as going concern.

SHINEWING (HK) CPA LIMITED
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong
30 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Continuing operations			
Revenue	9	**27,310**	24,814
Cost of sales		**(7,031)**	(7,205)
Gross profit		**20,279**	17,609
Other revenue	9	**468**	1,593
Distribution costs		**(3)**	(62)
Administrative expenses		**(37,469)**	(22,154)
Finance costs	10	**(25,401)**	(6,513)
Gain on disposal of subsidiaries	36(ii)	**–**	5,643
Fair value change on investment properties	20	**155,158**	18,233
Fair value change on derivative financial assets	30	**(107,767)**	–
Fair value change on derivative financial liabilities	30	**70,341**	–
Fair value change on contingent consideration	33	**7,419**	–
Written back of impairment loss in respect of other receivables		**1,309**	–
Impairment loss recognised in respect of trade and other receivables		**(16)**	(1,592)
Share of profits of a jointly controlled entity	23	**4,375**	843
Profit before tax		**88,693**	13,600
Income tax expenses	11	**(38,789)**	(4,558)
Profit for the year from continuing operations	13	**49,904**	9,042
Discontinued operation			
Profit for the year from discontinued operation	12	**–**	43,947
Profit for the year		**49,904**	52,989

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	NOTE	2011 HK$'000	2010 HK$'000
Profit for the year attributable to owners of the Company:			
– from continuing operations		**49,824**	10,322
– from discontinued operation		**–**	43,947
Profit for the year attributable to owners of the Company		**49,824**	54,269
Profit (loss) for the year attributable to non-controlling interests			
– from continuing operations		**80**	(1,280)
– from discontinued operation		**–**	–
Profit (loss) for the year attributable to non-controlling interests		**80**	(1,280)
		49,904	52,989
Earnings per share	17		
From continuing and discontinued operations			
– Basic and diluted		**0.82 cents**	1.38 cents
From continuing operations			
– Basic and diluted		**0.82 cents**	0.26 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Profit for the year	**49,904**	52,989
Other comprehensive income (expense)		
Exchange differences arising on translation of foreign operations:		
Exchange differences arising during the year	**48,614**	13,401
Reclassification adjustments for the cumulative exchange difference included in profit or loss upon disposal of foreign operations	**–**	(21,675)
Other comprehensive income (expense) for the year	**48,614**	(8,274)
Total comprehensive income for the year	**98,518**	44,715
Total comprehensive income attributable to:		
Owners of the Company	**98,279**	45,793
Non-controlling interests	**239**	(1,078)
	98,518	44,715

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	18	**35,345**	37,096
Prepaid lease payments	19	**4,632**	4,572
Investment properties	20	**2,898,148**	367,811
Intangible asset	21	**45,491**	46,961
Available-for-sale investments	22	**–**	–
Interest in a jointly controlled entity	23	**40,218**	35,843
		3,023,834	492,283
Current assets			
Inventories	24	**598**	748
Trade and other receivables	25	**18,937**	18,983
Pledged bank balances	26	**4,031**	3,479
Derivative financial assets	30	**57,660**	–
Bank balances and cash	26	**11,646**	28,467
		92,872	51,677
Current liabilities			
Other payables	27	**193,488**	38,955
Borrowings	28	**96,161**	70,909
Tax liabilities		**210**	210
Amount due to a related party	29	**1,856**	–
Amount due to a shareholder	29	**34,031**	–
Amount due to a jointly controlled entity	29	**5,274**	–
Derivative financial liabilities	30	**282,904**	–
Provisions	31	**–**	–
		613,924	110,074
Net current liabilities		**(521,052)**	(58,397)
Total assets less current liabilities		**2,502,782**	433,886

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	37	**415,366**	196,667
Reserves		**697,452**	96,163
Equity attributable to owners of the Company		**1,112,818**	292,830
Non-controlling interests		**4,739**	4,500
Total equity		**1,117,557**	297,330
Non-current liabilities			
Borrowings	28	**451,330**	83,421
Deferred tax liabilities	32	**440,577**	53,135
Convertible notes	30	**280,912**	–
Provision for contingent consideration	33	**212,406**	–
		1,385,225	136,556
		2,502,782	433,886

The consolidated financial statements on pages 21 to 102 were approved and authorised for issue by the board of directors on 30 March 2012 and are signed on its behalf by:

Zhong Guoxing
Director

Zhang Guodong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company							
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non–controlling interests HK$'000	Total HK$'000
At 1 January 2010	196,667	130,594	52	28,560	(108,836)	247,037	5,578	252,615
Profit (loss) for the year	–	–	–	–	54,269	54,269	(1,280)	52,989
Other comprehensive (expense) income	–	–	–	(8,476)	–	(8,476)	202	(8,274)
Total comprehensive (expense) income for the year	–	–	–	(8,476)	54,269	45,793	(1,078)	44,715
At 31 December 2010	196,667	130,594	52	20,084	(54,567)	292,830	4,500	297,330

	Attributable to owners of the Company							
	Share capital HK$'000	**Share premium HK$'000**	**Capital redemption reserve HK$'000**	**Translation reserve HK$'000**	**(Accumulated losses) retained earnings HK$'000**	**Total HK$'000**	**Non–controlling interests HK$'000**	**Total HK$'000**
At 1 January 2011	**196,667**	**130,594**	**52**	**20,084**	**(54,567)**	**292,830**	**4,500**	**297,330**
Profit for the year	**–**	**–**	**–**	**–**	**49,824**	**49,824**	**80**	**49,904**
Other comprehensive income	**–**	**–**	**–**	**48,455**	**–**	**48,455**	**159**	**48,614**
Total comprehensive income for the year	**–**	**–**	**–**	**48,455**	**49,824**	**98,279**	**239**	**98,518**
Shares issued pursuant to acquisition of net assets through an acquisition of the Acquired Group as defined in note 35	**218,699**	**503,010**	**–**	**–**	**–**	**721,709**	**–**	**721,709**
At 31 December 2011	**415,366**	**633,604**	**52**	**68,539**	**(4,743)**	**1,112,818**	**4,739**	**1,117,557**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES		
Profit before tax from continuing operations	**88,693**	13,600
Profit before tax from discontinued operation	**–**	43,947
Profit before tax	**88,693**	57,547
Adjustments for:		
Depreciation for property, plant and equipment	**2,923**	2,414
Amortisation of prepaid lease payments	**112**	208
Amortisation of an intangible asset	**3,415**	3,258
Gain on disposal of subsidiaries	**–**	(50,532)
Impairment loss recognised on trade and other receivables	**16**	1,592
Written back of impairment loss recognised in respect of other receivables	**(1,309)**	–
Write-back of other payables	**–**	(1,172)
Fair value change on investment properties	**(155,158)**	(18,233)
Fair value change on derivative financial assets	**107,767**	–
Fair value change on derivative financial liabilities	**(70,341)**	–
Fair value change on contingent consideration	**(7,419)**	–
Finance costs	**25,401**	6,513
Interest income from banks	**(205)**	(284)
Loss on disposal of property, plant and equipment	**29**	465
Share of profits of a jointly controlled entity	**(4,375)**	(843)
Allowance for obsolete inventories	**–**	253
Operating cash flows before movements in working capital	**(10,451)**	1,186
Decrease in inventories	**178**	1,422
Decrease (increase) in trade and other receivables	**8,499**	(15,977)
Decrease in other payables	**(54,103)**	(508)
Net cash used in operating activities	**(55,877)**	(13,877)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES			
Capital contribution to a jointly controlled entity		**–**	(35,000)
Cash inflow from acquisition of net assets through an acquisition of the Acquired Group	35	**29,771**	–
Purchase of investment properties		**(159,362)**	(3,376)
Interest received		**205**	284
Proceeds on disposal of property, plant and equipment		**60**	33
Increase in pledged bank balances		**(262)**	(221)
Purchase of property, plant and equipment		**(883)**	(34,986)
Net cash inflow on disposal of subsidiaries	36	**–**	2,699
Net cash used in investing activities		**(130,471)**	(70,567)
FINANCING ACTIVITIES			
New borrowings raised		**248,981**	61,500
Repayments of borrowings		**(62,983)**	(8,469)
Advance from a joint controlled entity		**5,274**	–
Repayment to a related party		**(4,206)**	–
Repayment to a shareholder		**(17,563)**	–
Interest paid		**(8,403)**	(6,513)
Net cash from financing activities		**161,100**	46,518
Net decrease in cash and cash equivalents		**(25,248)**	(37,926)
Cash and cash equivalents at 1 January		**28,467**	64,446
Effect of foreign exchange rate changes		**8,427**	1,947
Cash and cash equivalents at 31 December represented by bank balances and cash		**11,646**	28,467

1. GENERAL

Madex International (Holdings) Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent company and the ultimate holding company is Madex International Company Limited ("Madex International") (incorporated in Western Samoa). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") while the functional currency of the Company is Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the consolidated financial statements in HK$ as the shares of the Company are listed on the Stock Exchange.

The Company is an investment holding company. The principal activities of the subsidiaries are set out in note 42.

2. BASIS OF PREPARATION

The Group's current liabilities exceeded its current assets by approximately HK$521,052,000 as at 31 December 2011. Nevertheless, the consolidated financial statements of the Group have been prepared by the directors of the Company on a going concern basis.

In the opinion of directors of the Company, the Group is able to maintain itself as a going concern in the coming year by taking into consideration that:

(i) the Group is able to generate positive cash flows from its continuing operations.

(ii) a standby loan facility of RMB165,000,000 (approximately HK$203,277,000) has been granted to the Group for 27 March 2012 to 26 March 2013 per a loan confirmation letter signed on 27 March 2012. The terms of the loan including interests charged, securities/ guarantee provided, loan period and repayment terms are negotiable upon the withdrawal of loans.

(iii) bank loans with the aggregate carrying amount of approximately HK$17,953,000 that are repayable more than one year after the end of the reporting period per loan agreements, with repayment on demand clause, have been classified as current liabilities as at 31 December 2011 in order to comply with the requirements set out in Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause. Taking into account the Group's financial position, the directors of the Company believe that the bank will not exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

(iv) as at 31 December 2011, included in the current liabilities of the Group was derivative financial liabilities of approximately HK$282,904,000 which represented an option for ensure the holders to subscribe for convertible notes to be issued with a maturity date of 5 years upon issuance of the convertible notes on 7 July 2011. Such derivative financial liabilities shall not have any cash outflow impact on the Group.

2. BASIS OF PREPARATION *(continued)*

Accordingly, the directors of the Company are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

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

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

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

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.

NEW AND REVISED HKFRSS ISSUED BUT NOT YET EFFECTIVE

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

Amendments to HKFRS1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adpoters[1]
Amendments to HKFRS1	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans[2]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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

[1] Effective for annual periods beginning on or after 1 July 2011.

[2] Effective for annual periods beginning on or after 1 January 2013

[3] Effective for annual periods beginning on or after 1 January 2015.

[4] Effective for annual periods beginning on or after 1 January 2012

[5] Effective for annual periods beginning on or after 1 July 2012.

[6] Effective for annual periods beginning on or after 1 January 2014.

AMENDMENTS TO HKFRS 7 DISCLOSURES – TRANSFERS OF FINANCIAL ASSETS

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

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

AMENDMENTS TO HKAS 32 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES AND AMENDMENTS TO HKFRS 7 DISCLOSURES – OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

3. 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 on accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. 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.

