



VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1139)

(the "Company")

ANNUAL REPORT 2011

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Chan Chun Choi

(Chairman and Managing Director)

Lo So Wa Lucy (formerly known as

Lu Su Hua) *(Deputy Chairman)*

Independent Non-executive Directors

Ip Ka Keung

(appointed on 18 January 2010)

Lam King Hang

(appointed on 1 June 2010)

Cheung Man Fu

(appointed on 1 August 2011)

Leung Wai Tat, Henry

(resigned on 3 June 2011)

Leung Wai Kei

(resigned on 1 August 2011)

AUDIT COMMITTEE

Ip Ka Keung *(Chairman)*

Lam King Hang

Cheung Man Fu

REMUNERATION COMMITTEE

Lam King Hang *(Chairman)*

Ip Ka Keung

Cheung Man Fu

NOMINATION COMMITTEE

Cheung Man Fu *(Chairman)*

Lam King Hang

Ip Ka Keung

COMPANY SECRETARY

Joshua Lee *FCCA CPA*

(resigned on 1 August 2011)

Leung Wai Kei *CPA*

(appointed on 1 August 2011)

PRINCIPAL BANKER

Standard Chartered Bank (HK) Limited

Shop No. 1, 2, 3

G/F, Katherine House

No.53-55 Chatham Road South

Kowloon

Hong Kong

AUDITOR

Lo and Kwong C.P.A. Company Limited

Suites 313-317, 3/F Shui On Centre

6-8 Harbour Road

Wan Chai

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited

6 Front Street

Hamilton HM 11

Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited

Level 28

Three Pacific Place

1 Queen's Road East

Hong Kong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

PRINCIPAL PLACE OF BUSINESS

Suite 1609 New East Ocean Centre

9 Science Museum Road

Tsimshatsui East

Kowloon

Hong Kong

STOCK CODE

1139

PROFILES OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Chan Chun Choi, aged 66, is the chairman and managing director of the Company. Mr. Chan has been appointed as an executive Director since 1988. Mr. Chan, together with his ex-wife, Madam Lam Mo Kuen, Anna, founded the Company in mid-1980s. Mr. Chan has been engaged in the distribution and marketing of automotive products for over 26 years, principally in the PRC. Mr. Chan is responsible for the strategic planning and business development of the Group. Mr. Chan had been a member of the Consultative Conference of Guangdong Province, a committee member of the China Council for the Promotion of Peaceful National Reunification, an honorary citizen of Jiangmen and Enping, the PRC, and the honorary chairman of the Federation of Hong Kong Guangdong Community Organization Limited. He is also the executive director and major shareholder of Wazi Led Lighting Limited, a Hong Kong company primarily engaged in the LED lighting trading business since 19 July 2010. Mr. Chan did not act as a director in any other listed public company in the last three years. Mr. Chan is the spouse of Ms. Lo So Wa Lucy (formerly known as Ms. Lu Su Hua), an executive Director.

Ms. Lo So Wa Lucy (formerly known as Ms. Lu Su Hua), aged 42, graduated from the Beijing Foreign Studies University in 1999, and in 2003. Ms. Lo obtained her Master of Business Administration (MBA) degree from the University of Ballarat in Australia. She joined AE Optoelectronics Technologies (GD) Ltd., a company primarily engaged in LED business, as a deputy general manager for three years. Ms. Lo was appointed an executive director of the Company on 6 October 2003. Ms. Lo is the spouse of Mr. Chan Chun Choi, an executive Director. Ms. Lo did not act as a director in any other listed public company in the last three years. During the year, Ms. Lo notice the Company she has changed her name from Lu Su Hua to Lo So Wa Lucy.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Ka Keung, aged 43, has been working in the fund industry for a number of years. Having qualified with a big four accountancy firm in London in the nineties, he worked for their Hong Kong office specializing in audit, due diligence and initial public offering work for listed, multi-national and clients from China. Mr. Ip joined the legal division of a major Hong Kong Blue Chip company and managed their Regulatory Affairs function thereafter. Mr. Ip was also the Chief Financial Officer and the Head of Compliance of a Securities and Future Commission licensed Hong Kong asset management company as well as an associate director of a transaction services department of an international accountancy firm. Mr. Ip holds an honors bachelor degree in Accounting and Finance and a Bachelor of Law (LLB) honors degree from the London University. Mr. Ip is a Certified Public Accountant, a Fellow member of Chartered Certified Accountant and a member of Hong Kong and U.S. Society of Financial Analyst. He is also currently a member of the Hong Kong Institute of Directors. Mr. Ip was appointed an independent non-executive Director on 18 January 2010. Mr. Ip did not act as a director in any other listed public company in the last three years. He also does not have any relationships with any Directors, senior management or substantial or controlling shareholders of the Company.

PROFILES OF DIRECTORS

Dr. Lam King Hang, aged 41, received his bachelor degree in Electrical Energy Systems Engineering from the University of Hong Kong in 1994. He worked in the Building Services industry after graduation and returned to the Alma Mater for joining the HKU Photovoltaic research team in 1998. His research focus is on Photovoltaic applications in Hong Kong. He was involved in a number of research projects concerning LED applications when he was employed by the University of Hong Kong from 1998 to 2007. In 2007, he received his PhD in Architecture at The University of Hong Kong and is now working as a Senior Manager at a solar energy company. In 2009, he was appointed as Honorary Lecturer for teaching a Master of Science course at the University of Hong Kong. Dr. Lam was appointed an independent non-executive Director on 1 June 2010. Dr. Lam did not act as a director in any other listed public company in the last three years. He also does not have any relationships with any Directors, senior management or substantial or controlling shareholders of the Company.

Mr. Cheung Man Fu, aged 39, graduated from the Wu Yi University, Jiangmen, PRC with a Bachelor of Science degree in Electronics Engineering. He is currently engaged in, inter alia, auto mechanics and LED businesses for over 15 years. Mr. Cheung was appointed an independent non-executive Director on 1 August 2011. Mr. Cheung did not act as a director in any other listed public company in the last three years. He also does not have any relationships with any Directors, senior management or substantial or controlling shareholders of the Company.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I hereby present the annual report for the year ended 31 December 2011 of Victory Group Limited and its subsidiaries (collectively referred to as the "Group") on behalf of the Board of Directors.

FINANCIAL REVIEW HIGHLIGHT

For the year ended 31 December 2011, the Group had no revenue for the year. Net loss attributable to shareholders of the Company for the year was HK\$6.33 million.

The Board did not recommend to pay any dividend for the year ended 31 December 2011 (2010: Nil).

BUSINESS REVIEW

During the year under review, the principal activity is investment holding and property holding. Same as previous financial years, the Company will continue to exercise stringent cost control under limited funding situation. Furthermore, the Board will use its best endeavors to look for new business opportunities and investment opportunities with an aim to broadening the Group's revenue stream and turn the bottom-line around.

As stated in the annual report 2010 of the Company, trading of the Company's shares has been suspended since 27 September 2006. On 18 December 2008, the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") decided to place the Company in the third stage of the delisting procedures in accordance with Practice Note 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company submitted to the Stock Exchange its First Resumption Proposal dated 2 June 2010 and its Second Resumption Proposal dated 11 July 2011. On 15 July 2011, the Stock Exchange provided the Company with a written acceptance of its Second Resumption Proposal, subject to the Company's compliance with the resumption conditions to the satisfaction of the Listing Division. Due to certain material changes to the Company's resumption plans, the Company submitted a Third Resumption Proposal on 24 October 2011 to the Stock Exchange for approval. On 28 October 2011, the Listing Committee had conditionally approved the Company's Third Resumption Proposal.

The resumption is subject to a number of resumption conditions set out by the Stock Exchange ("Resumption Conditions"). The deadline for the fulfillment of all of the Resumption Conditions is 5 June 2012.

During the year under review, the Board comprised Mr. Chan Chun Choi and Ms. Lo So Wa Lucy (formerly known as Ms. Lu Su Hua) as executive directors; Mr. Ip Ka Keung, Dr. Lam King Hang and Mr. Cheung Man Fu as independent non-executive directors.

CHAIRMAN'S STATEMENT

APPRECIATION

I would like to express sincere thanks to all our management and staff for their contribution and commitment. On behalf of the Board, I would also like to take this opportunity to thank our shareholders, professional advisors for their encouragement and support.

By Order of the Board
Chan Chun Choi
Chairman and Managing Director

Hong Kong, 30 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group had no revenue for the year ended 31 December 2011. Net loss attributable to owners of the Company for the year was approximately HK\$6.33 million.

BUSINESS REVIEW

Comparing to last financial year, the decreased audited net loss for 2011 was primarily due to a decrease of approximately HK\$1.46 million of administrative expense and increase of approximately HK\$1.36 million of finance costs respectively. The reasons of increase in the finance costs was increase of borrowing during the year.

During the year under review, the Group's overall running cost had been sustained at its minimal level through the strict cost control measures. The human resources had also been maintained at the least possible status to generate maximum productivity. In brief, the cost structure of the Group has always been successfully locked at the least possible efficient level.

During the year under review, the Group had no revenue for the year.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The current ratio of the Group in 2011 was 0.01 (2010: 0.01). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital was 2.48 (2010: 2.10). Details of the Group's exposure to credit risk, liquidity risk, currency risk, interest rate risk and any related hedges are stated in note 7 to the consolidated financial statements.

During the year ended 31 December 2011, the Group borrowed a loan of HK\$3,500,000 with a monthly interest rate of 3%, pursuant to the loan agreement dated 27 June 2011 from a financial institution for general business purpose. The loan and the interest thereon is secured by a legal charge over the Group's building and prepaid lease payments. Details of which are set out in Note 24 to the consolidated financial statements.

At as 31 December 2011, the Group had no trade receivables (2010: Nil) and trade payables amounted to HK\$0.1 million (2010: HK\$0.1 million). There had also been no inventories as at 31 December 2011 (2010: Nil).

As at 31 December 2011, the Group's net current liabilities amounted to approximately HK\$37,907,000 (2010: HK\$32,011,000) and net liabilities amounted to approximately HK\$22,830,000 (2010: HK\$16,500,000). At the same day, the Group's bank balances and cash amounted to approximately HK\$16,000 (2010: HK\$19,000). The bank and other borrowings at 31 December 2011 were approximately HK\$26,479,000 (2010: HK\$21,135,000).

CHARGE ON ASSETS

As at 31 December 2011, the Group had pledged building and prepaid lease payments with an aggregate carrying amount of approximately HK\$15,452,000 (2010: HK\$15,881,000) to secure banking facilities and other borrowings granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT HELD

The Group did not hold any significant investment during the year ended 31 December 2011.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2011.

