Annual Report 2012

Sun Innovation Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 547

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Mr. Zhou Jian *(Chairman)*
Mr. Fan Lei
Ms. Lau Cheong *
Mr. Duan Xiongfei *
Mr. Tam Tak Kei, Raymond *

* *Independent non-executive directors*

AUDIT COMMITTEE

Mr. Duan Xiongfei *(Chairman)*
Ms. Lau Cheong
Mr. Tam Tak Kei, Raymond

REMUNERATION COMMITTEE

Mr. Duan Xiongfei *(Chairman)*
Mr. Fan Lei
Ms. Lau Cheong
Mr. Tam Tak Kei, Raymond

NOMINATION COMMITTEE

Mr. Duan Xiongfei *(Chairman)*
Mr. Fan Lei
Ms. Lau Cheong
Mr. Tam Tak Kei, Raymond

COMPANY SECRETARY

Ms. Chow Fung Ling

AUDITOR

BDO Limited
25th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

SOLICITOR

Reed Smith Richards Butler
20th Floor
Alexandra House
18 Chater Road
Hong Kong

WEBSITE

www.suninnovation.com

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 1818-23, 18th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
China CITIC Bank International Limited
China Minsheng Banking Corp., Ltd.
Citibank, N.A.
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank Limited
Wing Hang Bank, Limited

STOCK CODE

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BUSINESS REVIEW AND OUTLOOK

FINANCIAL REVIEW

During the year 2012, as the Company and its subsidiaries (collectively known as the "Group") endeavoured to maintain the upward inclination of the financial performance of the Group, it achieved a turnover from continuing operations of HK$184,457,000 (2011: HK$139,390,000) for the year ended 31 December 2012, showing an increase of 32% compared to that of last year. Profit from continuing operations for the year ended 31 December 2012 recorded approximately HK$5,641,000 (2011: HK$3,153,000). The persistent development of the Trading Segment coupled with the fair value gains on investment properties have continued to strengthen the financial performance of the Group for the year ended 31 December 2012.

The Board of Directors did not recommend payment of a final dividend for the year ended 31 December 2012 (2011: HK$Nil).

Property Investment Segment

The Group owns two shops at the ground floor and 10 car parks in the Citicorp Centre. All shops and majority of car parks were leased out as at 31 December 2012. For the year ended 31 December 2012, the Segment reported a turnover and profit of approximately HK$5,416,000 (2011: HK$5,100,000) and HK$4,278,000 (2011: HK$4,053,000) respectively both with a mild increase of 6% compared to the prior year. The turnover accounted for 3% of the Group's overall turnover during the year under review. Driven by the stable rental income, the turnover and profit of this Segment have grown steadily and contributed as a stable income stream for the Group. The Group would review the existing investment properties portfolio constantly and continue to explore potential profitable investments in Hong Kong and/or the PRC.

Trading Segment

During the year under review, the Group remained focused on enhancing the business of the Trading Segment. The Segment recorded a turnover of approximately HK$179,041,000 (2011: HK$134,290,000) for the year ended 31 December 2012, reflecting an uplift of 33% over last year and a significant contribution of 97% of the turnover of the Group. The profit of the Trading Segment also rose by 22% to HK$10,584,000 (2011: HK$8,698,000).

This Segment was engaged in the trading of metal scraps (e.g. copper wire) and plastic scraps among Hong Kong, Mainland China and other countries/regions. Despite the slowing economic activities worldwide, the global copper market sustained a fairly positive trend for the year of 2012. The Trading Segment managed to bolster its performance under these circumstances. The Group would make relentless effort to boost the business and optimize the efficiency and product varieties of the Trading Segment so as to lay a solid foundation for the future growth of the Group.

BUSINESS REVIEW AND OUTLOOK

CAPITAL

As at 31 December 2012, the total number of issued shares of the Company was 9,832,685,768 shares. There were no other securities in issue.

TERMINATION OF POSSIBLE ACQUISITIONS

In the year of 2011, the Company had executed the Framework Agreement with Guangxi Non-ferrous Metals Group Company Limited and Guangxi Sincerity Investments & Trading Company Limited, the vendors, in respect of the possible acquisitions of certain companies which hold mines in South Africa and Cambodia and the parties might enter into a legally binding sale and purchase agreement subject to the satisfaction of due diligence. However, on 29 May 2012, the Company announced that since the preparation work had taken longer time than the originally expected timeframe and the aforesaid vendors require additional time for collating materials for feasibility studies and for the preparation of technical reports, all parties agreed to terminate the discussions in respect of the possible acquisitions. Details of the termination of the possible acquisitions were disclosed in the announcement of the Company dated 29 May 2012.