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

NEW AND REVISED STANDARDS ON CONSOLIDATION, JOINT ARRANGEMENTS, ASSOCIATES AND DISCLOSURES

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

Key requirements of these five standards are described below.

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

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

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

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

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

The directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated. However, the directors of the Company have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

3. 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 of the Company 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.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for the investment properties and certain financial instruments, which 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

BASIS OF CONSOLIDATION

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

ALLOCATION OF TOTAL COMPREHENSIVE INCOME TO NON-CONTROLLING INTERESTS

Total comprehensive income and expenses of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs).

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INTEREST IN A JOINTLY CONTROLLED ENTITY

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

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

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

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

REVENUE RECOGNITION

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

REVENUE RECOGNITION *(Continued)*

Royalty income is recognised on an accrual basis in accordance with the terms of the relevant agreement.

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

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided so as to write off the cost of items of property, plant and 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 estimate accounted for on a prospective basis.

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

INVESTMENT PROPERTIES

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under redevelopment for such purposes).

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

Construction costs incurred for investment properties under redevelopment are capitalised as part of the carrying amount of the investment properties under redevelopment.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INTANGIBLE ASSETS

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

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

LEASING

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

LEASEHOLD LAND AND BUILDINGS

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

FOREIGN CURRENCIES

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

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

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

BORROWING COSTS

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

RETIREMENT BENEFIT COSTS

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

TAXATION

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

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

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

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

The carrying amount of deferred tax assets is reviewed at 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

TAXATION *(Continued)*

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

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

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

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

CASH AND CASH EQUIVALENTS

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

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 instruments.

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.

4. 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.

A financial asset 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. Fair value is determined in the manner described in note 30.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as loans and receivables.

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 investments, they are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy on impairment loss on financial assets below).

Loans and receivables

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

Impairment loss on 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.

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

– significant financial difficulty of the issuer or counterparty; or

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

– it becoming probable that the borrower will enter into 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 trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other 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.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

Impairment loss on financial assets *(Continued)*

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment 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 entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

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

The Group's financial liabilities are generally classified into other financial liabilities.

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 is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or it is those designated at FVTPL on initial recognition.

A financial liability 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 liability 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 liabilities at FVTPL are measured at fair value, with changes in fair value arising on 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 interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities (including other payables, borrowings and amounts due to a related party/a shareholder/a jointly controlled entity) are subsequently measured at amortised cost using the effective interest method.

Convertible notes

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Equity instruments

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, 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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

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

(i) Going concern basis

The assessment of the going concern assumptions involves making judgement by the directors of the Company, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors of the Company considers that the Group has ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in note 2.

(ii) Potential litigation

As detailed in note 43(a), in connection with the litigation of the Acquired Group, the directors of the Company considered that they have strong and valid ground of defense in relation to the potential claims in respect of the Problematic Properties as detailed in note 20 and has the right to occupy and lease the Problematic Properties to other tenants to generate rental income. The directors of the Company considered that Chongqing Kings Mall Real Estate Development Co., Ltd. (重慶帝景摩爾房地產開發有限公司) ("Kings Development") would not suffer material financial losses arising from such litigation. Thus, no provision is required to be made in the consolidated financial statements.

In addition, in connection with the dispute arising from a past exclusive distributorship agreement as set out in note 43(b), the Group had received legal letters from an independent third party for claims of rights under a past distribution contract during the year ended 31 December 2010. The directors are of the opinion that after having sought the legal advice from the Company's lawyers, the claims can be successfully defended, and no provision is required to be made in the consolidated financial statements.

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(i) Useful lives of property, plant and equipment and estimation on depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives are different from those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(ii) *Fair value of investment properties*

Investment properties are carried in the consolidated statement of financial position at their fair value. The fair value was based on a valuation on these properties conducted by Dynasty Premium Asset Valuation & Real Estate Consultancy Limited and Norton Appraisals Limited, professional independent valuers not connected to the Group, using property valuation techniques which involve making assumptions on certain market conditions and or by reference to combined result of the different property valuation techniques, if necessary. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and the corresponding adjustments to the gain or loss recognised in the consolidated income statement.

(iii) *Estimated impairment loss on an intangible asset*

Intangible asset is tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to impairment loss. The recoverable amount is the value-in-use. The value-in-use calculation requires the directors of the Company to estimate the future cash flows expected to arise from the relevant cash generating unit and a suitable discount rate is used in order to calculate the present value. As at 31 December 2011, the carrying amount of intangible asset was approximately HK$45,491,000, net of accumulated amortisation of approximately HK$9,453,000 (2010: carrying amount of approximately HK$46,961,000, net of accumulated amortisation of approximately HK$5,707,000).

(iv) *Estimated impairment loss on trade and other receivables*

The Group maintains an allowance for estimated loss arising from the inability of its individual customers to make the required payments. The Group makes its estimates based on the history of its client, such as financial difficulties or default payments and current market conditions. If the financial condition of its individual customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected. As at 31 December 2011, the carrying amount of trade and other receivables was approximately HK$18,937,000, net of allowance for doubtful debts of approximately HK$19,826,000 (2010: carrying amount of approximately HK$18,983,000, net of allowance for doubtful debts of approximately HK$21,547,000).

(v) *Estimated provision for current and deferred taxation*

The Group is subject to taxation in the People's Republic of China (the "PRC"). Significant judgement is required in determining the provision for taxation and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax liabilities in the period in which such determination is made.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(vi) Fair value of derivatives and other financial instruments

As described in notes 30 and 33, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Based on the best estimate of the directors of the Company on the current status of conditions, the Second Convertible Note and the Third Convertible Note as defined in note 33 will be issued on 31 March 2013 and 6 July 2013 respectively. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The carrying amount of the derivative financial assets, derivative financial liabilities, provision for contingent liabilities and convertible notes as at 31 December 2011 is HK$57,660,000 (2010: nil), HK$282,904,000 (2010: nil), HK$212,406,000 (2010: nil) and HK$280,912,000 (2010: nil) respectively. Details of the assumptions used are disclosed in notes 30 and 33. The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

6. CAPITAL RISK MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern in order to support its business and maximise shareholders' value.

The capital structure of the Group consists of net debt, which included the borrowings disclosed in note 28, convertible notes disclosed in note 30, amounts due to a shareholder/a related party/ a jointly controlled entity, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

There is no change in the capital risk management policy adopted by the Company during the two years ended 31 December 2011 and 31 December 2010.

The Group is not subject to any externally imposed capital requirements.

7. FINANCIAL INSTRUMENTS

a) CATEGORIES OF FINANCIAL INSTRUMENTS

	2011 HK$'000	2010 HK$'000
Financial assets		
Fair value through profit or loss		
– Derivative Financial assets	57,660	–
Available-for-sale investments	–	–
Loan and receivables		
– Trade and other receivables	16,148	14,865
– Pledged bank balances	4,031	3,479
– Bank balances and cash	11,646	28,467
	31,825	46,811
	89,485	46,811
Financial liabilities		
Fair value through profit or loss		
– Provision for contingent consideration	212,406	–
– Derivative financial liabilities	282,904	–
	495,310	–
Other financial liabilities at amortised cost		
– Other payables	186,776	32,663
– Borrowings	547,491	154,330
– Amount due to a related party	1,856	–
– Amount due to a shareholder	34,031	–
– Amount due to a jointly controlled entity	5,274	–
– Convertible notes	280,912	–
	1,056,340	186,993
	1,551,650	186,993

7. FINANCIAL INSTRUMENTS *(continued)*

b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES

The Group's principal financial instruments comprise borrowings, convertible notes, derivative financial instrument, and provision for contingent consideration. The Group has various other financial assets and liabilities such as available-for-sale investments, trade and other receivables, pledged bank balances, bank balances and cash, other payables, amounts due to a related party/a shareholder/a jointly controlled entity, which arise directly from its operation. The main purpose of these financial instruments is to raise finance for the Group's operations. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk.

The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign currency risk

The functional currency of certain subsidiaries is RMB since all of the revenue of the Group are derived from operations in the PRC. In relation to the fluctuation on RMB against HK$, the Group considers that exchange risk arising from those currencies does not have significant financial impact to the Group. No hedging or other alternatives have been implemented during the year. The Group will consider hedging significant foreign currency exposure should the need arise. Other than the above, the Group did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**8,637**	–	**72,429**	40,000

7. FINANCIAL INSTRUMENTS *(continued)*

b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(continued)*

Market risk (continued)

(i) Foreign currency risk *(continued)*

Sensitivity analysis

The Group is mainly exposed to the currency of HK$.

The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in RMB against the relevant foreign currency. 5% (2010: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the Group. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% (2010: 5%) against the relevant currency. For a 5% (2010: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

	HKD impact	
	2011	2010
	HK$'000	HK$'000
Profit or loss	**3,190**	2,000

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate bank borrowings (see note 28) and cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings at prevailing market rates (see notes 26 and 28 respectively). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The directors of the Company consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

Interest rate sensitivity

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 25 basis points (2010: 25 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 (2010: 25) basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2011 would decrease/increase by approximately HK$979,000 (2010: HK$229,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits and bank borrowings.

7. FINANCIAL INSTRUMENTS *(continued)*

b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(continued)*

Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts at the end of each reporting period. In addition, the Group reviews the recoverable amount of each individual trade and other receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group has a certain degree of concentration of credit risk as 99% (2010: 92%) and 100% (2010: 100%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively. However, the directors of the Company consider the credit risk is under control since the management exercise due care in granting credit and check the financial background of these customers on a regular basis.

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

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

Liquidity risk

In the management of the liquidity risk, the Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it meets the liquidity requirements in the short and long term.

The Group is exposed to liquidity risk as at 31 December 2011 as the Group had net current liabilities of approximately HK$521,052,000 (2010: HK$58,397,000). The liquidity of the Group primarily depends on the future funding being available and the ability of the Group to meet its financial obligations as they fall due. Details are set out in note 2.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

7. FINANCIAL INSTRUMENTS *(continued)*

b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(continued)*

Liquidity risk (Continued)

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

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

As at 31 December 2011

	Weighted average interest rate	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Carrying amount HK$'000
Other payables	–	186,776	–	–	–	186,776	186,776
Amount due to a related party	–	1,856	–	–	–	1,856	1,856
Amount due to a shareholder	–	34,031	–	–	–	34,031	34,031
Amount due to a jointly controlled entity	–	5,274	–	–	–	5,274	5,274
Derivative financial liabilities	–	–	–	–	–	–	282,904
Convertible notes	–	–	–	502,521	–	502,521	280,912
Provision for contingent consideration	–	–	–	–	–	–	212,406
Borrowings	7.48%	106,879	67,425	306,713	218,764	699,781	547,491
		334,816	67,425	809,234	218,764	1,430,239	1,551,650

As at 31 December 2010

	Weighted average interest rate	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Carrying amount HK$'000
Other payables	–	32,663	–	–	–	32,663	32,663
Borrowings	4.84%	76,379	17,144	53,334	29,081	175,938	154,330
		109,042	17,144	53,334	29,081	208,601	186,993

7. FINANCIAL INSTRUMENTS *(continued)*

b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(continued)*

Liquidity risk (Continued)

Bank loans with a repayment on demand clause are included in the "within 1 year or on demand" time band in the above maturity analysis. As at 31 December 2011 and 31 December 2010, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$17,953,000 and HK$49,153,000 respectively. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid 13 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$20,087,000 (2010: HK$52,424,000).