CAPITAL COMMITMENT

On 1 June 2010, the Company entered into an agreement with Long Triumph Holdings Limited and Ms. Leung Oi Lan Kit (collectively known as the "Vendors") in relation to the sale and purchase of the entire issued share capital of Jumbo Chance Holdings Limited and its wholly-owned subsidiary, Sky Dragon (China) Trading Limited (the "Acquisition"). Details are set out in the Company's announcements dated 4 June 2010, 25 June 2010, 29 September 2010, 29 November 2010, 31 January 2011 and 29 March 2011.

Capital commitments in respect of the Acquisition outstanding at the end of the reporting date not provided for in the consolidated financial statements was HK\$50,000,000 (2010: HK\$50,000,000).

On 3 January 2012, the Company and the Vendors entered into the fifth deed of variation, the parties mutually agreed to vary the consideration from HK\$50,000,000 to HK\$60,000,000. Up to this report date, the Acquisition has not been completed.

FOREIGN CURRENCY EXPOSURE

The Group operates in Hong Kong with most of the transactions denominated and settled in Hong Kong dollars ("HKD"). The Group's foreign currencies are mainly Japanese Yen ("JPY"). The Group has bank balances and cash denominated in JPY.

The Group currently does not have foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

HUMAN RESOURCES

As at 31 December 2011, the Group had a total of 5 employees. The remuneration was linked to the financial results of the Group as well as the performance of individual staff. The remuneration policies of the Group's employees are subject to review regularly. Total staff costs including directors' remuneration, for the period amounted to approximately HK\$818,000 (2010: HK\$1,132,000). On irregular but necessary basis, adequate on-job training had been provided to staff in need.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

On 4 September 2009, the Company has received a letter from a lawyer of Profit Fortune International Limited (“Profit Fortune”). It stated that in relation to an agreement dated 9 November 2007 (“the Agreement”), it was agreed to implement a restructuring of the Company’s business and for Profit Fortune to acquire a controlling interest in the Company. The Company has failed to carry out its obligations under the Agreement, and made a new restructuring plan and thereby failed to implement the Agreement and to bring about the necessary events for completion of the same. As a result, Profit Fortune was considering claiming against the Company for the payment of HK\$76,440,000 together with the said expenses, and instituting legal proceedings against the Company.

As there is no further action taken by Profit Fortune up to date of this report, based on the advice from the legal counsel dated 27 March 2012 which considers the Company has strong defense on the possible claim from Profit Fortune, the Directors are of the opinion that the possibility of an outflow of resources embodying economic benefits is remote.

Pursuant to the loan agreement dated 27 June 2011 entered into with a financial institution, a loan of HK\$3,500,000 together with the interest should be repaid on 27 September 2011. As the Group failed to settle an outstanding amount as at 27 September 2011, the said outstanding amount was charged to pay further interest and was outstanding up to the date of this report. On 3 April 2012, the said financial institution consented to an extension of the repayment date to 27 June 2012. The Company will finance the settlement of the outstanding amount due to the financial institution by proceeds from the Open Offer upon its completion.

SUSPENSION OF TRADING

As stated in the 2010 result announcement of the Company, trading of the Company’s shares has been suspended since 27 September 2006. On 18 December 2008, the Listing Committee of the Stock Exchange decided to place the Company in the third stage of the delisting procedures in accordance with Practice Note 17 of the Listing Rules.

The Company submitted to the Stock Exchange its First Resumption Proposal dated 2 June 2010 and its Second Resumption Proposal dated 11 July 2011. On 15 July 2011, the Stock Exchange provided the Company with a written acceptance of its Second Resumption Proposal, subject to the Company’s compliance with the resumption conditions to the satisfaction of the Listing Division. Due to certain material changes to the Company’s resumption plans, the Company submitted a Third Resumption Proposal on 24 October 2011 to the Stock Exchange for approval. On 28 October 2011, the Listing Committee had conditionally approved the Company’s Third Resumption Proposal.

The resumption is subject to a number of resumption conditions set out by the Stock Exchange (“Resumption Conditions”). The deadline for the fulfillment of all of the Resumption Conditions is 5 June 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE OUTLOOK

During the year 2011, the Company submitted further information in relation to the resumption of trading in the Company's shares to the Stock Exchange and the Listing Committee agreed to allow the Company to proceed with the Third Resumption Proposal, subject to compliance with the following Resumption Conditions to the satisfaction of the Listing Division. Upon successfully reorganized, the Group will have adequate resources to continue with sustainable business operations. The Board will use its best endeavors to look for new business and investment opportunities with an aim to broaden the Group's revenue stream and turn the bottom-line around. The Board is confident to bring the Company back profitable once the trading of the Company's shares is resumed.

REPORT OF THE DIRECTORS

The Directors present their Annual Report and Audited Financial Statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and property holding. During the year, the Group had no revenue generated. In 2008, the Group was principally engaged in the provision of installation services of LED screen and facade lighting. In 2007, the Group was principally engaged in marketing and distribution of automotive products.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on page 30 to 78.

No dividends had been paid or declared by the Company for both years presented.

SEGMENTAL INFORMATION

For both years presented, the Group was inactive and had no revenue.

SUMMARY FINANCIAL INFORMATION

The results, assets and liabilities of the Group for the last five financial years are summarised on page 79. This summary is not part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND LAND LEASE PREPAYMENT

Details of movements in property, plant and equipment and land lease prepayment of the Group are set out in notes 17 and 18 to the financial statements respectively.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 34 to the financial statements.

BORROWINGS

Details of the Group's borrowings are set out in note 24 to the financial statements.

RETIREMENT SCHEME

The Group has implemented a provident fund scheme for its staff in compliance with requirements of the Mandatory Provident Fund ("MPF") Schemes Ordinance from 1 December 2000. The Company contributed according to the minimum requirements of the MPF Ordinance (that is, 5 per cent of staffs' relevant income with maximum limit of HK\$1,000) and the contributions are charged to the income statement.

REPORT OF THE DIRECTORS

SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of movements in the Company's share capital, warrants and share options during the year and subsequent to the balance sheet date, together with the reasons for the issue thereof, are set out in note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

(a) The Group

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Enterprise expansion fund <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2010	50,091	710	445	(165)	(76,569)	(25,488)
Loss for the year	-	-	-	-	(6,492)	(6,492)
Other comprehensive (expense) income Release of reserve upon deregistration of a subsidiary in previous year	-	-	(445)	165	280	-
Total comprehensive (expense) income for the year	-	-	(445)	165	(6,212)	(6,492)
At 31 December 2010 and 1 January 2011	50,091	710	-	-	(82,781)	(31,980)
Loss for the year representing total comprehensive expense for the year	-	-	-	-	(6,330)	(6,330)
As 31 December 2011	50,091	710	-	-	(89,111)	(38,310)

REPORT OF THE DIRECTORS

(b) The Company

The amounts of the Company's reserves and the movements therein for the current and prior year are presented in the note 35(c) to the financial statements on page 78.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company had no reserves available for cash distribution and distribution in specie computed in accordance with the Companies Act 1981 of Bermuda except for the Company's share premium account which may be distributed in the form of fully paid bonus shares.

Under the Companies Act 1981 of Bermuda, the Company may make distributions from its contributed surplus in certain circumstances, prescribed by Section 54 thereof, which the Company was unable to satisfy as at 31 December 2011.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Company and the Group as at 31 December 2011 are set out in note 29 to the financial statements.

SIGNIFICANT ISSUES

During the years presented, there were no significant investments and material acquisitions or disposals of subsidiaries or associated companies. The Group had no exposure to fluctuation in exchange rates and any related hedges. Furthermore, the Company and the Group had no significant commitments during both years presented.

There was also no material change in capital structure and pledge of assets of the Group during the two years presented.

For the year ended 31 December 2011, the Directors are not aware of any significant change from the position as at 31 December 2010 and the information published in the report and accounts for the year ended 31 December 2010. The capital structure of the Company only consists of share capital, no other capital instrument was issued by the Company.

RELATED PARTY TRANSACTIONS

Except for the disclosure in the note 30 to financial statements, there were no related party transactions in the year under review.

REPORT OF THE DIRECTORS

EMPLOYEES

As at 31 December 2011, the Group had a total of 5 employees (2010: 6 employees), of whom all were based in Hong Kong. The remuneration package for Hong Kong staff was strictly on a monthly-salary basis. Year-end bonus was linked to the financial results of the Group as well as the performance of individual staff. The remuneration policies of the Group's employees are subject to review regularly. Total staff costs for the year amounted to HK\$818,000 (2010: HK\$1,132,000). On irregular but necessary basis, adequate on-job training had been provided to staff in need.

The Group did not operate any pension or retirement schemes for its Directors or employees until the implementation of MPF in December 2000. The Group had a share option scheme, which was duly approved by the shareholders on 22 January 1998, available for any full-time employees of the Company or any of its subsidiaries, including any executive directors of the Company or of any subsidiaries. No options have been granted since the approval of the scheme. The Scheme was lapsed on 21 January 2008.

PLEDGE OF ASSETS

At 31 December 2011, the banking facilities of HK\$14,000,000 (2010: HK\$14,000,000) are secured by the Group's leasehold land and building with an aggregate carrying amount of approximately HK\$15,452,000 (2010: HK\$15,881,000), joint personal guarantee and corporate guarantee to be executed by the director, Mr. Chan Chun Choi and the Company of HK\$14,000,000 (2010: HK\$14,000,000). At the end of the reporting period, the facilities were utilised by the Group to the extent of approximately HK\$10,500,000 (2010: HK\$10,500,000).

At 31 December 2011, in respect of the loan with carrying amounts of HK\$10,000,000 (HK\$8,000,000, HK\$1,000,000 and HK\$1,000,000 which has been expired on 15 May 2010, 30 September 2010 and 11 January 2011, respectively), are overdue (the "Overdue Loan"), and the Group had already breached the repayment terms of the loan. Upon the breach of the repayment term, the Directors of the Company informed the lender and commenced renegotiation of the terms of the loan with the lender. As at 31 December 2011, the negotiations are still in progress. The Directors of the Company are confident that their negotiation with the lender will ultimately reach a successful conclusion. In any event, should the lender call for immediate repayment of the loan, the Directors of the Company believe that adequate alternative sources of financing are available to ensure that there is no threat to the continuing operations of the Group. Pursuant to the loan agreement, interest to be charged on the overdue sum at the interest rate of 12% per annum until full repayment.