Subsequently, the Company had identified another project in Shanghai, the PRC and on 13 July 2012 the Company announced that Ever Union Medical Services Group Limited ("Ever Union"), an indirect wholly-owned subsidiary of the Company, had executed a conditional sale and purchase agreement (the "Agreement") with Shenzhen Xinhe Technology Development Company Limited ("Shenzhen Xinhe") and Beijing Jingbaiqi Asset Management Company Limited ("Beijing Jingbaiqi") (collectively the "Vendors") and their guarantors pursuant to which Ever Union agreed to purchase and the Vendors agreed to sell the entire registered capital of Shenzhen Tuohe Investment Development Company Limited ("Shenzhen Tuohe") subject to certain conditions (the "Proposed Acquisition"). Shenzhen Tuohe holds 70% equity interests in Shanghai Kaiyuan Hospital Investment Management Limited ("Kaiyuan Management") which owns the entire equity interests in Shanghai Kaiyuan Orthopaedic Hospital Limited ("Kaiyuan Hospital"). Kaiyuan Hospital is principally engaged in the operation of an orthopaedic hospital in Pudong New Area of Shanghai, the PRC which has commenced operation since 2008, with a focus and specialty on the orthopaedic operation and relevant recovery services.

The total consideration of the Proposed Acquisition shall be RMB77,000,000 and shall be paid to the Vendors (of which RMB69,300,000 shall be paid to Shenzhen Xinhe and RMB7,700,000 shall be paid to Beijing Jingbaiqi) in cash at completion. Completion of the Proposed Acquisition shall be conditional upon, inter alia, all necessary consents and approvals required to be obtained and the approval by the shareholders of the Company at a special general meeting. Upon completion, the outstanding loans repayable by Shenzhen Tuohe to Shenzhen Xinhe and to Beijing Jingbaiqi will be in the amounts of RMB120,605,100 and RMB13,000,000 respectively. Ever Union has undertaken to the Vendors that, within the 12 months after completion, Ever Union will advance RMB133,605,100, by way of shareholder's loan, to Shenzhen Tuohe, which shall be used for its repayment to the Vendors of the then outstanding loans.

BUSINESS REVIEW AND OUTLOOK

Pursuant to the Agreement, the Vendors have undertaken that they will procure Shenzhen Tuohe to negotiate with Kaiyuan Management and a shareholder holding 10% equity interests in Kaiyuan Management, Jiangsu Huilong Enterprise Limited ("Jiangsu Huilong") to enter into a supplemental agreement (the "KM Supplemental Agreement") to vary certain terms of a management agreement, such that a purchase obligation therein contained will be terminated and substituted by an option to be granted by Jiangsu Huilong to Shenzhen Tuohe. However, on 10 August 2012, Ever Union, the Vendors and their guarantors entered into a supplemental agreement (the "Supplemental Agreement") to amend the Agreement (collectively the "Amended Agreement") to the effect that: (i) the Vendors shall undertake to procure Shenzhen Tuohe to enter into the KM Supplemental Agreement (in a form and substance satisfactory to Ever Union) with Kaiyuan Management and Jiangsu Huilong on or before 31 August 2012 to terminate the purchase obligation; and (ii) the Vendors' obligation to procure Jiangsu Huilong to grant the option to Shenzhen Tuohe was removed from the Agreement.

On 26 October 2012, the Company announced that, taking into account that the conditions precedent as stipulated under the Amended Agreement may not be able to be fulfilled, the parties to the Amended Agreement have further negotiated to amend certain terms of the Amended Agreement. However, after negotiation over a period of time, the parties have yet to agree on the terms of the Amended Agreement to be amended. In light of the above, all parties mutually agreed to enter into the deed of termination (the "Deed of Termination") to terminate the Amended Agreement. Details of the Proposed Acquisition, the Supplemental Agreement and the Deed of Termination were disclosed in the Company's announcements dated 13 July, 10 August and 26 October 2012 respectively.