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

c) FAIR VALUE

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

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

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

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

Fair value measurements recognised in the consolidated statement of financial position

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

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

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

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

7. FINANCIAL INSTRUMENTS *(continued)*

c) FAIR VALUE *(continued)*

	31/12/2011			
	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Financial assets at FVTPL				
Derivative financial assets	–	–	57,660	57,660
Financial liabilities at FVTPL				
Derivative financial liabilities	–	–	282,904	282,904
Provision for contingent consideration	–	–	212,406	212,406
	–	–	495,310	495,310

There were no transfers between all levels in the current year.

Reconciliation of Level 3 fair value measurements of financial assets and liabilities

	Derivative financial assets HK$'000	**Derivative financial liabilities** HK$'000	**Provision for contingent consideration** HK$'000	**Total** HK$'000
At the issuance date	(165,427)	353,245	219,825	407,643
Total losses (gains):				
– in profit or loss	107,767	(70,341)	(7,419)	30,007
At 31 December 2011	(57,660)	282,904	212,406	437,650

Of the total gains or losses for the year included in profit or loss, HK$107,767,000 (loss), HK$70,341,000 (gain) and HK$7,419,000 (gain) related to derivative financial assets, derivative financial liabilities and provision for contingent consideration respectively held at the end of the reporting period (2010: nil). Fair value gains or losses on derivative financial assets, derivative financial liabilities and provision for contingent consideration are included in "fair value changes on derivative financial assets" and "fair value changes on derivative financial liabilities" and "fair value changes on provision for contingent consideration" on the face of consolidated income statement respectively.

7. FINANCIAL INSTRUMENTS *(continued)*

c) FAIR VALUE *(continued)*

Significant assumptions used in determining fair value of financial liabilities

Provision for contingent consideration

The fair value of the provision for contingent consideration is determined assuming the following:

a) the Second Convertible Note and the Third Convertible Note will be issued on 31 March 2013 and 6 July 2013 respectively based on the best estimation of the management of the Company on the current status of conditions for issuing those convertible notes;

b) the estimation of risk free rate has been made with reference to the Hong Kong Exchange Fund Bills and Notes with similar maturity; and

c) the estimation of volatility for the underlying share price has been considered for the historical price movements of the Company.

Derivative financial instruments

The fair value of embedded conversion option of the convertible notes is determined assuming the following:

a) the estimation of risk free rate has been made with reference to the Hong Kong Exchange Fund Bills and Notes with similar maturity;

b) the estimation of volatility for the underlying share price has been considered for the historical price movements of the Company; and

c) The discount rate was arrived at based on the Company's credit rating and select comparable corporate bonds with similar maturity and credit risk to derive the range of comparable yield to maturity as of date of valuation and the median range has been adopted.

8. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performances focuses more specifically on the nature of industries.

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

Property leasing	Property leased for rental income
Right to receive royalty fee	Royalty fee related to the royalty right leasing
Trading of goods	Trading of goods

The operation of property development was discontinued in last year. The segment information reported on the next pages does not include any amounts for the discontinued operation, which are described in more detail in note 12.

SEGMENT REVENUES AND RESULTS

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

For the year ended 31 December 2011

Continuing operations

	Property leasing HK$'000	**Right to receive royalty fee** HK$'000	**Trading of goods** HK$'000	**Total** HK$'000
Revenue	20,364	6,627	319	27,310
Segment profit/(loss)	162,284	(1,450)	(145)	160,689
Unallocated corporate expenses				(51,175)
Unallocated other revenue				205
Share of profits of a jointly controlled entity				4,375
Finance costs				(25,401)
Profit before tax from continuing operations				88,693

8. SEGMENT INFORMATION *(continued)*

SEGMENT REVENUES AND RESULTS *(continued)*

For the year ended 31 December 2010

Continuing operations

	Property leasing HK$'000	Right to receive royalty fee HK$'000	Trading of goods HK$'000	Total HK$'000
Revenue	16,392	5,747	2,675	24,814
Segment profit (loss)	29,689	(311)	(1,070)	28,308
Unallocated corporate expenses				(14,965)
Unallocated other revenue				284
Gain on disposal of subsidiaries				5,643
Share of profits of a jointly controlled entity				843
Finance costs				(6,513)
Profit before tax from continuing operations				13,600

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit (loss) represents the profit earned by or loss from each segment without allocation of central administration costs, directors' emoluments, share of profits of a jointly controlled entity, gain on disposal of subsidiaries, impairment loss recognised in respect of other receivables, bank interest income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

SEGMENT ASSETS AND LIABILITIES

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

Segment assets

	2011 HK$'000	2010 HK$'000
Continuing operations		
Property leasing	**2,900,411**	369,151
Right to receive royalty fee	**52,946**	53,542
Trading of goods	**7,727**	7,419
Total segment assets	**2,961,084**	430,112
Unallocated corporate assets	**155,622**	113,848
Consolidated assets	**3,116,706**	543,960

8. SEGMENT INFORMATION *(continued)*

SEGMENT ASSETS AND LIABILITIES *(continued)*

Segment liabilities

	2011 HK$'000	2010 HK$'000
Continuing operations		
Property leasing	**196,947**	13,592
Right to receive royalty fee	**12,124**	11,965
Trading of goods	**290**	268
Total segment liabilities	**209,361**	25,825
Unallocated corporate liabilities	**1,789,788**	220,805
Consolidated liabilities	**1,999,149**	246,630

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

– all assets are allocated to operating segment assets other than certain other receivables, interest in a jointly controlled entity, equipment of head office, pledged bank balances, bank balances and cash and derivative financial assets.

– all liabilities are allocated to operating segment liabilities other than bank borrowings, tax liabilities, deferred tax liabilities, certain other payables, derivative financial liabilities, convertible notes and provision for contingent consideration.

8. SEGMENT INFORMATION *(continued)*

OTHER SEGMENT INFORMATION

For the year ended 31 December 2011

Continuing operations

	Property leasing HK$'000	**Right to receive royalty fee** HK$'000	**Trading of goods** HK$'000	**Unallocated** HK$'000	**Total** HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Addition to non-current assets *(note)*	2,296,805	8	90	721	2,297,624
Depreciation of property, plant and equipment	252	117	408	2,146	2,923
Loss on disposal of property, plant and equipment	–	–	29	–	29
Amortisation of prepaid lease payments	–	–	112	–	112
Fair value change on investment properties	(155,158)	–	–	–	(155,158)
Amortisation of an intangible asset	–	3,415	–	–	3,415
Written back of impairment loss recognised in respect of other receivables	–	–	(152)	(1,157)	(1,309)
Impairment loss recognised in respect of other receivables	–	–	–	16	16

Note: Non-current assets excluded available-for-sale investments.

	Property leasing HK$'000	**Right to receive royalty fee** HK$'000	**Trading of goods** HK$'000	**Unallocated** HK$'000	**Total** HK$'000
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Interest in a jointly controlled entity	–	–	–	40,218	40,218
Interest income	(128)	(67)	(9)	(1)	(205)
Share of profits of a jointly controlled entity	–	–	–	(4,375)	(4,375)
Fair value change on derivative financial assets	–	–	–	107,767	107,767
Fair value change on derivative financial liabilities	–	–	–	(70,341)	(70,341)
Fair value change on contingent consideration	–	–	–	(7,419)	(7,419)
Interest expenses	7,225	–	–	18,176	25,401
Income tax expenses	38,789	–	–	–	38,789

8. SEGMENT INFORMATION *(continued)*

OTHER SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2010

Continuing operations:

	Property leasing HK$'000	Right to receive royalty fee HK$'000	Trading of goods HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Addition to non-current assets *(note)*	3,406	971	709	69,276	74,362
Depreciation of property, plant and equipment	219	72	292	1,810	2,393
Loss on disposal of property, plant and equipment	–	–	309	156	465
Amortisation of prepaid lease payments	79	–	129	–	208
Fair value change on investment property	(18,233)	–	–	–	(18,233)
Amortisation of an intangible asset	–	3,258	–	–	3,258
Allowance for obsolete inventories	–	–	253	–	253
Impairment loss recognised in respect of trade and other receivables	–	–	1,592	–	1,592

Note: Non-current assets excluded available-for-sale investments.

	Property leasing HK$'000	Right to receive royalty fee HK$'000	Trading of goods HK$'000	Unallocated HK$'000	Total HK$'000
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Interest in a jointly controlled entity	–	–	–	35,843	35,843
Interest income	(268)	(12)	(3)	(1)	(284)
Write-back of other payables	–	–	–	(1,172)	(1,172)
Share of profits of a jointly controlled entity	–	–	–	(843)	(843)
Interest expenses	5,689	–	–	824	6,513
Income tax expenses	4,558	–	–	–	4,558

8. SEGMENT INFORMATION *(continued)*

GEOGRAPHICAL INFORMATION

The Group operates in two principal geographical areas – the PRC (excluding Hong Kong) and Hong Kong (country of domicile).

Information about the Group's revenue from continuing operations from external customers and information about its non-current assets are presented based on the geographical location.

	Revenue from external customers		Non-current assets *(note)*	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**27,310**	24,814	**2,987,272**	458,885
Hong Kong	**–**	–	**36,562**	33,398
	27,310	24,814	**3,023,834**	492,283

Note: Non-current assets excluded available-for-sale investments.

INFORMATION ABOUT MAJOR CUSTOMERS

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

	2011	2010
	HK$'000	HK$'000
Customer A[1]	**18,631**	16,392
Customer B[2]	**6,627**	5,747

[1] Revenue from property leasing

[2] Revenue from right to receive royalty fee

9. REVENUE AND OTHER REVENUE

Revenue represents revenue arising on sales of finished goods, gross rental income from investment property and royalty income for the year. An analysis of the Group's revenue from continuing operation for the year is as follows:

	2011 HK$'000	2010 HK$'000
Continuing operations		
Revenue		
Gross rental income from investment property *(note)*	**20,364**	16,392
Royalty income	**6,627**	5,747
Trading of goods	**319**	2,675
	27,310	24,814

	2011 HK$'000	2010 HK$'000
Continuing operations		
Other revenue		
Interest income from banks	**205**	284
Write-back of other payables	**–**	1,172
Sundry income	**263**	137
	468	1,593

Note: The direct operating expenses of approximately HK$2,468,000 (2010: HK$2,269,000) was incurred from investment property that generated rental income during the year.

10. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Continuing operations		
Interests on:		
– bank borrowings and other interest bearing borrowings wholly repayable within five years	**1,290**	524
– bank borrowings and other interest bearing borrowings wholly repayable over five years	**7,113**	5,989
– effective interest expenses on convertible notes *(note 30)*	**16,998**	–
Borrowing costs incurred in connection with bank borrowings for investment properties under redevelopment	**34,976**	–
Total borrowing costs	**60,377**	6,513
Less: amounts capitalised	**(34,976)**	–
	25,401	6,513

11. INCOME TAX EXPENSES

	2011 HK$'000	2010 HK$'000
Continuing operations		
Current tax		
PRC Enterprise Income Tax		
– Current year	**–**	–
	–	–
Deferred tax		
– Current year *(note 32)*	**38,789**	4,558
	38,789	4,558

No provision for Hong Kong Profits Tax has been made as the Group does not have any assessable profits subject to Hong Kong Profits Tax for both years.

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

11. INCOME TAX EXPENSES *(continued)*

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$19,396,000 (2010: HK$15,128,000) as the Group is able to control the timing of the reversal of the temporary differences and it is possible that the temporary differences will not reverse in the foreseeable future.