During the year ended 31 December 2011, the Group borrowed a loan of HK\$3,500,000 from a financial institution with a monthly interest rate of 3%. Pursuant to the loan agreement dated 27 June 2011 entered into with a financial institution, the loan is used for general business purpose. The loan and the interest thereon is secured by a legal charge over the Group's building and prepaid lease payments with an aggregate carrying amount of approximately HK\$15,452,000, jointed and personnel guarantee to be executed by the directors, Ms. Lo So Wa Lucy (formerly known as Ms. Lu Su Hua) and Mr. Chan Chun Choi.

REPORT OF THE DIRECTORS

As the loan has been expired on 27 September 2011, the Group has already breached the repayment terms of the loan and further interest could be charged on the outstanding sum at the rate of 3% per month. Details of which are set out in Note 24 to the consolidated financial statements. As at 31 December 2011, the outstanding amount, which include the principal amount and the accumulated loan payable, is approximately HK\$4,072,000. On 3 April 2012, the said financial institution consented to an extension of the repayment date to 27 June 2012. The Company will finance the settlement of the outstanding amount due to the financial institution by proceeds from the Open Offer upon its completion.

PROPERTY VALUATION

A property valuation had been carried out by Ascents Partners Transaction Service Ltd, an independent professional valuer, in respect of the Group's land lease prepayment and building. The Group's land lease prepayment and building were valued at HK\$23,570,000 and HK\$2,830,000 respectively giving no impairment loss on land lease prepayment and building (2010: HK\$21,940,000 and HK\$2,760,000 respectively).

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the year, there were no material acquisitions and disposals of the Company's subsidiaries.

DIRECTORS

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

Executive Directors:

Chan Chun Choi	<i>(Chairman and Managing Director)</i>
Lo So Wa Lucy (formerly known as Lu Su Hua)	<i>(Deputy Chairman)</i>

Independent non-executive Directors:

Ip Ka Keung	
Lam King Hang	
Cheung Man Fu	<i>(appointed on 1 August 2011)</i>
Leung Wai Tat, Henry	<i>(resigned on 3 June 2011)</i>
Leung Wai Kei	<i>(resigned on 1 August 2011)</i>

In accordance with clauses 86(2) and 87(1), respectively of the Company's bye-laws, Mr. Cheung Man Fu and Ms. Lo So Wa Lucy (formerly known as Lu Su Hua), shall retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

DIRECTORS BIOGRAPHIES

Biographical details of the Directors are set out on pages 3 to 4 of this report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of emoluments of the Directors and the five highest paid individuals in the Group are set out in notes 13 and 14 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

All Directors had entered service contracts with the Company for an initial term of two years. Every Director, including those appointed for a specific term, is subject to retirement by rotation at least once every three years.

DIRECTORS' INTERESTS IN CONTRACTS

Except for the related party transactions as disclosed in the note 30 to the financial statements, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

MANAGEMENT CONTRACTS

Except for those as disclosed in note 30 to the financial statements, no other 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

The Company operates a share option scheme for the purpose of providing incentives and rewards to employees including the executive directors of the Company and its subsidiaries of the Group ("Eligible Participants") who contribute to the success of the Group's operations.

On 22 January 1998, the Company conditionally approved a share option scheme ("the Scheme") under which the Directors may, at their discretion, grant options to Eligible Participants, to subscribe for shares of the Company during the 10 years from its date of approval. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 16 February 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme. The Scheme was lapsed on 21 January 2008.

Other than the share option scheme as described above, at no time during the year was the Company, or its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

None of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL OF THE COMPANY

At the balance sheet date, the interests of the Directors and chief executives of the Company in the share capital of the Company and its associated corporations, as recorded in the register required to be kept by the Company under Section 352 of the Securities and Future Ordinance (the "SFO"), or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

(i) **The Company**

Name of Directors	Number of shares held (other interest)
Chan Chun Choi	42,417,758
Lo So Wa Lucy (formerly known as Lu Su Hua)	42,417,758

- (a) 5,917,758 shares are held by Eternal Victory Enterprises Inc. ("EVEI"), a company incorporated in the British Virgin Islands, as trustee of a unit trust, the units of which are held by a discretionary trust established for the family members of Mr. Chan Chun Choi ("Mr. Chan"). Mr. Chan holds all the issued share of EVEI.
- (b) 36,500,000 shares were beneficially held by Winsley Investment Limited (approximately 98% of its shares held by Mr. Chan, approximately 1% by his wife, Lo So Wa Lucy (formerly known as Lu Su Hua) and approximately 1% by his ex-wife, Lam Mo Kuen Anna).
- (c) Eternal Victory Enterprises Inc. and Winsley Investment Limited are companies indirectly owned by Mr. Chan Chun Choi, an executive director. Therefore, Mr. Chan Chun Choi is deemed to be interested in those 42,417,758 shares.
- (d) Lo So Wa Lucy (formerly known as Ms. Lu Su Hua) is deemed to be interested in the Shares in which her spouse, Mr. Chan Chun Choi, is interested.

REPORT OF THE DIRECTORS

(ii) Associated Corporation

Name of associated corporation	Name of Directors	Number of shares held	Class of shares	Type of interest
Victory Motors Centre Limited	Chan Chun Choi	100,000	Non-voting deferred	Personal
		2,800,000	Non-voting deferred	Corporate (Note)

Note: The 2,800,000 non-voting deferred shares are held by Wazi LED Lighting Limited (formerly known as Victory Petro Chemical Limited and Kwong Hung Hing Enterprises Co. Limited) of which Mr. Chan and his son, Mr. Chan Kingsley Chiu Yin together hold the entire issued share capital.

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SFO.

ULTIMATE HOLDING COMPANY AND SUBSTANTIAL SHAREHOLDERS

The Directors consider the ultimate holding company of the Company at the balances sheet date to be Winsley, details of whose share interests are set out under the section headed "Directors' and Chief Executives' Interests in Share Capital of the Company".

At the balance sheet date, other than Winsley, EVEI and the person set out below, no persons were registered as having an interest of 5 per cent or more in the share capital of the Company that were required to be recorded in pursuant to Section 336 of the SFO.

Long Position

Name	Number of issued Shares held	Percentage of the issued share capital of the Company
Au Yu Siu	11,804,000	7.63 per cent

REPORT OF THE DIRECTORS

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Lo and Kwong C.P.A. Company Limited as auditor of the Company.

APPRECIATION

Although the operating results for the financial year under review were again unsatisfactory, the Company and its Board believe that more efforts must be required to overturn the performance in the challenging years ahead. In the mean time, the Board would like to thank all the staff for their hard work and hope to have their continuous support and patience in the attempt of making future years success.

On Behalf of the Board
Chan Chun Choi
Chairman and Managing Director

Hong Kong, 30 March 2012

CORPORATE GOVERNANCE REPORT

This report is a product of the Company's compliance with all relevant recommendations laid down in the "Corporate Governance Report" as set out in Appendix 14 of the Listing Rules.

The Company is committed to exercising a high standard of corporate governance practices at all times. The Board believes that good corporate governance helps the Company safeguard the interests of its stakeholders and improve the performance of the Group. During the year under review, the Company had complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code") except A.2.1 throughout the accounting period covered by the Company's 2011 Annual Report.

NON-COMPLIANCE WITH CODE PROVISION A.2.1

This provision states that the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

During the year ended 31 December 2011, Mr. Chan Chun Choi held the offices of Chairman and CEO of the Company. The Board believes that vesting the roles of both Chairman and CEO in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

THE BOARD OF DIRECTORS

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

Executive Directors:

Chan Chun Choi (*Chairman and Managing Director*)

Lo So Wa Lucy (formerly known as Lu Su Hua) (*Deputy Chairman*)

Independent non-executive Directors:

Ip Ka Keung

Lam King Hang

Cheung Man Fu (appointed on 1 August 2011)

Leung Wai Tat, Henry (resigned on 3 June 2011)

Leung Wai Kei (resigned on 1 August 2011)

Lo So Wa Lucy (formerly known as Lu Su Hua) is the spouse of Mr. Chan Chun Choi.

CORPORATE GOVERNANCE REPORT

The Board consists of a good mix of expertise, knowledge, experience and skills, the essential abilities to guide the teams to fulfill corporate goals. The mission of the Board is to undertake the role for strategic planning and development of the Group with the objective to maximize its shareholders' value. Through the aids of senior management and the internal control mechanism, the Board monitors and supervises, from time to time, the ongoing performance of the Group.

Of the three independent non-executive Directors ("INEDs"), Mr. Ip Ka Keung possesses appropriate professional accounting qualifications and financial management expertise, satisfying Rule 3.10(2) of the Listing Rules. Through positive contributions to the Board and committee works, the INEDs provide independent directives on important decisions in respect of strategic developments, corporate governance practices, financial reporting framework, internal controls and risk management.

The Company has received, from each of its INEDs, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company therefore considers that all INEDs are independent.

The bye-laws of the Company (the "Bye-laws") allow board meetings to be conducted by way of telephone or video conference and all Directors are given fourteen-day notices for regular board meetings. Sufficient information was supplied by management to facilitate the board meetings in making decisions. In both regular and ad hoc board meetings as required by business needs, the Directors are free to include matters of interest for discussion in the agenda. Other than the board papers and related materials, documents of all kinds in relation to the entire Group are accessible to all Directors at any time with one-day notice.

During the year, four board meetings were held and the attendance summary is as below:

Name of Director	Number of attendance/Total	Attendance rate
Chan Chun Choi	4/4	100%
Lo So Wa Lucy (formerly known as Lu Su Hua)	4/4	100%
Ip Ka Keung	2/4	50%
Lam King Hang	2/4	50%
Cheung Man Fu (appointed on 1 August 2011)	1/1	100%
Leung Wai Tat, Henry (resigned on 3 June 2011)	0/1	0%
Leung Wai Kei (resigned on 1 August 2011)	1/3	33%

CORPORATE GOVERNANCE REPORT

RE-ELECTION OF DIRECTORS

Each Director has entered into a letter of appointment with the Company for a term governed by the Bye-laws numbered 87(1) where one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting of the Company. Ms. Lo So Wa Lucy (formerly known as Lu Su Hua), would retire from her office and offer herself for re-election at the Company's 2012 AGM. In accordance with clause 86(2) of the Bye-laws, Mr. Cheung Man Fu would retire from his office and offer himself for re-election at the Company's upcoming annual general meeting.

THE CHAIRMAN AND MANAGEMENT TEAM

The Company implements a clear division of responsibilities among its top management. The Chairman is kept separate from the control of daily operations. The Chairman solely oversees the functions of the Board and the management team takes responsibility for the Group's day-to-day business operations.