LIQUIDITY, FINANCE RESOURCES, CHARGES ON GROUP ASSETS AND GEARING RATIO

The Group has diverse sources of financing, including internal funds generated from the Group's business operations, general banking facilities on secured basis, non-bank loans on unsecured basis and non-regular contributions (such as placement of shares or issuance of convertible bonds or financing by shareholder's loans) from the shareholders and other potential investors. The Group continues to adopt conservative funding and treasury policies.

During the financial year under review, the Group had new banking facilities in form of instalment loans in principal amount of HK$67,500,000. These banking facilities were secured by the Group's investment properties with aggregate net book value of HK$144,600,000 as at 31 December 2012.

In addition to the banking facilities mentioned above, an indirectly-owned subsidiary of the Group, among the Entertainment Media Segment which was discontinued in end of December 2010, had obtained a banking facility amounted to HK$6,000,000 from a bank in Hong Kong in 2009 which consisted of a 5-year instalment loan. This facility was granted under the Special Loan Guarantee Scheme of The Government of the Hong Kong Special Administrative Region (the "Government") pursuant to which, the Government had provided 80% guarantee to the bank. A corporate guarantee was provided to the bank by an intermediate subsidiary of the Company which held the aforesaid indirectly-owned subsidiary. On 20 December 2010, the Company announced that it would not provide further financial assistance to Entertainment Media Segment. As a result, operation of the aforesaid subsidiary had been discontinued since end of December 2010.

BUSINESS REVIEW AND OUTLOOK

The cash and bank balances as at 31 December 2012 was approximately HK$239,000,000. As at 31 December 2012, the Group's banking facilities were in amount of approximately HK$71,000,000. These bank loans were at floating interest rate and denominated in Hong Kong dollars. According to the Hong Kong Interpretation 5 issued by the Hong Kong Institute of Certified Public Accountant in November 2010, a bank loan even with the agreed scheduled repayments dates that are longer than 12 months from the year-end date should be classified as "current liability" if there was a "repayment on demand clause" in the banking facility. According to this interpretation, one of the bank loans of the Group was classified as "current liability" as at 31 December 2012. The respective figure of this bank loan for last financial year was already classified according to this interpretation. For financial year under review, other loans of the Group, they were classified as current liability and non-current liability according to the agreed scheduled repayments dates. According to the agreed scheduled repayments dates, the maturity profile of the Group's bank borrowings (except the one that fully classified as current liability) as at 31 December 2012 was spread over a period of 20 years, with approximately 10% repayable within one year, 16% repayable between two to five years and 74% repayable over five years.

The Group's current assets were approximately HK$282,000,000 while the current liabilities were approximately HK$24,000,000 as at 31 December 2012. As at 31 December 2012, the Group's current ratio was 11.8 (at 31 December 2011: 11.5).

As at 31 December 2012, the Group's gearing ratio, representing the Group's bank loans, non-bank loans and convertible bonds (if any) divided by the equity attributable to owners of the Company was 21% (at 31 December 2011: 1%).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group's turnover, expenses, assets and liabilities were denominated in Hong Kong dollars ("HKD"), Renminbi ("RMB") and United States dollars ("USD"). The exchange rates of USD against HKD remained relatively stable during the financial year under review. Certain expenses of the Group incurred in RMB which had fluctuated in a relatively greater extent in the financial year under review. However, the amount of RMB expenses incurred were immaterial, the appreciation of RMB against HKD did not have material adverse effect on the operations of the Group for the financial year under review.

At present the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving RMB. However, the Group will constantly review the economic situation, development of each business segment and the overall foreign exchange risk profile, and will consider appropriate hedging measures in future when necessary.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any material contingent liabilities.

BUSINESS REVIEW AND OUTLOOK

EMPLOYEE OF THE GROUP

The Group has adopted a competitive remuneration package for its employees according to their performance. There are also contributions to provident fund schemes, medical subsidies and examination leaves offered to all full-time staff and tax protection scheme may be offered to executive directors.

As at 31 December 2012, the total headcount of the Group was 23.