The tax charge for the years can be reconciled to the profit before tax per the consolidated income statement as follows:

	2011	2010
	HK$'000	HK$'000
Profit before tax from continuing operations	**88,693**	13,600
Tax at the domestic income tax rate of 25% (2010: 25%)	**22,173**	3,400
Tax effect of share of profits of jointly controlled entity	**(1,094)**	(211)
Tax effect of expenses not deductible for tax purpose	**39,134**	3,619
Tax effect of income not taxable for tax purpose	**(21,095)**	(3,061)
Utilisation of tax losses previously not recognised	**(329)**	–
Tax effect of unused tax losses not recognised	**–**	811
Tax charge for the year relating to continuing operations	**38,789**	4,558

The Group has tax losses arising in Hong Kong and the PRC of approximately HK$125,541,000 (2010: HK$125,541,000) and HK$2,516,000 (2010: HK$3,831,000) respectively. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The tax losses arising in the PRC are available for offsetting against future five years taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of such unused tax losses due to the unpredictability of future profits streams.

12. DISCONTINUED OPERATION

On 12 August 2010, Dynamic Global Development Limited, a wholly-owned subsidiary of the Company, entered into the sale and purchase agreement to dispose of Fairyoung (Shanghai) Properties Limited ("Fairyoung (Shanghai)"), which carried out all of the Group's property development operations (the "Disposal"), to an independent third party. Since Fairyoung (Shanghai) had been inactive since late 2008, it was unable to generate any revenue or income to the Group. The directors of the Company considered that the Disposal represented a good opportunity for the Group to realise Fairyoung (Shanghai) and to strengthen the financial position of the Group.

The Disposal was completed on 30 September 2010.

12. DISCONTINUED OPERATION *(continued)*

The results of the property development operations for the period from 1 January 2010 to 30 September 2010, which had been included in the consolidated income statement, were as follows:

	Period ended 30 September 2010 HK$'000
Profit for the year from discontinued operation	
Other revenue	–
Expenses	(942)
Loss before tax	(942)
Attributable income tax expense	–
	(942)
Gain on the Disposal *(note 36(i))*	44,889
	44,889
Profit for the year from the discontinued operation	43,947
Profit for the year from discontinued operation include the following:	
Staff cost:	
Other staff cost	211
Depreciation for property, plant and equipment	21

No tax charge or credit arose on gain on discontinuance of the operation.

	Period ended 30 September 2010 HK$'000
Cash flows from discontinued operation:	
Net cash flows from operating activities	697
Net cash inflows	697

The carrying amounts of the assets and liabilities of Fairyoung (Shanghai) at the date of disposal are disclosed in note 36(i).

13. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

Profit for the year has been arrived at after charging:

	2011 HK$'000	2010 HK$'000
Continuing operations		
Staff costs:		
Directors' emoluments *(note 14)*	**2,601**	2,258
Other staff costs	**4,505**	2,538
Retirement benefit scheme contributions (excluding directors)	**88**	51
Total staff costs	**7,194**	4,847
Amortisation of an intangible asset (included in cost of sales)	**3,415**	3,258
Amortisation of prepaid lease payments	**112**	208
Depreciation for property, plant and equipment	**2,923**	2,393
Total depreciation and amortisation	**6,450**	5,859
Allowance for obsolete inventories	**–**	253
Impairment loss recognised on trade and other receivables	**16**	1,592
Auditors' remuneration	**900**	600
Minimum lease payments under operating lease charges	**281**	876
Loss on disposal of property, plant and equipment	**29**	465
Cost of inventories recognised as an expense	**810**	1,229

14. DIRECTORS' EMOLUMENTS

The emolument paid or payable to each of the 6 (2010: 7) directors of the Company were as follows:

For the year ended 31 December 2011

	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Zhang Guodong	–	985	–	985
Zhong Guoxing	–	725	–	725
	–	1,710	–	1,710
Non-executive director				
Liang Huixin	420	–	–	420
Independent non-executive directors				
Dong Ansheng	157	–	–	157
Hung Hing Man	157	–	–	157
Tam Hok Lam, Tommy	157	–	–	157
	471	–	–	471
	891	1,710	–	2,601

14. DIRECTORS' EMOLUMENTS *(continued)*

For the year ended 31 December 2010

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors				
Zhang Guodong	–	803	–	803
Zhong Guoxing	–	650	–	650
	–	1,453	–	1,453
Non-executive director				
Liang Huixin	390	–	–	390
Independent non-executive directors				
Dong Ansheng	150	–	–	150
Wu Fengchun (resigned on 19 March 2010)	32	–	–	32
Hung Hing Man	150	–	–	150
Tam Hok Lam, Tommy (appointed on 11 June 2010)	83	–	–	83
	415	–	–	415
	805	1,453	–	2,258

Note 1: All the fees, salaries and other benefits and retirement benefit scheme contributions were paid or payable by the Company.

Note 2: None of the directors of the Company waived or agreed to waive any emoluments paid by the Group. No emoluments have been paid by the Group to the directors of the Company as an inducement to join or upon joining the Group during the two years ended 31 December 2011 and 2010 and no compensation for loss of office were paid for both years ended 31 December 2011 and 2010.

15. 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 the disclosure in note 14 above. The emoluments of the remaining two (2010: two) individuals are as follows:

	2011 HK$'000	2010 HK$'000
Salaries, allowance and other benefits	**1,051**	979
Retirement benefit scheme contributions	**24**	24
	1,075	1,003

Their emoluments were within the following band:

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

During the year, no emoluments have been paid by the Group to the five highest paid individuals (including directors of the Company and employees) as an inducement to join or upon joining the Group, or as compensation of loss of office for both years ended 31 December 2011 and 2010.

16. DIVIDENDS

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

17. EARNINGS PER SHARE

FROM CONTINUING AND DISCONTINUED OPERATIONS

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

	2011 HK$'000	2010 HK$'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**49,824**	54,269

	2011	2010
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**6,066,402,156**	3,933,329,504

17. EARNINGS PER SHARE *(continued)*

FROM CONTINUING OPERATIONS

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

	2011 **HK$'000**	2010 HK$'000
Earnings figures are calculated as follows:		
Profit for the year attributable to owners of the Company	**49,824**	54,269
Less:		
Profit for the year from discontinued operations	**–**	(43,947)
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**49,824**	10,322

FROM DISCONTINUED OPERATIONS

Basic and diluted earnings per share for the discontinued operation is HK1.12 cents per share based on the profit for the year ended 31 December 2010 from the discontinued operation of approximately HK$43,947,000 and the denominators detailed above for both basic and diluted earnings per share.

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible notes for the year ended 31 December 2011 since their exercise would result in an increase in profit per share from continuing operations.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2010	26,741	1,478	713	8,940	3,255	41,127
Exchange adjustments	735	–	–	209	160	1,104
Additions	33,607	771	–	637	971	35,986
Derecognised on disposal of a subsidiary	(26,442)	–	–	(5,058)	(1,027)	(32,527)
Disposals	(258)	(1,478)	–	(1,380)	–	(3,116)
At 31 December 2010 and 1 January 2011	34,383	771	713	3,348	3,359	42,574
Exchange adjustments	49	–	–	137	101	287
Additions	–	–	–	286	597	883
Disposals	–	–	–	–	(187)	(187)
Acquired on an acquisition of net assets through an acquisition of the Acquired Group *(note 35)*	–	–	–	224	–	224
At 31 December 2011	34,432	771	713	3,995	3,870	43,781
DEPRECIATION AND IMPAIRMENT						
At 1 January 2010	25,980	1,478	713	7,177	1,704	37,052
Exchange adjustments	728	–	–	144	87	959
Charge for the year	1,438	103	–	352	521	2,414
Eliminated on disposal of a subsidiary	(26,442)	–	–	(5,058)	(829)	(32,329)
Elimination on disposals	(72)	(1,478)	–	(1,068)	–	(2,618)
At 31 December 2010 and 1 January 2011	1,632	103	713	1,547	1,483	5,478
Exchange adjustments	29	–	–	70	34	133
Elimination on disposals	–	–	–	–	(98)	(98)
Charge for the year	1,658	154	–	490	621	2,923
At 31 December 2011	3,319	257	713	2,107	2,040	8,436
CARRYING VALUES						
At 31 December 2011	31,113	514	–	1,888	1,830	35,345
At 31 December 2010	32,751	668	–	1,801	1,876	37,096

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

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

–	Leasehold land and buildings	Over the lease terms
–	Leasehold improvements	Over the lease terms
–	Plant and machinery	10-15 years
–	Furniture and equipment	5-15 years
–	Motor vehicles	4-10 years

As at 31 December 2011 and 2010, the Group's leasehold land located in Hong Kong was held under medium-term lease.

Leasehold land and buildings with carrying amount of approximately HK$30,290,000 (2010: HK$31,903,000) has been pledged to a bank to secure the Group's bank borrowings of approximately HK$49,156,000 (2010: HK$60,444,000).

19. PREPAID LEASE PAYMENTS

	2011 **HK$'000**	2010 HK$'000
Analysed for reporting purposes as:		
Current asset (included in other receivables)	**138**	133
Non-current asset	**4,632**	4,572
	4,770	4,705
The Group's prepaid lease payments comprise:		
Leasehold land in PRC		
Medium-term lease	**4,770**	4,705
	4,770	4,705

20. INVESTMENT PROPERTIES

	Completed investment property in the PRC *(note (a))* HK$'000	Investment properties under redevelopment in the PRC *(note (b))* HK$'000	Total HK$'000
FAIR VALUE			
As at 1 January 2010	331,066	–	331,066
Additions	3,376	–	3,376
Exchange adjustments	15,136	–	15,136
Net increase in fair value recognised in profit or loss	18,233	–	18,233
As at 31 December 2010 and 1 January 2011	367,811	–	367,811
Acquired on an acquisition of net assets on an acquisition of the Acquired Group *(note 35)*	–	2,031,561	2,031,561
Additions	2,373	262,583	264,956
Exchange adjustments	17,446	61,216	78,662
Net increase in fair value recognised in profit or loss	60,518	94,640	155,158
As at 31 December 2011	448,148	2,450,000	2,898,148

The Group's investment properties as at 31 December 2011 and 2010 were situated in the PRC and was held under medium-term lease.

(a) The fair value of the Group's completed investment property as at 31 December 2011 and 2010 has been arrived at on the basis of a valuation carried out on that date by Dynasty Premium Asset Valuation & Real Estate Consultancy Limited, an independent qualified professional valuer not connected with the Group. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions.

(b) The fair value of the investment properties under redevelopment (including 2-level basement to 7th floor of 帝景摩爾 (Kings Mall) located at No. 8 Nanping North Road, Nanping Jie Dao, Nanan District, Chongqing, the PRC) (the "Properties") acquired on an acquisition of net assets through an acquisition of the Acquired Group as at 7 July 2011, the acquisition completion date, is set out in note 35. The fair value for the Properties as at 31 December 2011 had been arrived at on the basis of a valuation carried out on 31 December 2011 by Norton Appraisals Limited, an independent qualified professional valuer not connected with the Group. As the property is under extension and renovation works, the residual method is adopted by making reference to recent comparable sales transactions as available in the relevant property market (i.e. direct comparison approach) and taking into account the construction costs that will be expended to complete the proposed extension and renovation works as to reflect the quality of the completed development.