The positions of Chairman of the Board and Chief Executive Officer ("CEO") of the Company are both currently carried on by Mr. Chan Chun Choi. Although Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that the structure currently operated by the Company does not undermine the balance of power and authority between the Board and the management. The Board members have considerable experience and qualities which they bring to the Company and there is a balanced composition of Executive Directors and Non-executive Directors (including Independent Non-executive Directors). Given the composition of the Board, the Board believes that it is able to ensure that the balance of power between the Board and the management is not impaired. The Board believes that having the same person performing the roles of both Chairman and CEO does provide the Group with strong and consistent leadership and that, operating in this manner allows for more effective and efficient overall strategic planning of the Group.

The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of the roles of Chairman and CEO, are necessary.

INTERNAL CONTROL

The Board ensures the maintenance of sound and effective internal controls to safeguard the Shareholders' investment and the assets of the Company. The Board also considered that there was room for improvement upon the finalization of the 2011 audit. The Company has established an internal audit department in 2010.

FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The Directors will also ensure the publication of the financial statements of the Group in a timely manner. Equally important, they are also responsible for keeping proper accounting records and disclosures.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had made specific enquires of all Directors regarding any non-compliance with the Model Code during the year and satisfied that all Directors had fully complied with the required standard set out in the Model Code.

AUDITOR'S REMUNERATION

During the financial year, fees paid/payable to Lo and Kwong C.P.A. Company Limited, the auditor of the Company (the "Auditor") for audit services was HK\$400,000 and for non-audit service was HK\$890,000.

AUDIT COMMITTEE

The Audit Committee comprises three members who are all the INEDs. The composition and member of the Audit Committee comply with the requirements under Rule 3.21 of the Listing Rules. The written terms of reference, which describe the authority and duties of the Audit Committee, were adopted since its establishment and had been amended to conform to the provisions of the Code.

The Audit Committee provides the following consultative services to the Board:

- reviewing and monitoring audit process, financial reporting, internal controls, risk management system, and accounting policies and practices;
- deciding the appointment and terms of engagement of external auditors; and
- involving in the decision making for all non-audit engagements.

The Audit Committee convenes meetings to review with management the accounting principles and practices adopted by the Group and all other matters within the scope of its terms of reference and the maintenance of the independence and objectivity of the external auditors. For the audit of 2011 accounts, the existing Committee members satisfy with the performance by the Auditor, who presented the implications of those accounting standards enforceable in this and subsequent financial years to the Audit Committee.

The Group's 2011 audited financial statements had been duly reviewed by the Audit Committee with management and the Auditor. The members of the Audit Committee unanimously recommended for approval by the Board. The Audit Committee has concluded that it is satisfied with the professional performance of the Auditor and therefore recommends the Board that the Auditor be re-appointed as our auditor in the Company's upcoming annual general meeting.

With the consent of the Audit Committee, the Board hereby confirms that, in the preparation of the 2011 consolidated financial statements of the Company, the Directors, both collectively and individually, applied such degree of skill, care and diligence as may reasonably be expected of under the Rule 3.08 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

During the year, two Audit Committee meetings were held and the attendance summary is as below:

Name of Director	Number of attendance/Total	Attendance rate
Ip Ka Keung (<i>Chairman</i>)	2/2	100%
Lam King Hang	2/2	100%
Cheung Man Fu (appointed on 1 August 2011)	1/1	100%
Leung Wai Tat, Henry (resigned on 3 June 2011)	0/1	0%
Leung Wai Kei (resigned on 1 August 2011)	1/1	100%

REMUNERATION COMMITTEE

The remuneration committee of the Company (the “Remuneration Committee”) was established with specific terms of reference. The Remuneration Committee members are all the INEDs Dr. Lam King Hang (Chairman), Mr. Ip Ka Keung and Mr. Cheung Man Fu. The Remuneration Committee provides objective opinions in helping the Group formulating remuneration policies, especially for those involving Directors or senior management. Moreover, the Remuneration Committee ensures that no conflicting parties are involved in the decision process of committing remuneration packages. In short, the objective of this Remuneration Committee is to assure that the Group is able to attract, retain, and motivate a high-caliber management team which is essential to the future of the Company.

If a Director’s emolument were to be determined, the Remuneration Committee would certainly consider various factors, including market comparability, complexity of duties, and the performance expectation.

The Remuneration Committee convenes meetings when necessary.

The remuneration package for Hong Kong staff is strictly on a monthly-salary basis. Year-end bonus is linked to the financial results of the Group as well as the performance of individual staff. The remuneration policies of the Group’s employees are subject to review regularly.

The Group does not operate any pension or retirement schemes for its Directors or employees until the implementation of the MPF Ordinance in late 2000. The Group has a share options scheme, which was approved by the shareholders on 22 January 1998, available for any full time employees of the Company or any of its subsidiaries, including any executive directors of the Company or of any subsidiaries. No options had been granted since the approval of the scheme. The Scheme was lapsed on 21 January 2008.

Due to its unfavorable performance over years, the Group offered no benefits of any kind, except the employer’s contribution to MPF, to its directors and staff in 2011.

CORPORATE GOVERNANCE REPORT

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Director's fees 2011 HK\$'000	Waived fees 2011 HK\$'000	Net fees 2011 HK\$'000	Salaries, allowances and benefits in kind 2011 HK\$'000	Contributions to retirement benefits scheme 2011 HK\$'000	Total 2011 HK\$'000	Total 2010 HK\$'000
Executive directors							
Mr. Chan Chun Choi (Note a)	6,500	(6,500)	-	-	-	-	22
Ms. Lo So Wa Lucy (Note b)	100	-	100	-	-	100	100
Sub-total	<u>6,600</u>	<u>(6,500)</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>122</u>
Independent non-executive directors							
Mr. Leung Wai Tat, Henry (Note c)	42	(42)	-	-	-	-	100
Ms. Leung Wai Kei (Note d)	58	-	58	-	-	58	100
Mr. Ip Ka Keung	100	-	100	-	-	100	95
Dr. Lam King Hang	50	-	50	-	-	50	29
Mr. Cheung Man Fu (Note e)	42	-	42	-	-	42	0
Sub-total	<u>292</u>	<u>(42)</u>	<u>250</u>	<u>-</u>	<u>-</u>	<u>250</u>	<u>324</u>
Total	<u>6,892</u>	<u>(6,542)</u>	<u>350</u>	<u>-</u>	<u>-</u>	<u>350</u>	<u>446</u>

Notes:

- (a) In the year ended 31 December 2011, Mr. Chan Chun Choi agreed to waive emoluments of approximately HK\$6,500,000 for the year ended 31 December 2011.
- (b) Ms. Lo So Wa Lucy is formerly known as Ms. Lu Su Hua.
- (c) Mr. Leung Wai Tat, Henry was resigned on 3 June 2011. In 2011, Mr. Leung agreed to waive his emoluments of approximately HK\$91,000 and HK\$42,000 for the years ended 31 December 2010 and 2011 respectively.
- (d) Ms. Leung Wai Kei was resigned on 1 August 2011.
- (e) Mr. Cheung Man Fu was appointed on 1 August 2011.

CORPORATE GOVERNANCE REPORT

The emoluments of the Directors fell within the following bands:

	2011	2010
	Number of	Number of
	Directors	Directors
Nil – HK\$1,000,000	7	7

NOMINATION COMMITTEE

The nomination committee of the Company (the “Nomination Committee”) was established by the Board with specific terms of reference. The members of the Nomination Committee are all the INEDs Mr. Cheung Man Fu (Chairman), Mr. Ip Ka Keung and Dr. Lam King Hang. The Nomination Committee responds to review and monitor the structure of the Board, appoint and re-appoint directors, and review independence of INEDs.

SHAREHOLDER RIGHTS

In accordance with the Bye-Laws, any shareholder holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall all time have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for transaction of any business specified in such requisition.

INVESTOR RELATIONS

The Board welcomes shareholders’ views on matters affecting the Group, and encourages their attendance at shareholders’ meetings to communicate any concerns they may have with the Board or management directly. The Company’s Annual General Meeting (“AGM”) is an especially important forum.

In respect of any disclosable and significant event, the Company will make accurate and complete disclosure through the publication of announcements, notices, circulars, interim and annual reports in a timely manner on the websites of the Stock Exchange and the Company, pursuant to the disclosure requirements under the Listing Rules.

The Company considers that maintaining on-going and open communications with investors could enhance investors’ understanding of and confidence in the Company as well as improving its corporate governance standards. The Company maintains its website at <http://www.victoryg.com>, where extensive information and updates on the Company’s business developments and operations, financial information, corporate governance practices and other information are posted.

INDEPENDENT AUDITOR'S REPORT



TO THE MEMBERS OF VICTORY GROUP LIMITED

華多利集團有限公司

(incorporated in the Bermuda with limited liability)

We have audited the consolidated financial statement of Victory Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 31 to 79, 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. Except as described in the basis for disclaimer of opinion paragraph, 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. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR DISCLAIMER OF OPINION

a. Comparative figures

As previously explained in our report dated 30 March 2011 on the Group's consolidated financial statements for the year ended 31 December 2010, we were not provided with sufficient evidence to enable us to assess as to whether the loss on deconsolidation of a subsidiary included in the consolidated income statement of the Group were free from material misstatements. We qualified our opinion on the Group's consolidated financial statements for the year ended 31 December 2010 in respect of this scope limitation accordingly.

Any adjustments that might have been found necessary in respect of the above would have had a consequential impact on the Group's results for the year ended 31 December 2010 and the related disclosures made in the consolidated financial statements.

b. Fundamental uncertainty relating to going concern basis

The Group incurred a consolidated loss attributable to owners of the Company of approximately HK\$6,330,000 for the year ended 31 December 2011 and had a consolidated net current liabilities and net liabilities of approximately HK\$37,907,000 and HK\$22,830,000, respectively as at 31 December 2011. In addition, as explained in Note 24 to the consolidated financial statements, during the year ended 31 December 2011, certain other borrowings were overdue, the lenders can request immediate repayment of the other borrowings with outstanding amount of approximately HK\$15,979,000. These conditions, along with other matters as set forth in Note 2 to the consolidated financial statements, indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

As explained in the basis of preparation in Note 2 to the consolidated financial statements, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on (i) the successful outcome of the Group's ongoing negotiations with the lenders and prospective external financial resources providers to bring in viable assets and/or projects to restructure its defaulted financial obligations, and to solve the Group's solvency position at any point of time (the "Negotiations") and (ii) the Group's ability to have adequate cash flows to maintain its business. Due to the uncertainty of the outcome of the Negotiations and the Group's ability to maintain adequate future cash flows, we were unable to ascertain whether the assumptions made by the directors in preparing the consolidated financial statements on a going concern basis are proper and appropriate.