PROSPECT

Political tensions affected the global economy heavily in the year of 2012 and resulted in a decrease of global real GDP growth when compared to last year. Economists opined that the economic recovery rates in 2012 were disappointing after the financial crisis in 2008. Factionalism in various countries, the continuing European debt crisis, potential fiscal cliff in the United States of America, economic slow-down in various emerging countries, including China, the world's second-largest economy, difficult trading conditions in both advanced and emerging markets and the commodity prices fluctuation among the year were the crucial factors. It is expected that the global economic growth may be slow at the beginning but may accelerate later during the year of 2013 and China shall maintain its leading growth rate and may show signs of revival from the slow-down growth prospect of last year.

During the year of 2012, the Property Investment Segment performed satisfactorily with a stable income stream generated by the leasing properties in Hong Kong. The Trading Segment had made a bracing achievement during the first half year of 2012. Due to the strong commodity prices in the middle of the year 2012, the customers' demand and the turnover were slightly affected. However, the trading business still had a satisfactory uplift. In November 2012, the Group had executed a memorandum of understanding in relation to its intention to acquire the whole or part of the equity interests in a company which, through its subsidiaries, is principally engaged in the operation of visual effects studios in the United States of America. Detail of the aforesaid memorandum of understanding was disclosed in the Company's announcement dated 19 November 2012.

Continuing with the spirit of perseverance while facing the contemporary challenges in the year of 2013, the Group shall strive to explore more potential opportunities for the benefit of our valued shareholders and investors.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and practices with an emphasis on integrity, transparency and independence. The board of directors (the "Board") believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") and came into full effect on 1 April 2012.

During the financial year of 2012, the Company has complied with most of the Code Provisions of the Former CG Code for the period from 1 January 2012 to 31 March 2012 and of the Revised CG Code for the period from 1 April 2012 to 31 December 2012, save for the following:

1. The Chairman of the Board of the Company is not subject to retirement by rotation pursuant to Bye-law 87(1) of the Company's Bye-laws;

2. There is no separation of the role of the Chairman and the Chief Executive Officer ("CEO") or chief executive. Mr. Zhou Jian is the Chairman of the Company and the Company does not have any chief executive or any officer with the title of CEO. The roles and functions of CEO or chief executive are performed by all the executive directors collectively in view of the current size of the Group. The Board will periodically review such arrangement and may adopt appropriate measures in future during the further development of the Group's businesses; and

3. The independent non-executive directors were not appointed for a specific term. However, they are subject to retirement by rotation and eligible for re-election at the annual general meeting pursuant to the Company's Bye-laws, the Former CG Code and the Revised CG Code. The service contracts of all the independent non-executive directors have a termination notice requirement of one month.

The Company periodically reviews its corporate governance practices to ensure they continue to meet the requirements of the Former CG Code and the Revised CG Code during the year of 2012. The key corporate governance principles and practices of the Company are summarised in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transaction.

To the specific enquiry by the Company, all Directors have confirmed that they had complied with the Model Code throughout the year ended 31 December 2012.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The Board is responsible for maintaining and reviewing the effectiveness of the internal control system of the Group. It has carried out an annual review of the existing implemented system and procedures, including control measures of financial, operational and legal compliance and risk management functions of the Group.

THE BOARD

Responsibilities

The Board is responsible for overseeing the overall development of the Company's businesses with the objective of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance half-yearly and developing and reviewing the Group's policies and practices on corporate governance while delegating the day-to-day operations of the Company to the executive directors or the management of every business segment. The Board is committed to making decisions in the best interests of both the Company and its shareholders.

The Board acknowledges its responsibility for preparing the financial statements of the Company and the Group which give a true and fair view of the Group's affairs in accordance with statutory requirements and applicable accounting standards. The statement by the auditor of the Company about its reporting responsibilities for the financial statements of the Company is set out on pages 28 to 29 in the Independent Auditor's Report.

All Directors have full and timely access to all relevant information as well as the advice and service of the Company Secretary to ensure Board procedures and all applicable rules and regulations are followed.

Composition

The Board has in its composition a balance of skills and experience necessary for independent decision making and fulfilling its business needs.

As at 31 December 2012, the Board comprised five members, including two Executive Directors and three Independent Non-executive Directors, as follows:

Executive Directors
Mr. Zhou Jian *(Chairman)*
Mr. Fan Lei

Independent Non-executive Directors
Ms. Lau Cheong
Mr. Duan Xiongfei
Mr. Tam Tak Kei, Raymond

Biographical details of the Directors are set out on page 21.