20. INVESTMENT PROPERTIES *(continued)*

(b) *(Continued)*

During 1 January 2004 to 31 December 2006, Kings Development has entered into certain sales and purchase agreements ("SP Agreements") of the Properties to independent third parties (the "Buyers") regarding to certain portion of 1-level basement of the Properties. As the conditions that the investment properties have a fixed boundary in accordance with Measures for Building Registration* 房屋登記辦法 cannot be met, the legal title of the Properties could not be transferred. Starting from 1 January 2009, Kings Development has commenced to negotiate with the Buyers to enter into cancellation agreements in relation to the SP Agreements. As at 31 December 2011, certain Buyers have not yet entered into the cancellation agreements with Kings Development and the fair value of the Properties of such area (the "Problematic Properties") is excluded in the carrying amount of investment properties under redevelopment.

In relation to the SP Agreements, the leasing agency contracts and the mortgage contracts were signed together with SP Agreements among the Buyers, Kings Development and Jia Jun Business Management Consultants Limited ("Jia Jun"), an independent third party. Pursuant to the terms of the leasing agency contracts, Jia Jun would pay the Buyers an annual rental income equivalent to ten percent of the purchase price of the properties over twenty years (the "Guaranteed Rent"). According to a termination contract signed on 1 January 2011, the obligation of paying Guaranteed Rent was transferred to Kings Development on 1 February 2011.

Based on legal opinion of the legal advisor of the Group, the Problematic Properties cannot be sold or mortgaged. However, if Kings Development is able to pay the Guaranteed Rent to the Buyers based on leasing agency contracts, Kings Development has the right to use the Problematic Properties. Pursuant to an undertaking agreement signed on 27 February 2011, Mr. Liang Wenguan ("Mr. Liang"), a substantial shareholder of the Company, has agreed to undertake all costs that Kings Development may suffer in connection therewith arising or accruing on or before the date of acquisition of net assets through an acquisition of the Acquired Group, including but not limited to the SP Agreements, cancellation contracts, leasing agency contracts, in respect thereof but excluding the original purchase price.

The directors of the Company considered they can occupy the Problematic Properties and lease them to other tenants to generate rental income.

The directors of the Company intended to lease out both Properties and Problematic Properties after redevelopment. Thus, they were classified as the investment properties to earn rental during the year.

(c) All of the Group's property interests held under operating leases to earn rentals or capital appreciation are measured using the fair value model and are classified and accounted for as investment properties.

As at 31 December 2011 and 31 December 2010, the Group's completed investment property with carrying amount of approximately HK$448,148,000 (2010: HK$367,811,000) and a portion of investment properties (basement 2 to 5/F) with carrying amount of HK$2,342,000,000 (2010: nil) under redevelopment were pledged to secure the Group's bank borrowings of approximately HK$498,335,000 (2010: HK$93,886,000).

* *The English translation is for identification purposes only*

21. INTANGIBLE ASSET

	Right to receive royalty fee HK$'000
COST	
At 1 January 2010	50,459
Exchange adjustments	2,209
At 31 December 2010	52,668
Exchange adjustments	2,276
At 31 December 2011	54,944
AMORTISATION	
At 1 January 2010	2,254
Charge for the year	3,258
Exchange adjustments	195
At 31 December 2010	5,707
Charge for the year	3,415
Exchange adjustments	331
At 31 December 2011	9,453
CARRYING VALUES	
At 31 December 2011	45,491
At 31 December 2010	46,961

The intangible asset of the Group as at 31 December 2011 represented the right to receive royalty fee acquired from Zhuhai City Guo Xiang Investment and Consultancy Limited, an independent third party of the Group, during the year ended 31 December 2009. The Group's right to receive royalty fee last for 16 years and expiring on 31 December 2024, at an annual royalty fee of RMB5,000,000 (approximately HK$5,669,000) to RMB7,800,000 (approximately HK$8,844,000), pursuant to a management agreement.

The consideration for the acquisition of right to receive royalty fee was satisfied by cash of HK$28,000,000 and 320,837,000 newly issued consideration shares of the Company of HK$0.07, being the closing share price of the Company at the completion date of the acquisition. The transaction was completed on 20 April 2009 and the fair value of the intangible asset as at the completion date was considered to be approximately HK$50,459,000. As at 31 December 2011 and 2010, part of the consideration of HK$10,000,000 (note 27) was not yet settled and included in other payables.

The above intangible asset has definite useful lives and is amortised over 16 years using the straight-line method.

22. AVAILABLE-FOR-SALE INVESTMENTS

	2011 HK$'000	2010 HK$'000
Unlisted equity securities	**34,500**	34,500
Less: Impairment loss	**(34,500)**	(34,500)
	–	–

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

In prior years, the carrying amounts of the investments was written down to nil through the recognition of impairment losses. After considering the poor operating performance of these investee companies, the directors are of the view that no impairment should be reversed in the current year.

23. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2011 HK$'000	2010 HK$'000
Cost of unlisted investment	**35,000**	35,000
Share of post-acquisition profit	**5,218**	843
	40,218	35,843

(a) As at 31 December 2011 and 2010, the Group had interest in the following jointly-controlled entity:

					Percentage of			
Name of company	Form of entity	Place of incorporation/ registration	Principal place of operation	Particulars of issued shares held	Ownership interest	Voting power	Profit sharing	Principal activities
Madex (Zhuhai) Limited ("Madex (Zhuhai)")	Incorporated	British Virgin Island	The PRC	Ordinary share of US$1 each	49% *(note d)*	50%	49% (note d)	Property development and provision of management services

(b) On 2 July 2010, Madex Trading Limited ("Madex Trading"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (the "Joint Venture Agreement") with Grand Ocean Investment Company Limited ("Grand Ocean") (formerly known as Worldpro International Investment Limited) ("Worldpro") for the establishment of Madex (Zhuhai).

23. INTEREST IN A JOINTLY CONTROLLED ENTITY *(continued)*

(c) Madex (Zhuhai) is held as to 49% and 51% by Madex Trading and Grand Ocean respectively, as such Madex (Zhuhai) has a paid-up capital of HK$35 million which was contributed solely by Madex Trading in cash. Grand Ocean contributes to Madex (Zhuhai) by procuring 珠海市保利三好有限公司 ("保利三好"), a non-wholly owned subsidiary of Grand Ocean, to enter into a management agreement with Madex (Zhuhai) (the "Management Agreement") dated 2 July 2010 for provision of property management services to 保利三好 and its subsidiary by Madex (Zhuhai) as well as injection of management skill, marketing and selling strategy.

(d) A supplemental agreement was signed between Madex Trading and Grand Ocean that Grand Ocean can only start to have its 51%-sharing on the financial result and net financial position of Madex (Zhuhai) if the Management Agreement has been commenced. As the Management Agreement has not yet been commenced in 2011 and 2010, 100% of the financial result and net assets of Madex Zhuhai has been shared by the Group for the years ended 31 December 2011 and 2010.

(e) As a condition for the entering into of the Joint Venture Agreement and the Management Agreement, Madex (Zhuhai) entered into a loan agreement for the provision of a loan of HK$35 million to 保利三好 with an interest of 12% per annum and repayable by 5 equal yearly installments starting from the second anniversary of the loan. The loan is guaranteed by Zhu Hai Port Plaza Development Company Limited ("Zhu Hai Port Plaza"), a company indirectly and beneficially owned by Mr. Liang.

(f) The summarised financial information in respect of the Group's interest in the jointly-controlled entity which is accounted for using the equity method is set out below:

	2011 **HK$'000**	2010 HK$'000
Current assets	**13,260**	8,009
Non-current assets	**28,000**	28,000
Current liabilities	**(1,042)**	(166)
Net assets	**40,218**	35,843

100% share of the jointly-controlled entity's results (note (d)):

	2011 **HK$'000**	2010 HK$'000
Other income	**5,250**	1,009
Expenses	**(9)**	–
Tax	**(866)**	(166)
Profit after tax	**4,375**	843

24. INVENTORIES

	2011 HK$'000	2010 HK$'000
Finished goods	**598**	748

25. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables	**6,508**	6,496
Less: allowance for doubtful debts	**–**	(428)
	6,508	6,068
Other receivables	**9,614**	8,747
Prepayment and deposits	**2,815**	4,168
	18,937	18,983

The credit period granted to the Group's trade receivables generally ranges from 30 to 120 days. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period. The Group does not hold any collateral over these balances.

	2011 HK$'000	2010 HK$'000
Within 3 months	**1,526**	1,463
4 to 6 months	**1,526**	1,463
Over 6 months	**3,456**	3,142
Total	**6,508**	6,068

AGEING OF TRADE RECEIVABLES WHICH ARE PAST DUE BUT NOT IMPAIRED

	2011 HK$'000	2010 HK$'000
Neither past due nor impaired	**1,526**	1,463
Less than 3 months past due	**1,526**	1,463
Less than 6 months past due	**3,360**	1,463
Over 6 months past due	**96**	1,679
	6,508	6,068

25. TRADE AND OTHER RECEIVABLES *(continued)*

AGEING OF TRADE RECEIVABLES WHICH ARE PAST DUE BUT NOT IMPAIRED *(continued)*

Trade receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience and the financial standings of these customers, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The average age of these receivables is 157 days (2010: 154 days).

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS OF TRADE RECEIVABLES

	2011 HK$'000	2010 HK$'000
As at 1 January	**428**	7,541
Impairment loss recognised	**–**	428
Bad debts written off on trade receivables	**(428)**	(7,541)
As at 31 December	**–**	428

At the end of the reporting period, the Group's trade receivables were individually determined to be impaired. The individually impaired trade receivables of nil (2010: HK$428,000) are recognised based on the history of its client, such as financial difficulties or default payments and current market conditions. Consequently, specific impairment provision was recognised.

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS OF OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
As at 1 January	**21,119**	20,746
Impairment loss recognised	**16**	1,164
Written back of impairment	**(1,309)**	–
Bad debts written off on other receivables	**–**	(791)
As at 31 December	**19,826**	21,119

At the end of the reporting period, the Group's other receivables were individually determined to be impaired. The individually impaired other receivables of approximately HK$19,826,000 (2010: HK$21,119,000) are recognised based on the history of its client, such as financial difficulties or default payments and current market conditions.

26. PLEDGED BANK BALANCES AND BANK BALANCES AND CASH

	2011 HK$'000	2010 HK$'000
Pledged bank balances *(note (a))*	**4,031**	3,479
Bank balances and cash *(note (b))*	**11,646**	28,467
	15,677	31,946

Notes:

(a) The pledged bank balances of approximately HK$3,896,000 (2010: HK$3,479,000) and HK$135,000 (2010: nil) were pledged to a bank to secure the bank borrowings and facilities granted by a bank to an independent third party respectively. The pledged bank balances carry interest rate of 0.5% to 3.25% (2010: 2.25%) per annum. The pledged bank balances will be released upon the settlement of the relevant bank borrowings. As the pledged bank balances are expected to be released within one year, it was classified as current asset.

(b) At 31 December 2011, the balances that were placed with banks in the PRC amounted to approximately HK$7,996,000 (2010: HK11,508,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government. Bank balances carry interest at floating rates based on daily bank deposit rates for both years.