Should the Group be unable to continue to operate as a going concern, adjustments would be necessary to reclassify all non-current assets as current assets, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The consolidated financial statements have not incorporated any of these adjustments. However, the uncertainty surrounding the outcome of the Negotiations and the Group's future cash flows raises significant doubt about the Group's ability to

INDEPENDENT AUDITOR'S REPORT

continue as a going concern. We consider that appropriate disclosures have been made in the consolidated financial statements concerning this situation, but we are unable to obtain adequate evidence concerning the Group's ability to meet any financial obligations as when they fall due and we consider that this fundamental uncertainty relating to whether the going concern basis is so extreme that we have disclaimed our opinion.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of the loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

LO AND KWONG C.P.A. COMPANY LIMITED

Certified Public Accountants (Practising)

Chan Mei Mei

Practising Certificate Number: P05256

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

30 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	<i>Notes</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Revenue	8	–	–
Other income	9	91	54
Loss on deconsolidation of a subsidiary	27	–	(25)
Administrative expenses		<u>(3,974)</u>	<u>(5,432)</u>
Loss from operations		(3,883)	(5,403)
Finance costs	10	<u>(2,447)</u>	<u>(1,089)</u>
Loss before tax		(6,330)	(6,492)
Income tax expense	11	<u>–</u>	<u>–</u>
Loss for the year	12	<u><u>(6,330)</u></u>	<u><u>(6,492)</u></u>
Loss per share	16		
Basic		<u><u>(4.09 cents)</u></u>	<u><u>(4.19 cents)</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Loss for the year	(6,330)	(6,492)
Other comprehensive income		
Release of reserve upon deregistration of a subsidiary in previous year	<u> –</u>	<u> 280</u>
Total comprehensive expense for the year	<u><u> (6,330)</u></u>	<u><u> (6,212)</u></u>
Total comprehensive expense attributable to owners of the Company	<u><u> (6,330)</u></u>	<u><u> (6,212)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	<i>Notes</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	17	1,748	1,801
Prepaid lease payments	18	<u>13,329</u>	<u>13,710</u>
		<u>15,077</u>	<u>15,511</u>
CURRENT ASSETS			
Prepaid lease payments – current portion	18	381	381
Prepayment, deposits and other receivables	19	59	58
Bank balances and cash	20	<u>16</u>	<u>19</u>
		<u>456</u>	<u>458</u>
CURRENT LIABILITIES			
Trade payables	21	100	100
Other payables and accruals	21	5,089	4,198
Amounts due to directors	22	4,572	4,764
Bank overdrafts	23	2,123	2,272
Bank and other borrowings	24	<u>26,479</u>	<u>21,135</u>
		<u>38,363</u>	<u>32,469</u>
NET CURRENT LIABILITIES		<u>(37,907)</u>	<u>(32,011)</u>
NET LIABILITIES		<u>(22,830)</u>	<u>(16,500)</u>
CAPITAL AND RESERVES			
Share capital	26	15,480	15,480
Reserves		<u>(38,310)</u>	<u>(31,980)</u>
		<u>(22,830)</u>	<u>(16,500)</u>

The consolidated financial statements on pages 31 to 79 were approved and authorised for issue by the board of directors on 30 March 2012 and are signed on its behalf by:

Chan Chun Choi <i>DIRECTOR</i>	Lo So Wa Lucy (formerly known as Lu Su Hua) <i>DIRECTOR</i>
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital <i>HK\$'000</i> <i>(Note 26)</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(Note a)</i>	Enterprise expansion fund <i>HK\$'000</i> <i>(Note b)</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2010	<u>15,480</u>	<u>50,091</u>	<u>710</u>	<u>445</u>	<u>(165)</u>	<u>(76,569)</u>	<u>(10,008)</u>
Loss for the year	-	-	-	-	-	(6,492)	(6,492)
Other comprehensive (expense) income							
Release of reserve upon deregistration of a subsidiary in previous year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(445)</u>	<u>165</u>	<u>280</u>	<u>-</u>
Total comprehensive (expense) income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(445)</u>	<u>165</u>	<u>(6,212)</u>	<u>(6,492)</u>
At 31 December 2010	<u>15,480</u>	<u>50,091</u>	<u>710</u>	<u>-</u>	<u>-</u>	<u>(82,781)</u>	<u>(16,500)</u>
Loss for the year, representing total comprehensive expense for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,330)</u>	<u>(6,330)</u>
At 31 December 2011	<u><u>15,480</u></u>	<u><u>50,091</u></u>	<u><u>710</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>(89,111)</u></u>	<u><u>(22,830)</u></u>

Notes:

- (a) The contributed surplus represents the excess of the fair value of the subsidiaries' shares acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange.
- (b) The enterprise expansion fund is maintained, and annual allocations to the fund are made, in accordance with the Joint Venture Law of the PRC.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
Loss before tax	(6,330)	(6,492)
Adjustments for:		
Interest expenses	2,447	1,089
Depreciation of property, plant and equipment	53	55
Loss on deconsolidation of a subsidiary	–	25
Amortisation of prepaid lease payments	381	381
Waiver of a director's emolument	(91)	–
	(3,540)	(4,942)
Operating cash flows before movements in working capital	(3,540)	(4,942)
Increase in prepayment, deposits and other receivables	(1)	(11)
Increase in other payables and accruals	891	470
(Decrease) increase in amounts due to directors	(101)	297
	(2,751)	(4,186)
Cash used in operations	(2,751)	(4,186)
Income tax paid	–	–
	(2,751)	(4,186)
NET CASH USED IN OPERATING ACTIVITIES	(2,751)	(4,186)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	–	(15)
Net cash outflow from deconsolidation of a subsidiary	–	(147)
	–	(162)
NET CASH USED IN INVESTING ACTIVITIES	–	(162)

CONSOLIDATED STATEMENT OF CASH FLOWS

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
FINANCING ACTIVITIES		
Interest paid	(603)	(454)
Proceeds from other borrowings	<u>3,500</u>	<u>2,000</u>
NET CASH FROM FINANCING ACTIVITIES	<u>2,897</u>	<u>1,546</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	146	(2,802)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>(12,753)</u>	<u>(9,951)</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u><u>(12,607)</u></u>	<u><u>(12,753)</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AT 31 DECEMBER		
represented by:		
Bank balances and cash	16	19
Bank overdrafts	(2,123)	(2,272)
Bank revolving loan	<u>(10,500)</u>	<u>(10,500)</u>
	<u><u>(12,607)</u></u>	<u><u>(12,753)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL INFORMATION

Victory Group Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The trading of Company’s shares has been suspended since 27 September 2006. The Stock Exchange announced that effective from 18 December 2008, the Company will be placed into the third stage of the delisting procedures in accordance with Practice Note 17 to the Rules Governing the Listing of Securities on The Stock Exchange (the “Practice Note 17”). Practice Note 17 formalises the procedures to be adopted in dealing with long suspended companies.

On 28 October 2011, the listing committee of the Stock Exchange (the “Listing Committee”) agreed to allow the Company to proceed with the revised resumption proposal dated 24 October 2011, subject to compliance with the resumption conditions as stated in the Company’s announcement dated 31 October 2011, to the satisfaction of the Listing Division by 14 January 2012 (the “Resumption Conditions”). On 14 February 2012, the Stock Exchange agreed to extend the deadline for meeting the Resumption Conditions from 14 January 2012 to 5 June 2012. As soon as practicable upon satisfaction of all the Resumption Conditions, trading in the shares will be resumed.

The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is Suite 1609, New East Ocean Centre, 9 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong.

In the opinion of the directors of the Company (the “Directors”), the parent and ultimate controlling party of the Company is Winsley Investment Limited (“Winsley”) which is incorporated in Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars (“HKD”), which is also the functional currency of the Company.

The Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the investment holding and property holding during this year. The Group had not generated any revenue during the years ended 31 December 2011 and 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Group incurred a consolidated loss of approximately HK\$6,330,000 for the year ended 31 December 2011 and, as of that date, the Group had consolidated net current liabilities and net liabilities of approximately HK\$37,907,000 and HK\$22,830,000 respectively.

In the opinion of the Directors, the Group is able to maintain itself as a going concern in the coming year by taking into consideration the arrangements which include, but are not limited to, the followings:

1. The Directors are under negotiation with the lenders and prospective external financial resources providers for the rearrangement of the defaulted other borrowings. Relevant details are set out in Note 24 to the consolidated financial statements; and
2. The Directors are considering various alternatives to strengthen the capital base of the Company through various fund raising exercise, including not limited to, a private placement and an open offer of new shares of the Company.

Based on the aforesaid measures, the Directors are satisfied that it is appropriate to prepare these consolidated financial statements for the year ended 31 December 2011 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 (“HKICPA”).

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

Except as described below, the application of the new and revised HKFRSs in the current year has had no material 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.

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

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the consolidated statement of changes in equity. The revised standard has no impact on the consolidated financial statement of the Group.

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The revised standard has no financial impact on the Group. Details of the related party transactions, including the related comparative information, are included in Note 30 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – continued

HKAS 24 Related Party Disclosures (as revised in 2009) – continued

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

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

¹ Effective for annual periods beginning on or after 1 July 2011

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

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

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

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

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

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

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

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – continued

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

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

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

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

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – continued

HKFRS 9 Financial Instruments – continued

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

The Directors anticipate that the adoption of HKFRS 9 in the future may not have significant impact on the Group’s financial assets and financial liabilities.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – continued

New and revised standards on consolidation, joint arrangements, associates and disclosures – continued

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

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

The Directors anticipate that the application of these five standards would not have significant impact on amounts reported in the consolidated financial statements.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis, 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:

4.1 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 in line with those used by other members of the Group.

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

4.2 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.3 Leasing

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

The Group as lessee

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

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

Leasehold land and building

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 building elements in proportion to 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. 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, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.4 Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HKD) at the rate of exchange prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

4.5 Retirement benefit costs and short-term employee benefits

(a) *Retirement benefit costs*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.5 Retirement benefit costs and short-term employee benefits – continued

(b) *Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liabilities for annual leave as a result of services rendered by employees up to the end of the reporting period.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

4.6 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 expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.6 Taxation – continued

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

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

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

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

4.7 Property, plant and equipment

Property, plant and equipment including building held for use in the production or supply of goods or services, or for administrative purpose are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write-off the cost of items of 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 methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.8 Impairment losses on tangible assets

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

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

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

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

4.9 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.9 Provisions – continued

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4.10 Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities 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 loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.10 Financial instruments – continued

Financial assets – continued

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 deposits and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

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 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.10 Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. Subsequent recoveries of amounts previously written-off are credited to profit or loss.