CORPORATE GOVERNANCE REPORT

THE BOARD *(continued)*

Composition *(continued)*

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise, and the independent non-executive directors represented over one-third of the Board.

The Company has received written annual confirmation from each Independent Non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The Bye-laws of the Company requires that one-third (if the number is not a multiple of three, the number nearest to but not less than one-third) of the Directors (including executive and non-executive directors) shall retire by rotation each year. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election and those of the other Directors who have been longest in office since their election or re-election. A retiring Director is eligible for re-election. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting and be eligible for re-election. Any Director appointed pursuant to the aforesaid Bye-law shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

Board Meetings and General Meeting

During the year ended 31 December 2012, six Board meetings and the annual general meeting for the year 2012 ("AGM 2012") were held with details of the Directors' attendance set out below:

Directors	**Attendance/Number of Meetings**	
	Board Meetings	**AGM 2012**
Executive Directors		
Mr. Zhou Jian *(Chairman)*	6/6	1/1
Mr. Fan Lei	6/6	0/1
Independent Non-executive Directors		
Ms. Lau Cheong	6/6	0/1
Mr. Duan Xiongfei	6/6	1/1
Mr. Tam Tak Kei, Raymond	6/6	0/1

CORPORATE GOVERNANCE REPORT

THE BOARD *(continued)*

Directors' Training

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Company's constitutional documents and the Guides on Directors' Duties issued by the Companies Registry to each newly appointed Director to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements.

The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials, as well as organizes seminars on the professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities.

During the year of 2012, there were two in-house seminars conducted covering the topics of director's duties under Appendix 10 and Appendix 14 of the Listing Rules and new inside information disclosure requirements under the Listing Rules and the Securities and Futures Ordinance. All Directors attended the seminars.

DELEGATION BY THE BOARD

The Directors are aware of their collective and individual responsibilities to the shareholders for the well-being and success of the Company.

To enhance the effectiveness of the management of the Company, the Board has established four committees, namely, the Executive Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee to oversee corresponding aspects of the Company's affairs. All Board committees of the Company have defined written terms of reference.

BOARD COMMITTEES

Executive Committee

The Executive Committee comprises all Executive Directors of the Company and it assists the Board in discharging its duties and dealing with routine business of the Company and enhances the effectiveness and efficiency of day-to-day operation of the Company. There is no minimum meeting requirement and this Committee shall meet as and when necessary for proper discharge of its duties.

Audit Committee

The Audit Committee comprises all Independent Non-executive Directors with Mr. Duan Xiongfei as the chairman of this Committee.

In order to comply with the Revised CG Code, the Board adopted a revised terms of reference of the Audit Committee on 5 March 2012. The revised terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE REPORT

Audit Committee *(continued)*

The main duties of the Audit Committee are to consider the appointment, re-appointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process and to discuss with the external auditor the nature and scope of the audit. It is also responsible for reviewing: (i) the half-yearly and annual financial statements before submission to the Board and (ii) the Company's financial control, internal control and risk management systems and the internal audit programme (where appropriate). It also needs to discuss problems and reservations arising from the interim and final audits and to consider the major findings of internal investigations and management's response.

There were two meetings held during the year under review, details of attendance are set out below:

Audit Committee Members	Attendance/Number of Meetings
Mr. Duan Xiongfei *(Chairman)*	2/2
Ms. Lau Cheong	2/2
Mr. Tam Tak Kei, Raymond	2/2

During the year under review, the Audit Committee had considered, reviewed and discussed any areas of concerns during the audit process, the compliance of company policy, the internal control procedures and the corporate governance of the Group and had approved the annual audited financial statements and the interim financial statements respectively.

Nomination Committee

As at 31 December 2012, the Nomination Committee consisted of Mr. Duan Xiongfei, Ms. Lau Cheong and Mr. Tam Tak Kei, Raymond, the Independent Non-executive Directors and Mr. Fan Lei, the Executive Director. Mr. Duan Xiongfei is the chairman of the Nomination Committee.

In order to comply with the Revised CG Code, the Board adopted a revised terms of reference of the Nomination Committee on 5 March 2012. The revised terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The main duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board of Directors on a regular basis and to identify individuals suitably qualified to become board members. It is also responsible for assessing the independence of Independent Non-executive Directors and making recommendations to the Board of Directors on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors. The recommendations of the Nomination Committee are then put forward for consideration and adoption, where appropriate, by the Board.