27. OTHER PAYABLES

	2011 HK$'000	2010 HK$'000
Other payables and accrued charges	**76,728**	18,284
Outstanding consideration for acquisition of an intangible asset through acquisition of a subsidiary *(note 21)*	**10,000**	10,000
Refundable deposits received	**100,048**	4,379
Rental received in advance	**6,712**	6,292
	193,488	38,955

28. BORROWINGS

	2011 HK$'000	2010 HK$'000
Bank loans – secured	**537,614**	154,330
Other loans – unsecured	**9,877**	–
	547,491	154,330
The carrying amount is repayable:		
Within one year	**78,208**	21,756
More than one year, but not exceeding two years	**56,350**	12,180
More than two years but not more than five years	**247,315**	43,634
More than five years	**147,665**	27,607
	529,538	105,177
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**17,953**	49,153
	547,491	154,330
Less: amount due within one year shown under current liabilities	**(96,161)**	(70,909)
Amounts shown under non-current liabilities	**451,330**	83,421

As at 31 December 2011 and 2010, all bank borrowings were guaranteed by a substantial shareholder of the Company, Mr. Liang Wenguan ("Mr. Liang") and secured by either the leasehold land and buildings or investment properties as detailed in note 34.

During the year ended 31 December 2011, bank borrowings of RMB155,000,000 (equivalent to approximately HK$186,522,000) were acquired on an acquisition of the Acquired Group. After the acquisition completion, the Group further utilised the loan facilities granted by the same bank amounting to approximately RMB175,000,000 (equivalent to approximately HK$220,884,000). The loan is interest-bearing ranging from 7.48% to 7.76% per annum which was by reference to the benchmark bank loan interest rate quoted by the People's Bank of China floating upward by 10% and repayable by installments until 20 December 2018. RMB5,000,000 (equivalent to approximately HK$6,172,000) was repaid during the year.

During the year ended 31 December 2011, the Group entered into a loan agreement with a bank and an independent third party for unsecured loans facilities granted by the independent third party through the bank to the Group amounting to RMB30,000,000 (equivalent to approximately HK$37,037,000) with fixed interest rate of 18% per annum. The loan was denominated in RMB and fully repaid during the year.

During the year ended 31 December 2011, the Group entered into a loan agreement with a bank and an independent third party for unsecured loans facilities granted by the independent third party through the bank to the Group amounting to approximately RMB8,000,000 (equivalent to approximately HK$9,877,000) with fixed interest rate of 25% per annum from 29 November 2011 to 28 May 2012. The loan is denominated in RMB.

28. BORROWINGS *(continued)*

In prior years, the Group entered into loan agreements with banks for loans facilities. As at 31 December 2011, the carrying amounts of the loans denominated in HKD are approximately HK$30,000,000 (2010: HK$ 40,000,000) and HK$19,157,000 (2010: 20,444,000) respectively. The first loan is interest-bearing at 2.25% (2010: 2.25%) per annum over Hong Kong Interbank Offered Rate. The second loan is interest-bearing at 1.5% (2010: 1.5%) per annum over Hong Kong Interbank Offered Rate and is capped at 1.5% per annum below the Hong Kong Dollar Best Lending Rate. As at 31 December 2011, the loan denominated in RMB is approximately RMB70,651,000 (equivalent to approximately HK$87,223,000) (2010: approximately RMB79,334,000 (equivalent to approximately HK$93,886,000)). The loan is interest-bearing ranging from 6.14% to 8.11% (2010: 6.14% to 6.40%) per annum which was by reference to the benchmark bank loan interest rate quoted by the People's Bank of China floating upward by 15%.

Apart from the bank borrowings of approximately RMB325,000,000 (equivalent to approximately HK$401,234,000) which were acquired for construction of investment properties under redevelopment purpose, other borrowings are for working capital purpose for the Group.

29. AMOUNTS DUE TO A RELATED PARTY / A SHAREHOLDER / A JOINTLY CONTROLLED ENTITY

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

30. CONVERTIBLE NOTES AND DERIVATIVE FINANCIAL INSTRUMENT

On 7 July 2011, the Company issued zero-coupon convertible notes with a nominal value of approximately HK$502,521,000 as part of the consideration for the acquisition of the investment property under redevelopment and other assets and liabilities as set out in note 35. The convertible notes, being the First Convertible Note as defined in note 35, are denominated in Hong Kong dollars. The convertible notes entitle the holders to convert them into ordinary shares of the Company at any time falling six months after the date of issue of the First Convertible Note and their settlement date on 6 July 2016, being the fifth anniversary of the date of its issue, in multiples of HK$500,000 at a conversion price of HK$0.128 per convertible share subject to adjustments in certain events. The shares to be issued and allotted upon conversions shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue. If the convertible notes have not been converted, they will be redeemed on 6 July 2016 at par.

The Company may at any time after the date of issue of the First Convertible Note on giving to the holder thereof not less than 3 business day's notice in writing, elect to redeem the whole or part of the First Convertible Note.

The convertible notes were valued by the directors of the Company with reference to valuation reports issued by Avista Valuation Advisory Limited, an independent qualified valuer not connected to the Group, on 7 July 2011, being the date of issuance of the convertible notes and the date of acquisition completion of the Acquired Group, and at the end of the reporting period.

The principal amounts of the convertible notes are divided into straight debt component, embedded conversion option and early redemption option on initial recognition. The debt component is recognised in the consolidated statement of financial position as non-current liability (the holder of the convertible notes cannot require the Company to settle the convertible notes before the maturity of the convertible notes). The embedded conversion option is recognised in the consolidated statement of financial position as current liabilities. The early redemption option embedded in the convertible notes is recognised in the consolidated statement of financial position as current assets.

30. CONVERTIBLE NOTES AND DERIVATIVE FINANCIAL INSTRUMENT *(continued)*

At initial recognition, the debt components are measured at fair value and subsequently measured at amortised cost. The effective interest rate of the debt component is 13.3%. Embedded conversion option and early redemption option are measured at fair value with changes in fair value recognised in profit or loss.

The movement of the debt component and derivatives components of the First Convertible Note for the year is set out as below:

	Debt component HK$'000	**Embedded conversion option** HK$'000	**Early redemption option** HK$'000	**Total** HK$'000
Debt component / embedded conversion option / early redemption option at the issuance date for the acquisition of net assets on an acquisition of the Acquired Group *(note 35)*	263,914	353,245	(165,427)	451,732
Interest charge *(note 10)*	16,998	–	–	16,998
(Gain)/loss arising on changes of fair value	–	(70,341)	107,767	37,426
As at 31 December 2011	280,912	282,904	(57,660)	506,156

The fair values of the derivative financial assets and liabilities are calculated using the binomial model. The inputs into the model were as follows:

	31 December 2011	**(Date of issue) At 7 July 2011**
Share price	HK$0.142	HK$0.165
Conversion price	HK$0.128	HK$0.128
Expected volatility *(note a)*	81%	86%
Expected life *(note b)*	4.52 years	5 years
Risk free rate *(note c)*	0.87%	1.38%

(a) Expected volatility was determined by calculating the historical volatility of the Company's share price.

(b) Expected life was the expected remaining life of the First Convertible Note.

(c) The risk free rate is determined by reference to the yield of the Hong Kong Exchange Fund Bills and Notes.

The First Convertible Note had not been converted into ordinary shares of the Company during the year.

31. PROVISIONS

The movements of the provisions are as follows:

	Provision for compensations HK$'000
As at 1 January 2010	230
Exchange adjustments	10
Derecognised on disposal of a subsidiary *(note 36(i))*	(240)
As at 31 December 2010, 1 January 2011 and 31 December 2011	–

Fairyoung (Shanghai) entered into contracts ("Pre-sale Contracts") with buyers since 2003 for the pre-sale of its properties under development for sale (the "Properties"). According to the terms of the Pre-sale Contracts, if the Properties were not assigned to the buyers on or before 31 December 2004, the buyers were eligible for compensations at the rate of 0.02% per day on deposits paid as from 1 January 2005 until the properties are assigned to the buyers. The Properties were completed and assigned to buyers on 23 May 2007. More than 300 buyers took legal actions against Fairyoung (Shanghai) for compensations since 2005. Accordingly, provision for compensation was made.

Upon disposal of Fairyoung (Shanghai), the provisions had been fully derecognised during the year ended 31 December 2010.

32. DEFERRED TAX LIABILITIES

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

	2011 **HK$'000**	2010 HK$'000
As at 1 January	**53,135**	46,409
Charged to consolidated income statement *(note 11)*	**38,789**	4,558
Acquired on an acquisition of net assets through an acquisition of the Acquired Group *(note 35)*	**335,085**	–
Exchange adjustment	**13,568**	2,168
As at 31 December	**440,577**	53,135

The deferred tax assets and liabilities for the year ended 31 December 2010 and 2011 arise from fair value changes on investment properties of the Group.

33. PROVISION FOR CONTINGENT CONSIDERATION

In connection with the acquisition of net assets through an acquisition of the Acquired Group as detailed in note 35, provision for contingent consideration represented the acquisition-date fair value of contingent consideration for the Second Convertible Note and the Third Convertible Note, which will be issued by the Company after certain conditions fulfilled as specified in the acquisition agreement signed on 27 February 2011 for the Acquired Group (the "Acquisition Agreement") and the supplemental agreement signed on 19 May 2011 (the "Supplemental Agreement"), as part of the consideration transferred in exchange for the Acquired Group.

The provision for contingent consideration is classified as a financial liability as it is resulted from a contract that will or may be settled in the Company's own equity instruments and is a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. The amount will then be measured at fair value with changes in fair value recognised in profit or loss.

The provision for contingent consideration was valued by the directors of the Company with reference to valuation reports issued by Avista Valuation Advisory Limited, an independent qualified valuer not connected to the Group, on 7 July 2011, being the date of acquisition completion of the Acquired Group, and at the end of the reporting period.

The issuance of the Second Convertible Note and the Third Convertible Note is subject to the following condition:

Second Convertible Note as defined in note 35 with its full face value of HK$150,350,000 will be issued after completion of the redevelopment mainly for the extension and renovation work in respect of B2/F to 7/F of the shopping mall located in Chongqing in the PRC (the investment properties under redevelopment in note 20) acquired on an acquisition of the Acquired Group, with an additional gross floor area of 10,773.43 square meters as approved by the relevant PRC regulatory authority (the "Extension Work"), full payment of the land premium in respect of the Extension Work and there is no legal impediment for the Acquired Group to obtain all valid real estate ownership certificates under the applicable laws, rules and regulations. On 19 May 2011, the Group, Profit China Investments Development Limited ("Profit China"), a company beneficially wholly-owned by Mr. Liang, and Mr. Liang entered into the Supplemental Agreement, pursuant to which, Profit China and Mr. Liang had agreed and undertaken to pay the excess of the actual land premium ("Land Premium Excess") in respect of the Extension Work over the amount of RMB7,110,463.80 and should Profit China and Mr. Liang fail to pay the Land Premium Excess or any part thereof in accordance with the terms of the Supplemental Agreement, the Group would be entitled to pay the same on their behalf and deduct an amount equivalent to such Land Premium Excess or any part thereof paid by the Group from the part of the consideration to be satisfied by way of issue of the Second Convertible Note.

As mentioned in note 20, during the period from 1 January 2004 to 31 December 2006, the Acquired Group entered SP Agreements to sell the gross floor area of 14,606.48 square meters on the B1/F of the shopping mall located in Chongqing to 1,267 Buyers. Deposits have been received from purchasers in respect of the SP Agreements.

33. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

However, the Acquired Group is unable to register the respective property transfers and the legal title cannot be transferred to the Buyers.