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

Financial liabilities and equity instruments

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

Equity instruments

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

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 next carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.10 Financial instruments – continued

Financial assets – continued

Other financial liabilities

Other financial liabilities including trade payables, other payables and accruals, amounts due to directors, bank overdrafts and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.10 Financial instruments – continued

Derecognition – continued

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.

4.11 Bank balances and cash

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. Bank overdrafts and bank revolving loan that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

4.12 Borrowing costs

Borrowing costs are recognised in profit or loss in the year in which they are incurred.

4.13 Related parties

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

- (a) the party is a person or a close member of that person's family and that person, (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group; or
- (b) the party is an entity where any of the following conditions applies;
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the Group (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vi) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4 to the consolidated financial statements, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgment in applying the entity's accounting policies

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

Going concern consideration

The assessment of the going concern assumption involves making a judgment by the Directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Directors considers that the Group has the capability 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 doubt about the going concern assumption are set out in Note 2 to the consolidated financial statements.

Key sources of estimation uncertainty

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

(a) Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. When the actual useful lives of property, plant and equipment due to the change of commercial environment are different from their estimated useful lives, such difference will impact the depreciation charges and the amounts of assets written down for future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Key sources of estimation uncertainty – continued

(b) *Estimated impairment losses for property, plant and equipment*

The impairment losses for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amount is the greater of the fair value less costs to sell and the value-in-use. The Group uses the appraised market value by independent qualified professional valuer in determining an amount that is a reasonable approximation of the recoverable amount. Therefore, no impairment loss in respect of property, plant and equipment was recognised for the year ended 31 December 2011.

(c) *Estimated impairment for receivables*

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectability and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the collateral security. If the financial conditions of the borrowers of the Group deteriorate, resulting in impairment of their ability to make repayments, additional provision may be required. If the financial conditions of the borrowers of the Group, on whose account provision for impairment has been made, are improved and no impairment of their ability to make payments were noted, reversal of provision for impairment may be required.

(d) *Estimated impairment for prepaid lease payments*

No impairment loss was made for the year ended 31 December 2011 were determined by an independent qualified professional valuer. Such valuations were based on prices realised on actual sales of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL INSTRUMENTS

Categories of financial instrument:

(i) Financial assets

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Loans and receivables		
Deposits and other receivables	58	58
Bank balances and cash	16	19
	74	77
	74	77

(ii) Financial liabilities

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Other financial liabilities at amortised cost		
Trade payables	100	100
Other payables and accruals	5,089	4,198
Amounts due to directors	4,572	4,764
Bank overdrafts	2,123	2,272
Bank and other borrowings	26,479	21,135
	38,363	32,469
	38,363	32,469

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments including deposits and other receivables, bank balances and cash, trade payables, other payables and accruals, amounts due to directors, bank overdrafts and bank and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risks 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(a) Market risk

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

(i) Currency risk

The Group operates in Hong Kong with most of the transactions denominated and settled in HKD. The Group's foreign currencies are mainly Japanese Yen ("JPY"). The Group has bank balances and cash denominated in JPY as at 31 December 2011 and 2010.

The carrying amounts of the Group's foreign currencies denominated monetary assets at the end of the reporting period are as follows:

	2011 HK\$'000	2010 HK\$'000
Net financial assets JPY	<u>11</u>	<u>11</u>

The Group currently does not have foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

In the opinion of the management, the Group mainly exposes to the currencies of JPY.

The following table details the Group's sensitivity to a 5% increase and decrease in HKD against JPY. 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 only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2010: 5%) change in foreign currency rates. A positive number below indicates an increase in loss for the year and other equity where HKD strengthen 5% (2010: 5%) against JPY. For a 5% (2010: 5%) weakening of HKD against JPY, there would be an equal and opposite impact on the loss and other equity and the balances below would be negative.

	JPY Impact	
	2011 HK\$'000	2010 HK\$'000
Loss for the year	<u>1</u>	<u>1</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(a) Market risk – continued

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings arising from other borrowings. The Group historically has not used any financial instrument to hedge potential fluctuations in interest rates.

The Group is exposed to cash flow interest rate risk primarily arising from bank revolving loan and bank overdrafts which carrying at floating interest rates. It is the Group's policy to keep it at floating rate of interest so as to minimise the fair value interest rate risk. If interest rate had been 50 basis points higher or lower and all other variables were held constant, the Group's loss for the year would increase or decrease by approximately HK\$63,000 (2010: HK\$63,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank revolving loan and bank overdrafts.

(b) 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, mainly deposits and other receivables and bank balances, as stated in the consolidated statement of financial position.

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

(c) Liquidity risk

At 31 December 2011, the Group is exposed to liquidity risk as the Group had net current liabilities and net liabilities of approximately HK\$37,907,000 (2010: HK\$32,011,000) and HK\$22,830,000 (2010: HK\$16,500,000) respectively.

The Group has planned to implement measure to improve its working capital position and net financial position. Details of which are set out in Note 2 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(c) Liquidity risk – continued

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

	Weighted average interest rate %	Within 1 year or on demand HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
2011				
Trade payables	–	100	100	100
Other payables and accruals	–	5,089	5,089	5,089
Amounts due to directors	–	4,572	4,572	4,572
Bank overdrafts	5.25	2,234	2,234	2,123
Bank and other borrowings:				
– Bank revolving loan	3.70	10,889	10,889	10,500
– Other loans	18.12	18,874	18,874	15,979
		<u>41,758</u>	<u>41,758</u>	<u>38,363</u>
	Weighted average interest rate %	Within 1 year or on demand HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
2010				
Trade payables	–	100	100	100
Other payables and accruals	–	4,198	4,198	4,198
Amounts due to directors	–	4,764	4,764	4,764
Bank overdrafts	5.25	2,272	2,272	2,272
Bank and other borrowings:				
– Bank revolving loan	3.64	10,882	10,882	10,500
– Other loans	12	11,200	11,200	10,635
		<u>33,416</u>	<u>33,416</u>	<u>32,469</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(d) Fair values

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

8. REVENUE

The Group had no revenue during the years ended 31 December 2011 and 2010.

9. OTHER INCOME

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Other income	–	54
Waiver of a director's emolument	91	–
	91	54
	91	54

10. FINANCE COSTS

Interest on bank and other borrowings wholly repayable within five years:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Interest on:		
– Bank overdrafts	105	70
– Bank revolving loan	386	384
– Other loans (<i>Note a</i>)	1,956	635
	2,447	1,089
	2,447	1,089

Note:

- (a) It included overdue interest for overdue loans from a third party and a financial institution amounted to approximately HK\$1,273,000 (2010: HK\$635,000) and HK\$362,000 (2010: Nil) respectively for the year ended 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No Hong Kong profits tax has been provided in both years as the Group did not generate any assessable profits arising in Hong Kong for the years ended 31 December 2011 and 2010.

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

No profits taxes have been provided for the subsidiaries which are operating outside Hong Kong as these subsidiaries have not generated any assessable profits in the respective jurisdictions.

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Loss before tax	<u>(6,330)</u>	<u>(6,492)</u>
Tax at the applicable tax rate	(1,050)	(1,099)
Tax effect of income not taxable for tax purpose	(15)	(9)
Tax effect of expenses not deductible for tax purpose	950	889
Tax effect of tax losses not recognised	116	220
Tax effect of temporary differences not recognised	<u>(1)</u>	<u>(1)</u>
Income tax expense for the year	<u>–</u>	<u>–</u>

At the end of the reporting period, the Group has unused tax losses of approximately HK\$128,138,000 (2010: HK\$127,435,000). No deferred tax assets has been recognised in respect of the unused tax losses due to the unpredictability of future income stream. The tax losses can be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditor's remuneration		
– Audit services	400	200
– Other services	890	770
	1,290	970
Amortisation of prepaid lease payments	381	381
Depreciation of property, plant and equipment	53	55
Operating lease payment	69	53
Staff costs (<i>Note 13</i>)	818	1,132
	818	1,132

13. EMPLOYEES' EMOLUMENTS (INCLUDING DIRECTORS' EMOLUMENTS – NOTE 14)

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	790	1,094
Contributions to retirement benefits scheme	19	41
Provision (over-provision) for annual leave payments	9	(3)
	818	1,132
	818	1,132

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

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	150	270
Contributions to retirement benefits scheme	5	14
	155	284
	155	284

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. EMPLOYEES' EMOLUMENTS (INCLUDING DIRECTORS' EMOLUMENTS – NOTE 14) – continued

The emoluments of each of the above employees were less than HK\$1,000,000 during the two years ended 31 December 2011 and 2010.

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

14. DIRECTORS' EMOLUMENTS

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

2011	Fees HK\$'000	Waived fees HK\$'000	Net fees HK\$'000	Salaries, Contributions allowances and benefits in kind HK\$'000	to retirement benefits scheme HK\$'000	Total HK\$'000
Executive directors						
Mr. Chan Chun Choi (<i>Note vii</i>)	6,500	(6,500)	-	-	-	-
Ms. Lo So Wa Lucy (<i>Note x</i>)	100	-	100	-	-	100
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Sub-total	6,600	(6,500)	100	-	-	100
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Independent non-executive directors						
Mr. Leung Wai Tat, Henry (<i>Note i & ix</i>)	42	(42)	-	-	-	-
Ms. Leung Wai Kei (<i>Note ii</i>)	58	-	58	-	-	58
Mr. Ip Ka Keung (<i>Note iii</i>)	100	-	100	-	-	100
Dr. Lam King Hang (<i>Note iv</i>)	50	-	50	-	-	50
Mr. Cheung Man Fu (<i>Note vi</i>)	42	-	42	-	-	42
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Sub-total	292	(42)	250	-	-	250
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	6,892	(6,542)	350	-	-	350
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. DIRECTORS' EMOLUMENTS – continued