CORPORATE GOVERNANCE REPORT

Nomination Committee *(continued)*

The Nomination Committee shall meet at least once per year according to its terms of reference. A Nomination Committee meeting was held during the year under review, details of attendance are set out below:

Nomination Committee Members	Attendance/Number of Meeting
Mr. Duan Xiongfei *(Chairman)* *(appointed as the Chairman on 6 March 2012)*	1/1
Mr. Fan Lei	1/1
Ms. Lau Cheong	1/1
Mr. Tam Tak Kei, Raymond	1/1

During the year under review, the Nomination Committee had reviewed the structure, size and composition of the Board of Directors of the Company and the retirement and re-appointment arrangement of the Directors in the Company's forthcoming annual general meeting.

Remuneration Committee

As at 31 December 2012, the Remuneration Committee consisted of Mr. Duan Xiongfei, Ms. Lau Cheong and Mr. Tam Tak Kei, Raymond, the Independent Non-executive Directors and Mr. Fan Lei, the Executive Director. Mr. Duan Xiongfei is the chairman of the Remuneration Committee.

In order to comply with the Revised CG Code, the Board adopted a revised terms of reference of the Remuneration Committee on 5 March 2012. The revised terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

The major responsibilities of the Remuneration Committee are to make recommendation to the Board on the Company's policy and structure for remuneration of the Directors and senior management of the Company. The Committee shall determine, with delegated responsibility, the individual remuneration package of each executive director (including the Chairman) and senior management including benefits in kind and pension rights (including allocation of share options, annual bonus plans) and compensation payments (including any compensation payable for loss or termination of their office or appointment) subject to the contractual terms, if any. When determining remuneration packages of the executive directors and senior management of the Company, the Remuneration Committee takes into consideration factors such as market forces and remuneration packages of executive directors of similar companies in comparable industries both in Hong Kong and overseas.

CORPORATE GOVERNANCE REPORT

Remuneration Committee *(continued)*

The Remuneration Committee shall meet at least once per year according to its terms of reference. A Remuneration Committee meeting was held during the year under review, details of attendance are set out below:

Remuneration Committee Members	Attendance/Number of Meeting
Mr. Duan Xiongfei *(Chairman)* *(appointed as the Chairman on 6 March 2012)*	1/1
Mr. Fan Lei	1/1
Ms. Lau Cheong	1/1
Mr. Tam Tak Kei, Raymond	1/1

During the year under review, the Remuneration Committee reviewed the existing remuneration policies of the Company.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(i) To develop and review the Group's policies and practices on corporate governance and make recommendations;

(ii) To review and monitor the training and continuous professional development of directors and senior management;

(iii) To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);

(iv) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and

(v) To review the Group's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

During the year under review, the Board approved the terms of reference of the Board and the revised terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee, the shareholder communication policy, shareholder enquiry procedures and special request procedures.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

The remuneration paid and payable to the external auditor and the nature of services are set out as follows:

Type of services	HK$'000
Audit services:	
Audit of annual financial statements	724
Non-audit services:	
Circular for major transaction	400
Agreed upon procedures	80

COMPANY SECRETARY

Ms. Chow Fung Ling, was appointed as Company Secretary of the Company on 21 November 2000. Since Ms. Chow was appointed between 1 January 2000 to 31 December 2004, she is not required to comply with Rule 3.29 of the Listing Rules in relation to professional training until the financial year commencing on 1 January 2013.

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

Pursuant to the Bye-law 58, a special general meeting may be convened by the Board upon requisition by any shareholder holding not less than one-tenth of the issued share capital of the Company and the securities being held carrying the right of voting at any general meetings of the Company. The shareholder shall make a written requisition to the Board or the Company Secretary of the Company at the head office address of the Company, specifying the shareholding information of the shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. Pursuant to the Bye-law 59, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act of Bermuda.