As a result, the management of the Acquired Group started to negotiate the cancellation of SP Agreements with those purchasers in 2007. Up to 31 December 2011, 941 purchasers signed the cancellation agreement and the remaining 326 purchasers are still under negotiation with the Acquired Group for the possibility of cancellation of SP Agreements.

Pursuant to the Acquisition Agreement, Profit China and Mr. Liang have jointly and severally agreed and undertaken to the Group that they shall procure the cancellation of the SP Agreements as soon as possible and before the second anniversary of the acquisition completion date. Such cancellation shall be on such terms and conditions as approved by the Purchaser (the "Undertaking"). Third Convertible Note as defined in note 35 with its full face value of HK$79,540,000 will be issued upon the Group having satisfied that the Undertaking to be provided by Profit China and Mr. Liang has been fulfilled.

The original purchase price of the relevant parts of the shopping mall in relation to the SP Agreements yet to be refunded and the deferred tax liabilities will be borne by Kings Development. Any amount exceeding the original purchase price of the relevant parts of the shopping mall to be refunded to the purchasers under the cancellation contracts (whether entered into before or after completion of the acquisition) will be indemnified by Profit China and Mr. Liang. Should Profit China and Mr. Liang fail to comply with the Undertaking before the second anniversary of the date of the Acquisition Completion, Profit China shall not be entitled to receive, and the Purchaser shall be released and discharged absolutely from its obligation to pay, part of the consideration in the sum of HK$79,540,000 and the consideration shall be deemed to have been reduced by the sum of HK$79,540,000.

	2011	2010
	HK$'000	HK$'000
Acquired on an acquisition of net assets through an acquisition of the Acquired Group *(note 35)*	**219,825**	–
Arising on changes in fair value	**(7,419)**	–
As at 31 December	**212,406**	–

33. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

The fair values of the provision for contingent consideration are calculated using the binomial model. The inputs into the model were as follows:

SECOND CONVERTIBLE NOTE

	31 December 2011 HK$'000	At 7 July 2011 HK$'000
Share price	**HK$0.142**	HK$0.165
Conversion price	**HK$0.128**	HK$0.128
Expected volatility *(note a)*	**81%**	86%
Expected life *(note b)*	**6.25 years**	6.73 years
Risk free rate *(note c)*	**1.15%**	1.82%

THIRD CONVERTIBLE NOTE

	31 December 2011 HK$'000	At 7 July 2011 HK$'000
Share price	**HK$0.142**	HK$0.165
Conversion price	**HK$0.128**	HK$0.128
Expected volatility *(note a)*	**81%**	86%
Expected life *(note b)*	**6.5 years**	6.98 years
Risk free rate *(note c)*	**1.18%**	1.88%

(a) Expected volatility was determined by calculating the historical volatility of the Company's share price.

(b) Expected life was the expected remaining life of the Second Convertible Note and the Third Convertible Note.

(c) The risk free rate is determined by reference to the yield of the Hong Kong Exchange Fund Bills and Notes.

The Second Convertible Note and the Third Convertible Note will be issued on 31 March 2013 and 6 July 2013 respectively based on the best estimation of the management of the Company on the current status of conditions for issuing those convertible notes.

34. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group or borrowings of the Group and an independent third party (see note 28):

	2011 HK$'000	2010 HK$'000
Leasehold land and buildings *(note 18)*	**30,290**	31,903
Investment properties *(note 20)*	**2,790,148**	367,811
Bank balances *(note 26)*	**4,031**	3,479
	2,824,469	403,193

In addition, the Group has pledged its entire equity interest in its wholly-owned subsidiaries, New China IQ Limited, Dynamic Progress Development Limited and Harbin Dynamic Global Property Co., Ltd. ("Harbin Dynamic"), to secure banking facilities granted to the Group for the year ended 31 December 2011 and 2010.

35. ACQUISITION OF NET ASSETS ON AN ACQUISITION OF THE ACQUIRED GROUP

Pursuant to the Acquisition Agreement and the Supplemental Agreement, the Group acquired the entire interest in Glory Point Investments Limited ("Glory Point") and Da Hong Investments Limited ("Da Hong") from Profit China Investments Development Limited ("Profit China"), a company which is beneficially wholly-owned by Mr. Liang, (the "Acquisition"). Glory Point and Da Hong in aggregate hold the entire interest of Madex Infrastructure Limited and its subsidiary, Kings Development (Glory Point, Da Hong, Madex Infrastructure Limited and Kings Development collectively referred to as the "Acquired Group") and the entire amount of loan of approximately HK$396,603,000 owing from Profit China to the Acquired Group on 7 July 2011, being the date of acquisition completion. Kings Development mainly holds a shopping mall located at Chongqing in the PRC (an investment properties under redevelopment as set out in note 20) and other assets and liabilities. The Group has acquired the net assets, mainly the investment properties under redevelopment for a consideration of approximately HK$1,393,266,000, which was satisfied by the following:

a) as to approximately HK$721,709,000 by way of issue of 4,373,997,292 ordinary shares (the "Consideration Shares") (with a par value of HK$0.05 each) of the Company at the issue price of HK$0.165 each to Profit China upon the date of acquisition completion;

b) as to approximately HK$671,557,000 by way of issue of three convertible notes in which:

   i) as to approximately HK$451,732,000, being the fair value of the tranche 1 note (hereinafter referred to as the "First Convertible Note"), at its full face value of approximately HK$502,521,000 by the Company to Profit China upon the date of acquisition completion; and

   ii) as to approximately HK$219,825,000, being the fair value of provision for contingent consideration, by way of issue of the tranche 2 note (hereinafter referred to as the "Second Convertible Note") and tranche 3 note (hereinafter referred to as the "Third Convertible Note") at its full face value of HK$150,350,000 and HK$79,540,000 respectively by the Company to Profit China after certain conditions fulfilled as specified in the Acquisition Agreement and the Supplemental Agreement.

35. ACQUISITION OF NET ASSETS ON AN ACQUISITION OF THE ACQUIRED GROUP *(continued)*

The directors of the Company are of the opinion that the acquisition of the Acquired Group is in substance an acquisition of net assets, instead of an acquisition of business, as the net assets included in the Acquired Group was mainly investment properties under redevelopment located in Chongqing without operation. For details, please refer to the announcement of the Company dated 25 May 2011, 13 June 2011, 7 July 2011 and 19 August 2011. The effect of the acquisition is summarised as follows:

	HK$'000
Net assets of the Acquired Group acquired:	
Property, plant and equipment	224
Investment properties	2,031,561
Trade and other receivables	113,202
Amount due from Madex International (Holdings) Limited	46
Pledged bank balances	130
Bank balances and cash	29,771
Other payables	(203,270)
Amount due to Profit China, a company controlled by Mr. Liang	(396,603)
Amount due to 珠海市百力行酒店管理有限公司, a subsidiary of the Group	(6,017)
Amount due to Mr. Liang, a substantial shareholder of the Company	(50,774)
Borrowings	(186,522)
Deferred tax liabilities	(335,085)
	996,663
Loan from Profit China	396,603
	1,393,266
Satisfied by:	
Issue of new shares	721,709
First Convertible Note *(note 30)*	451,732
Provision for contingent consideration *(note 33)*	219,825
	1, 393,266
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	29,771

36. DISPOSAL OF SUBSIDIARIES

(i) DISPOSAL OF 100% EQUITY INTEREST IN FAIRYOUNG (SHANGHAI) DURING THE YEAR ENDED 31 DECEMBER 2010

On 30 September 2010, the Group disposed of Fairyoung (Shanghai) which carried out all of its properties development operation to an independent third party. The consideration for the disposal is HK$1.

Consideration received

	HK$'000
Consideration received in cash and cash equivalents	–
Total consideration received	–

Analysis of asset and liabilities over which control was lost

	HK$'000
Non-current asset	
Property, plant and equipment	198
Current assets	
Inventories	374
Trade and other receivables	1,704
Bank balances and cash	800
Current liabilities	
Trade and other payables	(28,197)
Tax liabilities	(1,050)
Provisions	(240)
Net liabilities disposed	(26,411)

Gain on disposal of a subsidiary

	HK$'000
Consideration received and receivable	–
Net liabilities disposed of	26,411
Cumulative exchange differences in respect of the net liabilities of the subsidiary reclassified from equity to profit or loss on loss of control of subsidiary	18,478
Gain on disposal	44,889

36. DISPOSAL OF SUBSIDIARIES *(continued)*

(i) DISPOSAL OF 100% EQUITY INTEREST IN FAIRYOUNG (SHANGHAI) DURING THE YEAR ENDED 31 DECEMBER 2010 *(continued)*

Net cash outflow on disposal of a subsidiary

	HK$'000
Consideration received in cash and cash equivalents	–
Less: bank balances and cash disposed of	(800)
	(800)

(ii) DISPOSAL OF 100% EQUITY INTEREST IN EASY CARRY TRADING LIMITED ("EASY CARRY"), PROFIT GUARD INTERNATIONAL LIMITED ("PROFIT GUARD") AND TURBO JET DEVELOPMENT LIMITED ("TURBO JET") DURING THE YEAR ENDED 31 DECEMBER 2010

On 24 November 2010, the Group disposed of Easy Carry, Profit Guard and Turbo Jet which in aggregate owned 100% equity interest in 南漳水鏡湖度假村酒店有限責任公司 which carried resort operation in Nanzhang.

Consideration received

	HK$'000
Consideration received in cash and cash equivalents	3,500
Total consideration received	3,500

Analysis of asset and liabilities over which control was lost

	HK$'000
Non-current asset	
Prepaid lease payments	1,102
Current assets	
Trade receivables	1
Bank balances and cash	1
Current liabilities	
Trade and other payables	(50)
Net assets disposed	1,054

36. DISPOSAL OF SUBSIDIARIES *(continued)*

(ii) DISPOSAL OF 100% EQUITY INTEREST IN EASY CARRY TRADING LIMITED ("EASY CARRY"), PROFIT GUARD INTERNATIONAL LIMITED ("PROFIT GUARD") AND TURBO JET DEVELOPMENT LIMITED ("TURBO JET") DURING THE YEAR ENDED 31 DECEMBER 2010 *(continued)*

Gain on disposal of subsidiaries

	HK$'000
Consideration received and receivable	3,500
Net assets disposed of	(1,054)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of subsidiary	3,197
Gain on disposal	5,643

Net cash inflow on disposal of subsidiaries

	HK$'000
Consideration received in cash and cash equivalents	3,500
Less: bank balances and cash disposed of	(1)
	3,499

37. SHARE CAPITAL

	2011			2010		
	No. of share	**Per Share HK$**	**Amount HK$'000**	No. of share	Per Share HK$	Amount HK$'000
Authorised						
Ordinary shares of HK$0.05 each	**60,000,000,000**	**0.05**	**3,000,000**	60,000,000,000	0.05	3,000,000
Issued and fully paid						
At 1 January	**3,933,329,504**	**0.05**	**196,667**	3,933,329,504	0.05	196,667
Issue of new shares *(Note)*	**4,373,997,292**	**0.05**	**218,699**	–	–	–
At 31 December	**8,307,326,796**	**0.05**	**415,366**	3,933,329,504	0.05	196,667

Note:

As disclosed in note 35, on 7 July 2011, 4,373,997,292 Consideration Shares of the Company were issued at HK$0.165 each as part of the consideration of the acquisition of net assets through an acquisition of the Acquired Group. The Consideration Shares were credited as fully paid upon the date of acquisition completion.