2010	Fees <i>HK\$'000</i>	Waived fees <i>HK\$'000</i>	Net fees <i>HK\$'000</i>	Salaries, Contributions allowances and benefits in kind <i>HK\$'000</i>	to retirement benefits scheme <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors						
Mr. Chan Chun Choi (<i>Note vii</i>)	6,500	(6,489)	11	-	11	22
Ms. Lo So Wa Lucy (<i>Note x</i>)	100	-	100	-	-	100
Sub-total	<u>6,600</u>	<u>(6,489)</u>	<u>111</u>	<u>-</u>	<u>11</u>	<u>122</u>
Independent non-executive directors						
Mr. Leung Wai Tat, Henry (<i>Note i & viii</i>)	100	-	100	-	-	100
Ms. Leung Wai Kei (<i>Note ii</i>)	100	-	100	-	-	100
Mr. Ip Ka Keung (<i>Note iii</i>)	95	-	95	-	-	95
Dr. Lam King Hang (<i>Note iv</i>)	29	-	29	-	-	29
Mr. Hong Po Kui, Martin (<i>Note v</i>)	-	-	-	-	-	-
Sub-total	<u>324</u>	<u>-</u>	<u>324</u>	<u>-</u>	<u>-</u>	<u>324</u>
Total	<u>6,924</u>	<u>(6,489)</u>	<u>435</u>	<u>-</u>	<u>11</u>	<u>446</u>

Notes:

- i) Mr. Leung Wai Tat, Henry was resigned on 3 June 2011.
- ii) Ms. Leung Wai Kei was resigned on 1 August 2011.
- iii) Mr. Ip Ka Keung was appointed on 18 January 2010.
- iv) Dr. Lam King Hang was appointed on 1 June 2010.
- v) Mr. Hong Po Kui, Martin was resigned on 11 January 2010.
- vi) Mr. Cheung Man Fu was appointed on 1 August 2011.
- vii) In the year ended 31 December 2011, Mr. Chan Chun Choi agreed to waive his emoluments of approximately HK\$6,500,000 (2010: HK\$6,489,000) for the year ended 31 December 2011.
- viii) Mr. Leung Wai Tat, Henry agreed to waive his emoluments of approximately HK\$91,000 for the year ended 31 December 2010 in 2011.
- ix) Mr. Leung Wai Tat, Henry agreed to waive his emoluments of approximately HK\$42,000 for the year ended 31 December 2011.
- x) Ms. Lo So Wa Lucy is formerly known as Ms. Lu Su Hua.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. DIRECTORS' EMOLUMENTS – continued

During the two years ended 31 December 2011 and 2010, no emolument was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

15. DIVIDEND

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

16. LOSS PER SHARE

The calculation of the basic loss per share attributable to owners of the Company is based on the consolidated loss for the year attributable to owners of the Company of approximately HK\$6,330,000 (2010: HK\$6,492,000) and the weighted average of 154,801,160 (2010: 154,801,160) ordinary shares of the Company in issue during the year.

No diluted loss per share has been presented as there was no dilutive potential ordinary share for the years ended 31 December 2011 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT

	Building HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST						
At 1 January 2010	2,661	69	567	1,121	2,421	6,839
Additions	-	-	-	15	-	15
At 31 December 2010, 1 January 2011 and 31 December 2011	<u>2,661</u>	<u>69</u>	<u>567</u>	<u>1,136</u>	<u>2,421</u>	<u>6,854</u>
ACCUMULATED DEPRECIATION						
At 1 January 2010	823	69	567	1,118	2,421	4,998
Provided for the year	48	-	-	7	-	55
At 31 December 2010 and 1 January 2011	871	69	567	1,125	2,421	5,053
Provided for the year	48	-	-	5	-	53
At 31 December 2011	<u>919</u>	<u>69</u>	<u>567</u>	<u>1,130</u>	<u>2,421</u>	<u>5,106</u>
CARRYING VALUES						
At 31 December 2011	<u>1,742</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>-</u>	<u>1,748</u>
At 31 December 2010	<u>1,790</u>	<u>-</u>	<u>-</u>	<u>11</u>	<u>-</u>	<u>1,801</u>

The above items of property, plant and equipment are depreciated over their estimated useful lives and after taking into account of their estimate residual value, using the straight-line basis at the following rates per annum:

Building	Over the shorter of the unexpired term of lease and its estimated useful life
Leasehold improvements	Over their expected useful lives or the term of the relevant lease whichever shorter
Furniture and fixtures	20%–30%
Office equipment	20%–30%
Motor vehicles	30%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT – continued

The Group's building is situated in Hong Kong and is held on medium term lease.

At 31 December 2011, the Group's building with carrying amount of approximately HK\$1,742,000 (2010: HK\$1,790,000) has pledged to secure general banking facilities and other borrowings as set out in Note 24 to the consolidated financial statements.

The Directors appointed independent qualified professional valuers, Ascent Partners Transaction Service Limited ("Ascent Partner") to perform property valuations based on prices realised on actual sales of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of values. The fair value of the building at 31 December 2011 is HK\$2,830,000 (2010: HK\$2,760,000). As a result, no impairment loss on the building was made for the years ended 31 December 2011 and 2010.

18. PREPAID LEASE PAYMENTS

	<i>HK\$'000</i>
COST	
At 1 January 2010, 31 December 2010 and 31 December 2011	20,945
	<u>20,945</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2010	6,473
Amortisation for the year	381
	<u>6,854</u>
At 31 December 2010	6,854
Amortisation for the year	381
	<u>7,235</u>
At 31 December 2011	<u>7,235</u>
CARRYING VALUES	
At 31 December 2011	<u>13,710</u>
At 31 December 2010	<u>14,091</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. PREPAID LEASE PAYMENTS – continued

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Analysed for reporting purposes as:		
Current asset	381	381
Non-current asset	13,329	13,710
	13,710	14,091

The Group's prepaid lease payments is situated in Hong Kong and is held on medium term lease.

At 31 December 2011, the Group's prepaid lease payments with carrying amount of approximately HK\$13,710,000 (2010: HK\$14,091,000) has pledged to secure general banking facilities and other borrowings as set out in Note 24 to the consolidated financial statements.

The Directors appointed independent qualified professional valuers, Ascent Partners to perform property valuations based on prices realised on actual sales of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of values. The fair value of the prepaid lease payments at 31 December 2011 is HK\$23,570,000 (2010: HK\$21,940,000). As a result, no impairment loss on the prepaid lease payments was made for the years ended 31 December 2011 and 2010.

19. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Prepayment, deposits and other receivables	103	102
Less: Accumulated impairment loss on other receivables	(44)	(44)
	59	58

Movement in the accumulated impairment loss on other receivables is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
At 1 January and 31 December	44	44

The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. BANK BALANCES AND CASH

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Bank balances and cash	<u>16</u>	<u>19</u>

Cash at banks earn interest at floating rates based on daily bank deposits rates.

Included in bank balances and cash in the consolidated statement of financial position are mainly the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2011 <i>'000</i>	2010 <i>'000</i>
JPY	<u>127</u>	<u>127</u>

21. TRADE PAYABLES / OTHER PAYABLES AND ACCRUALS

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Trade payables	<u>100</u>	<u>100</u>
Other payables	2,327	2,197
Accruals	<u>2,762</u>	<u>2,001</u>
	<u>5,089</u>	<u>4,198</u>
	<u>5,189</u>	<u>4,298</u>

Aging analysis of trade payables based on the invoice date at the end of the reporting period is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Over 1 year	<u>100</u>	<u>100</u>

The fair values of the trade payables, other payables and accruals are approximate to their respective carrying amounts at the end of the reporting period due to their short-term maturity.

22. AMOUNTS DUE TO DIRECTORS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. BANK OVERDRAFTS

	2011 HK\$'000	2010 HK\$'000
Bank overdrafts	2,123	2,272

The bank overdrafts carry interest at market rates of 5.25% (2010: 5.25%) per annum.

24. BANK AND OTHER BORROWINGS

	2011 HK\$'000	2010 HK\$'000
Bank borrowings:		
Secured bank revolving loan (<i>Note i</i>)	10,500	10,500
Other borrowings:		
Secured loans from a third party (<i>Note ii</i>)	11,907	10,635
Secured loan from a financial institution (<i>Note iii</i>)	4,072	–
	15,979	10,635
	26,479	21,135

Notes:

- (i) The bank revolving loan bear interest at HIBOR plus 3.5% (2010: HIBOR plus 3.5%) per annum.

At 31 December 2011, the banking facilities of HK\$14,000,000 (2010: HK\$14,000,000) are secured by the Group's building and prepaid lease payments with an aggregate carrying amount of approximately HK\$15,452,000 (2010: HK\$15,881,000), joint personal guarantee and corporate guarantee to be executed by the director, Mr. Chan Chun Choi and the Company of HK\$14,000,000 (2010: HK\$14,000,000). At the end of the reporting period, the facilities were utilised by the Group to the extent of approximately HK\$10,500,000 (2010: HK\$10,500,000).

- (ii) At 31 December 2011, in respect of the loans with principal amounts of HK\$10,000,000 are overdue (the "Overdue Loans"), and the Group had already breached the repayment terms of the loans. Pursuant to the loan agreements, interest will be charged on the outstanding amount of the Overdue Loans until full repayment at the rate of 12% per annum. The Overdue Loans and the overdue interest thereon are secured by a legal charge over the Group's building and prepaid lease payments with an aggregate carrying amount of approximately HK\$15,452,000 (2010: HK\$15,881,000).

On discovery of the breach, the Directors informed the lender and commenced renegotiation of the terms of the loans with the lender. Up to the date of this report, the negotiations are still in progress. In any event, should the lender calls for immediate repayment of the loans, the Directors believe that adequate alternative sources of finance are available. Details of which are set out in Note 2 to the consolidated financial statements. At 31 December 2011, the outstanding amounts are approximately HK\$11,907,000 (2010: HK\$10,635,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. BANK AND OTHER BORROWINGS – continued

Notes: – continued

- (iii) During the year ended 31 December 2011, the Group borrowed a loan of HK\$3,500,000 from a financial institution with a monthly interest rate of 3%. Pursuant to the loan agreement dated 27 June 2011 entered into with a financial institution, the loan is used for general business purpose. The loan and the interest thereon is secured by a legal charge over the Group's building and prepaid lease payments with an aggregate carrying amount of approximately HK\$15,452,000, jointed and personnel guarantee to be executed by the directors, Ms. Lo So Wa Lucy (formerly known as Ms. Lu Su Hua) and Mr. Chan Chun Choi.

As the loan has been expired on 27 September 2011, the Group has already breached the repayment terms of the loan and further interest could be charged on the outstanding sum at the rate of 3% per month. On discovery of the breach, the Directors informed the lender and commenced renegotiation of the terms of the loans with the lender. Up to the date of this report, the negotiations are still in progress. In any event, should the lender calls for immediate repayment of the loans, the Directors believe that adequate alternative sources of finance are available. Details of which are set out in Note 2 to the consolidated financial statements. As at 31 December 2011, the outstanding amount, which included the principal amount and the accumulated loan payable, is approximately HK\$4,072,000.