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the Company Secretary of the Company at the head office address of the Company, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(continued)*

Making Enquiry to the Board

Shareholders may send written enquiries, either by post, by facsimiles or by email, together with his/her contact details, such as postal address, email or fax, addressing to the head office of the Company at the following address or facsimile number or via email:

Room 1818, 18/F., Sun Hung Kai Centre,
30 Harbour Road, Wanchai, Hong Kong

Fax: (852) 2907 9898
Email: ir@suninnovation.com

All enquiries shall be collected by the Company Secretary who shall report to the Executive Directors periodically on the enquiries collected. The Executive Directors shall review the enquiries and assign different kinds of enquiries to appropriate division head/manager for answering. After receiving the answers of all enquiries from the relevant division head/manager, the Company Secretary will collect the answers for the Executive Directors' review and approval. The Company Secretary shall then be authorized by the Executive Directors to reply all enquiries in writing.

INVESTOR RELATIONS

Amendments to the Bye-laws

At the annual general meeting of the Company held on 27 April 2012, the shareholders approved the amendments to the Bye-laws, the provisions of which principally reflected the recent changes to the Listing Rules, the Former CG Code and the Companies Act 1981 of Bermuda. A new set of amended and restated Bye-laws consolidating such amendments was adopted on the same date. The major amendments to the Bye-laws are as below:

1. Bye-law 3: Provision of financial assistance

   Subject to compliance with the rules and regulations of the Stock Exchange, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

2. Bye-law 44: Register of members open to public inspection

   The register and branch register of members shall be open to inspection by the public, instead of by the members of the Company only, without charge.

3. Bye-law 46: Means of shares transfer

   Transfer of shares may be in any manner other than by an instrument of transfer if it is permitted by and in accordance with the rules of the Stock Exchange.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS *(continued)*

Amendments to the Bye-laws *(continued)*

4. Bye-law 59: Notice of general meetings

   Further provisions to the notice period requirements for convening general meetings were made to comply with the Revised CG Code.

5. Bye-law 66: Voting by poll

   All resolutions put to vote at general meetings shall be decided by way of poll unless the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter to be voted by a show of hands.

6. Bye-law 67: Results of voting by hand and voting by poll

   A declaration by chairman shall be conclusive evidence of the resolution which is voted by a show of hands while the result of poll shall be deemed to be the resolution of the meeting and should make appropriate disclosure pursuant to the relevant rules.

7. Bye-law 86: Appointment of directors

   Any Director appointed to fill a casual vacancy shall hold office until the next general meeting while any Director appointed as an addition to the existing Board shall hold office until the next following annual general meeting.

8. Bye-law 87: Retirement of directors

   At each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third, instead of "not greater than the one-third" stated in the old Bye-laws) shall retire from office by rotation and eligible for re-election.

9. Bye-law 103: Material interest of directors

   In considering whether a Director has a material interest which would prohibit him from voting or being counted in the quorum, the 5% threshold exemption was removed.

10. Bye-law 122: Physical board meetings

    A resolution in writing shall not be passed in lieu of a physical board meeting when considering (a) any matter where a substantial shareholder of the Company or a Director has a material interest and (b) the appointment and dismissal of the Company Secretary.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS *(continued)*

Amendments to the Bye-laws *(continued)*

11. Bye-law 138: Dividends and other payments

    No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than its liabilities, instead of "less than the aggregate of its liabilities and its issued share capital and share premium accounts" stated in old Bye-laws.

Shareholders Communication Policy

The Company adopted a Shareholders Communication Policy on 5 March 2012 which aims to enhance the corporate communication effectively between the shareholders, and the Board and senior management of the Company through various official channels so that the shareholders can access the Company's public information equally in a timely manner.

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the continuing operations, including: (i) property investment business and (ii) trading business.

During the year of 2012, the discontinued operations included: (i) entertainment media business and (ii) telecommunication business.

The Company had closed down the unprofitable business operations of the Group. The Board of Directors had decided not to continue to finance and would over time cease the entertainment media business, the performance of which have continued to deteriorate, and the dormant telecommunication business. Details of the update on business plans were announced in the Company's announcement dated 20 December 2010.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 30. The Board of Directors does not recommend payment of a final dividend (2011: HK$Nil).

RESERVES

Details of the movements in reserves of the Group and the Company are set out in the consolidated statement of changes in equity and Note 22 to the financial statements respectively.

In view of the losses sustained by the Company, distributable reserves of the Company at 31 December 2012 amounted to HK$49,510,000 solely comprised of contributed surplus.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 13 to the financial statements.

DIRECTORS' REPORT

INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in Note 14 to the financial statements.