The new shares rank pari passu in all respects with the existing shares.

38. RELATED PARTY TRANSACTIONS

a) During the years ended 31 December 2011 and 2010, the Group entered into following transactions with its related parties:

(i) During the year ended 31 December 2011, Mr. Liang provided a personal guarantee to the bank for the repayment of the bank loan of approximately HK$537,614,000 (2010: HK$154,330,000).

(ii) During the year ended 31 December 2011, the Company acquired net assets on an acquisition of the Acquired Group from Profit China at a consideration of approximately HK$1,393,266,000. Details are set out in note 35.

(iii) During the year ended 31 December 2010, Zhu Hai Port Plaza has provided a corporate guarantee to secure the recoverability of the amount of HK$35 million loaned to 保利三好 from Madex (Zhuhai) which will be expired on 1 July 2017.

b) Compensation of directors of the Company and key management personnel of the Company:

Remuneration for key management personnel including amounts paid to the Company's directors as disclosed in note 14 and the highest paid employees as disclosed in note 15 is as follows:

	2011 **HK$'000**	2010 HK$'000
Salaries and other short-term employee benefits	**3,652**	3,237
Retirement benefit scheme contributions	**24**	24
	3,676	3,261

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

39. MAJOR NON-CASH TRANSACTION

On 7 July 2011, the Company completed the acquisition of net assets of the Acquired Group with consideration of approximately HK$1,393,266,000, of which approximately HK$721,709,000 was settled by issuing 4,373,997,292 Consideration Shares of the Company of HK$0.165 each and of approximately HK$451,732,000 by issuing the First Convertible Note. The remaining balance of approximately HK$219,825,000, being the provision for contingent consideration by issuing the Second Convertible Note and the Third Convertible Note, has not yet been settled on the date of acquisition completion and as at 31 December 2011.

During the year ended 31 December 2011, prepayments of approximately HK$105,594,000 was capitalised into the Properties upon the construction completion for the Properties.

40. COMMITMENTS

a) OPERATING LEASE COMMITMENTS

The Group as lessor

The Group leases its investment property and has the right to receive royalty fee under operating lease arrangements, with the leases negotiated for terms ranging from ten to sixteen years (2010: ten to sixteen years). The terms of the leases also require the tenants and operator to pay security deposits.

As at 31 December 2011 and 2010, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2011	2010
	HK$'000	HK$'000
Within one year	**27,778**	25,303
In the second to fifth year	**121,458**	114,060
Over five years	**93,864**	118,971
	243,100	258,334

The leases of an investment property in 2011 and 2010 and the right to receive royalty fee in 2010 and 2011 are expected to generate rental yields of approximately 4.2% to 13.1% (2010: 4.83% to 12.6%) on an ongoing basis. The investment property and the right to receive royalty fee have committed tenants and operator for the next six years and thirteen years respectively.

The Group as lessee

At 31 December 2011 and 2010, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	2011	2010
	HK$'000	HK$'000
Within one year	**77**	95

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average of 1 to 2 years and rentals are fixed for average of 1 to 2 years.

40. COMMITMENTS *(continued)*

b) AT THE END OF THE REPORTING PERIOD, THE GROUP HAD THE FOLLOWING CAPITAL COMMITMENTS:

	2011 **HK$'000**	2010 HK$'000
Contracted for but not provided in the consolidated financial statements:		
– Acquisition of investment properties under redevelopment	**230,552**	–

41. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000, contributions to the MPF Scheme vest immediately. Contributions paid or payable to the MPF scheme are charged to the income statement.

The employees of the Group's subsidiaries in the PRC are members of a state-sponsored retirement plan organised by the municipal government under the regulations of the PRC and these subsidiaries make mandatory contributions to the state-sponsored retirement plan to fund the employees' retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on a percentage of the eligible employees' salaries and are charged to the income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan organised by the municipal government in the PRC.

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong and the PRC. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2011 in respect of the retirement of its employees.

The total cost charged to the consolidated income statement of approximately HK$88,000 (2010: HK$51,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

42. PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation / registration and operations	Particular of issued and fully paid capital / registered capital	Proportion ownership interest and voting power held by the Company indirectly 2011	2010	Principal activities
Dynamic Global Development Limited ("Dynamic Global")	Hong Kong	HK$4 *(note(i))*	**100%**	100%	Investment holding
Dynamic Progress Development Limited	Hong Kong	HK$1	**100%**	100%	Investment holding
New China IQ Limited	Hong Kong	HK$2	**100%**	100%	Investment holding
Seekerland Investments Limited	Hong Kong	HK$2	**100%**	100%	Investment holding
Harbin Dynamic Global Property Co., Ltd *(note (ii))*	PRC	RMB65,000,000	**100%**	100%	Property leasing
珠海市百力行酒店管理有限公司	PRC	RMB1,000,000	**100%**	100%	Operating right leasing
Binzhou Huifeng Sanwei Co., Ltd	PRC	US$1,250,000	**51%**	51%	Trading of goods
Kings Development	PRC	RMB340,000,000	**100%**	–	Property development, property trading and leasing of properties

Note:

i) The issued share capital of Dynamic Global comprises two voting ordinary shares of HK$1 each and two non-voting deferred shares of HK$1 each.

ii) Sino-foreign equity joint venture registered in the PRC.

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

None of the subsidiaries had issued any debt securities subsisting at the end of the year or any time during the year.

43. CONTINGENT LIABILITIES

(a) In connection with notes 20 and 33, during the period from 1 January 2004 to 31 December 2006, certain units and shops of the investment properties located in Chongqing had been sold to the independent third parties under the SP Agreements (the "Sale Transactions"). The leasing agency contracts and the mortgage contracts were signed together with SP Agreements among the Buyers, Kings Development and Jia Jun. Pursuant to the terms of the leasing agency contracts, Jia Jun would pay the Buyers an annual rental income equivalent to ten percent of the purchase price of the properties over twenty years.

Based on the legal advice from the legal adviser of the Group, the directors of the Company considered that they have strong and valid ground of defense in relation to the potential claims in respect of the Problematic Properties and the directors of the Company considered that Kings Development would not suffer material financial losses arising from such litigation and has the right to occupy and lease the Problematic Properties to other tenants to generate rental income.

On 27 February 2011, pursuant to a deed of indemnity being executed by Profit China and Mr. Liang in favour of the Group at the date of acquisition completion, Profit China and Mr. Liang will indemnify the Group against all costs that the Group may suffer in relation to the investment properties acquired on the acquisition of the Acquired Group and any disputes and litigation (whether commencing before or after the acquisition completion) against the Group arising or accruing in relation to the operation of the Acquired Group on or before the date of acquisition completion (the "Indemnified Liabilities").

In addition, on 19 May 2011, Zhu Hai Port Plaza entered into an undertaking to pay the aforesaid Indemnified Liabilities to the extent that such losses, liabilities and expenses have not been settled by Mr. Liang pursuant to his obligations under the indemnity agreement executed by him in favour of Kings Development that Kings Development may suffer.

(b) During the year ended 31 December 2010, the Group has received a legal letter from an independent third party in respect of dispute arising from a past exclusive distributorship agreement. Alleged losses of RMB12,000,000 were claimed to have been suffered by the independent third party.

The directors of the Company considered that the Group had a valid and strong ground for defence as the independent third party has no right to enter into any exclusive distributorship agreement. As a result, the possibility of the Group to lose the case is remote and the Group is not expected to suffer material financial losses arising from such litigation, if any. Accordingly, no provision for any claim amount and other costs were made as at 31 December 2011 and 2010 in the consolidated financial statements.

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 HK$'000	2010 HK$'000
Non-current asset		
Interests in subsidiaries *(Note (a))*	**1,811,503**	433,834
Current assets		
Other receivables	**400**	3,503
Derivative financial assets	**57,660**	–
Bank balances and cash	**8**	19
	58,068	3,522
Current liabilities		
Other payables	**4,509**	3,182
Amounts due to subsidiaries *(Note (b))*	**115,017**	113,062
Amount due to a jointly controlled entity	**5,274**	–
Derivative financial liabilities	**282,904**	–
Bank borrowings	**30,000**	40,000
	437,704	156,244
Net current liabilities	**(379,636)**	(152,722)
Total assets less current liabilities	**1,431,867**	281,112
Capital and reserves		
Share capital	**415,366**	196,667
Reserves *(Note (e))*	**523,183**	84,445
Total equity	**938,549**	281,112
Non-current liabilities		
Convertible notes *(Note (c))*	**280,912**	–
Provision for contingent consideration *(Note (d))*	**212,406**	–
	493,318	–
	1,431,867	281,112

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Notes:

(a) INTERESTS IN SUBSIDIARIES

	The Company	
	2011	2010
	HK$'000	HK$'000
Unlisted shares at cost	**2,026,399**	633,132
Amounts due from subsidiaries	**567,345**	582,943
	2,593,744	1,216,075
Less: Impairment losses	**(782,241)**	(782,241)
	1,811,503	433,834

Amounts due from subsidiaries are unsecured, interest-free and not repayable within one year.

(b) AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

(c) CONVERTIBLE NOTES

Details are set out in note 30.

(d) PROVISION FOR CONTINGENT CONSIDERATION

Details are set out in note 33.

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Notes: (continued)

(e) RESERVES

	Share premium HK$'000	Contributed surplus reserve HK$'000 *(note)*	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	130,594	115,419	52	(196,699)	49,366
Total comprehensive income for the year	–	–	–	35,079	35,079
At 31 December 2010 and 1 January 2011	130,594	115,419	52	(161,620)	84,445
Shares issued pursuant to acquisition of net assets through an acquisition of the Acquired Group	503,010	–	–	–	503,010
Total comprehensive expense for the year	–	–	–	(64,272)	(64,272)
At 31 December 2011	633,604	115,419	52	(225,892)	523,183

Note:

The contributed surplus arose in 1989 as a result of the Group's reorganisation and represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiaries. According to the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances. The Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

45. EVENTS AFTER THE REPORTING PERIOD

On 12 March 2012, the principal amount of HK$28,160,000 of the First Convertible Note was converted into 220,000,000 new ordinary shares of the Company.

FIVE YEAR FINANCIAL SUMMARY

The summarised consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, are as set out below:

	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
RESULTS					
Revenue	**27,310**	24,814	22,568	66,114	185,253
Profit/(loss) attributable to owners of the Company	**49,824**	54,269	(18,357)	(27,134)	54,387
ASSETS AND LIABILITIES					
Total assets	**3,116,706**	543,960	466,714	459,510	430,064
Total liabilities	**(1,999,149)**	(246,630)	(214,099)	(156,048)	(409,295)
Non-controlling interests	**(4,739)**	(4,500)	(5,578)	(60,527)	(56,011)
Equity attributable to owners of the Company	**1,112,818**	292,830	247,037	242,935	(35,242)

SCHEDULE OF INVESTMENT PROPERTIES

Description	Use	Area	Percentage of attributable interest
North East Corner Central Avenue & Huapu Street Harbin, Helongjiang Province, The People's Republic of China	Commercial	Gross area – approximately 13,923 sq. metre	100
Various portions on level B2 to L7 of Kings Mall No. 8 Nanping North Road, Nanping Jie Dao, Nanan District, Chongqing, The People's Republic of China	Commercial (under refurbishment/ internal extension works)	Gross area – approximately 100,885 sq. metre	100