25. DEFERRED TAXATION

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

	Accelerated tax depreciation	Impairment loss of prepaid lease payments	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2010, 31 December 2010 and 31 December 2011	<u>565</u>	<u>(565)</u>	<u>–</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. SHARE CAPITAL

	Number of shares		Amount	
	2011	2010 <i>(Note a)</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> <i>(Note a)</i>
Authorised:				
At 1 January and 31 December Ordinary shares of HK\$0.1 each	500,000,000	500,000,000	50,000	50,000
	<u>500,000,000</u>	<u>500,000,000</u>	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:				
At 1 January and 31 December Ordinary shares of HK\$0.1 each	154,801,160	154,801,160	15,480	15,480
	<u>154,801,160</u>	<u>154,801,160</u>	<u>15,480</u>	<u>15,480</u>

Note:

- (a) Pursuant to the Company's announcement dated 16 November 2011, the Directors have clarified that the Company has not been increased or reduced the authorised share capital since 23 January 1998. However, as the authorised share capital was incorrectly stated in its annual reports for the ten financial years ended 31 December 2010, interim reports for the six months ended 30 June 2002 to 30 June 2011 and monthly returns of equity issuer on movements in its securities for the period from January 2009 to October 2011, all of the above information have been revised from 220,558,640 ordinary shares to 500,000,000 ordinary shares.

27. DECONSOLIDATION OF A SUBSIDIARY

Since the Directors considered that the control of the Company over Oriental Surplus Limited ("OSL") has been lost and accordingly failed to get access to their books and records subsequent to the year ended 31 December 2009. Therefore, OSL has not been consolidated in the Group's consolidated financial statements starting from 1 January 2010.

The net assets of OSL at the date of deconsolidation were as follows:

	OSL <i>HK\$'000</i>
Net assets deconsolidated of:	
Cash on hand	147
Bank borrowings	<u>(122)</u>
Loss on deconsolidation of a subsidiary	<u>25</u>
Net cash outflow arising from deconsolidation:	
Cash on hand	<u>(147)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. OPERATING LEASES

The Group as lessee

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Minimum lease payments paid under operating leases during the year:		
– Premises	69	53

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Within one year	15	66
In the second to the fifth year inclusive	–	14
	15	80

The Group leases premises under an operating lease. The lease runs for an initial period of two years (2010: two years), with an option to renew the lease at the expiry date or at dates mutually agreed between the Group and the landlord. The lease does not include contingent rental.

29. CONTINGENT LIABILITIES

At 31 December 2011, there were contingent liabilities in respect of the following:

- (a) On 4 September 2009, the Company has received a letter from a lawyer of Profit Fortune International Limited (“Profit Fortune”). It stated that in relation to an agreement dated 9 November 2007 (“the Agreement”), it was agreed to implement a restructuring of the Company’s business and for Profit Fortune to acquire a controlling interest in the Company. The Company has failed to carry out its obligations under the Agreement, and made a new restructuring plan and thereby failed to implement the Agreement and to bring about the necessary events for completion of the same. As a result, Profit Fortune was considering claiming against the Company for the payment of HK\$76,440,000 together with the said expenses, and instituting legal proceedings against the Company.

As there is no further action taken by Profit Fortune up to date of this report, base on the advice from the legal counsel dated 27 March 2012, the Directors are of the opinion that the possibility of an outflow of resources embodying economic benefits is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. CONTINGENT LIABILITIES – continued

- (b) Pursuant to the loan agreement dated 27 June 2011 entered into with a financial institution, a loan of HK\$3,500,000 together with the interest should be repaid on 27 September 2011. As the Group failed to settle an outstanding amount as at 27 September 2011, the said outstanding amount was required to pay further interest and was outstanding up to the date of this report. The Group breached the repayment terms of the loan. As a result, a claim may be made against the Group by the financial institution for the immediate repayment of the principal amount and accrued interest together with the said expenses, and instituting legal proceedings against the Group. Up to date of this report, no legal action has taken by the financial institution.

30. MATERIAL RELATED PARTY TRANSACTIONS

(a) Balances with directors:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-trade balances due to directors	<u>4,572</u>	<u>4,764</u>

(b) Key management personnel compensation

Key management personnel of the Group in 2011 and 2010 included all directors of the Company and details of their emolument are disclosed in Note 14 to the consolidated financial statement.

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees, salaries, allowances and benefits in kind	350	435
Contributions to retirement benefits scheme	<u>–</u>	<u>11</u>
	<u>350</u>	<u>446</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the bank and other borrowings disclosed in Note 24 to the consolidated financial statements, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The Directors are considering various alternatives to strengthen the capital base of the Company through various fund raising exercise, including not limited to, a private placement and an open offer of new shares of the Company.

32. PLEDGED OF ASSET

The Group had pledged its building and prepaid lease payments to secure banking facilities and other borrowings granted to the Group at the end of the reporting period. The carrying values of the assets pledged are as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Building	1,742	1,790
Prepaid lease payments	13,710	14,091
	<u>15,452</u>	<u>15,881</u>

33. CAPITAL COMMITMENT

On 1 June 2010, the Company entered into an agreement with Long Triumph Holdings Limited and Ms. Leung Oi Lan Kit (collectively known as the "Vendors") in relation to the sale and purchase of the entire issued share capital of Jumbo Chance Holdings Limited and its wholly-owned subsidiary, Sky Dragon (China) Trading Limited (the "Acquisition"). Details of the Acquisition are set out in the Company's announcements dated 4 June 2010, 25 June 2010, 29 September 2010, 29 November 2010, 31 January 2011 and 29 March 2011, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. CAPITAL COMMITMENT – continued

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

	2011 HK\$'000	2010 HK\$'000
Contracted for (<i>Note</i>)	50,000	50,000

Note: On 3 January 2012, the Company and the Vendors entered into the fifth deed of variation, the parties mutually agreed to vary the consideration from HK\$50 million to HK\$60 million. Up to this report date, the Acquisition has not been completed.

34. PARTICULARS OF SUBSIDIARIES

Particulars of subsidiaries at 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued/registered share capital	Proportion ownership interest held by the Company		Principal activities
			Direct	Indirect	
Victory Group (BVI) Limited	British Virgin Islands	Ordinary shares of HK\$100,000	100%	-	Investment holding
Victory Motors Centre Limited	Hong Kong	Ordinary shares of HK\$1,000 Non-voting deferred HK\$3,000,000	-	100%	Investment holding
Victory Realty Limited	Hong Kong	Ordinary shares of HK\$10,000	-	100%	Inactive
Hong Kong Waho Development Limited	Hong Kong	Ordinary shares of HK\$1,000,000	-	100%	Property holding
Waret Investment Limited	Hong Kong	Ordinary shares of HK\$2	-	100%	Inactive
Victory H-Tech Company Limited	Hong Kong	Ordinary shares of HK\$100,000	-	100%	Inactive
華利亞科技(深圳)有限公司	People's Republic China	Paid up registered capital of HK\$10,000,000	-	100%	Inactive

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
NON-CURRENT ASSETS		
Plant and equipment	6	11
Interests in subsidiaries (<i>Note a</i>)	—	—
	6	11
CURRENT ASSETS		
Prepayments	1	—
Bank balances and cash	1	—
	2	—
CURRENT LIABILITIES		
Other payables and accruals	2,794	1,947
Amounts due to directors	1,712	1,903
Bank overdrafts	113	272
Other loan	4,072	—
	8,691	4,122
NET CURRENT LIABILITIES	(8,689)	(4,122)
TOTAL ASSETS LESS CURRENT LIABILITIES	(8,683)	(4,111)
NON-CURRENT LIABILITIES		
Amounts due to subsidiaries (<i>Note b</i>)	9,445	9,710
NET LIABILITIES	(18,128)	(13,821)
CAPITAL AND RESERVES		
Share capital	15,480	15,480
Reserves (<i>Note c</i>)	(33,608)	(29,301)
	(18,128)	(13,821)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – continued

Notes:

(a) Interests in subsidiaries

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Unlisted investment, at cost	76,310	76,310
Amounts due from subsidiaries	85,176	83,702
	161,486	160,012
Less: Provision for impairment	(161,486)	(160,012)
	–	–

(b) The amounts due to subsidiaries are unsecured, interest free and repayable on demand.

(c) Reserves

	Share premium <i>HK\$'000</i>	Contributed surplus <i>(Note i)</i> <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2010	50,091	64,809	(139,159)	(24,259)
Loss for the year, representing total comprehensive expense for the year	–	–	(5,042)	(5,042)
At 31 December 2010	50,091	64,809	(144,201)	(29,301)
Loss for the year, representing total comprehensive expense for the year	–	–	(4,307)	(4,307)
At 31 December 2011	50,091	64,809	(148,508)	(33,608)

Note:

- (i) The contributed surplus represents the excess of the fair value of the subsidiary's shares acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange.

SUMMARY FINANCIAL INFORMATION

RESULTS

	Year ended 31 December				
	2011	2010	2009	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>–</u>	<u>–</u>	<u>–</u>	<u>17,600</u>	<u>6,585</u>
Loss before tax	(6,330)	(6,492)	(4,017)	(3,371)	(430)
Income tax expense	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net loss attributable to owners of the Company	<u>(6,330)</u>	<u>(6,492)</u>	<u>(4,017)</u>	<u>(3,371)</u>	<u>(430)</u>

ASSETS AND LIABILITIES

	At 31 December				
	2011	2010	2009	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	1,748	1,801	1,841	1,891	1,943
Prepaid lease payments – non-current portion	<u>13,329</u>	<u>13,710</u>	<u>14,091</u>	<u>13,263</u>	<u>14,604</u>
Non-current assets	<u>15,077</u>	<u>15,511</u>	<u>15,932</u>	<u>15,154</u>	<u>16,547</u>
Current assets	456	458	977	17,328	30,533
Current liabilities	<u>(38,363)</u>	<u>(32,469)</u>	<u>(26,917)</u>	<u>(38,473)</u>	<u>(49,634)</u>
Net current liabilities	<u>(37,907)</u>	<u>(32,011)</u>	<u>(25,940)</u>	<u>(21,145)</u>	<u>(19,101)</u>
Total assets less current liabilities	(22,830)	(16,500)	(10,008)	(5,991)	(2,554)
Non-current liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(66)</u>
Net liabilities	<u>(22,830)</u>	<u>(16,500)</u>	<u>(10,008)</u>	<u>(5,991)</u>	<u>(2,620)</u>