Investment properties were valued at their open market value at 31 December 2012 by DTZ Debenham Tie Leung Limited, an independent firm of professional qualifier valuer. The valuation gave rise to fair value gain amounted to HK$12,200,000 (2011: HK$14,400,000).

SHARE CAPITAL

Details of movements in the Company's issued share capital and options during the year and outstanding as at 31 December 2012 are set out in Notes 21 and 23 to the financial statements respectively.

DIRECTORS

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

Executive Directors
Zhou Jian
Fan Lei

Independent Non-executive Directors
Lau Cheong
Duan Xiongfei
Tam Tak Kei, Raymond

In accordance with Bye-law 87(1) of the Company's Bye-laws, Mr. Fan Lei and Ms. Lau Cheong will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting.

None of the directors, including those directors who are proposed for re-election at the forthcoming annual general meeting, has a service contract with the Company, which is not determinable within one year without payment of compensation, other than statutory compensation.

The Independent Non-executive Directors have no specific term of office but their service contracts have a termination notice requirement of one month.

DIRECTORS' REPORT

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are as shown below:

Executive Directors

Zhou Jian, aged 43, was appointed as Executive Director on 21 July 2009 and was re-designated as the Chairman on 18 September 2009. Mr. Zhou graduated from E.M. Lyon in France with a Master's Degree in Business Administration. He has over 18 years' experience in operation, administrative affairs and strategic planning. Mr. Zhou was an executive director of Jiayou Home Shopping Co., Ltd. which has been granted an approval from the State Administration of Radio Film and Television in the PRC for carrying out trading business on television and multimedia in the PRC. He was an executive director of Hi Sun Technology (China) Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 818).

Fan Lei, aged 38, was appointed as Executive Director on 21 July 2009. Mr. Fan graduated from Wuhan University with a Bachelor's Degree in Economics with major in investment economics. He previously worked in China Construction Bank and Bank of Communications and has more than 15 years of experience in banking industry including asset management in the PRC. He was the Chief Investment Director of Beijing Changhe Century Asset Management Limited.

Independent Non-executive Directors

Lau Cheong, aged 29, was appointed as Independent Non-executive Director on 21 July 2009. Ms. Lau holds a Master's Degree in Public Policy and Management and a Bachelor's Degree in Business Administration from University of Southern California. She obtained three broker qualifications in the United States of America and previously worked in Morgan Stanley & Co. Incorporated. She is currently the President of Ponticello International Group Incorporated.

Duan Xiongfei, aged 43, was appointed as Independent Non-executive Director on 21 July 2009. Mr. Duan holds a Master's Degree in Economics from Renmin University of China and a Master's Degree in Business Administration from University of Chicago. He is an associated member of National Futures Association in the United States of America and has over 15 years of experience in securities trading and investment industry. Mr. Duan is currently the Managing Partner of Shanghai Ruiyue Capital Management, Inc. and the Partner of Guarda Capital Management, Inc. in Canada which qualifies as a registered commodity trading advisor in the United States of America.

Tam Tak Kei, Raymond, aged 49, was appointed as Independent Non-executive Director on 10 September 2009. Mr. Tam holds a Bachelor of Arts Degree in Accounting with Computing from University of Kent at Canterbury, England and is a Chartered Accountant in Hong Kong and England and Wales. He is also an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Tam acted as the financial controller of international law firms for many years and has over 25 years of professional accounting experience. He was also appointed as an independent non-executive director of Tianjin Jinran Public Utilities Company Limited (stock code: 1265), Vision Fame International Holding Limited (stock code: 1315) and Sunley Holdings Limited (stock code: 1240) on 15 February 2011, 19 December 2011 and 11 September 2012 respectively, all are listed companies on the Stock Exchange of Hong Kong Limited.

DIRECTORS' REPORT

SHARE OPTION SCHEME

The original share option scheme of the Company was adopted on 16 May 2002 (the "Old Option Scheme") which would be expired on 16 May 2012. On 27 April 2012, the Company adopted a new 10-year share option scheme (the "New Option Scheme") and terminated the Old Option Scheme on the same date. Pursuant to the New Option Scheme, the Directors are authorised to grant options to any executive or non-executive directors, any executives and employees and those persons who have contributed or will contribute to the Group as incentive schemes and rewards. Apart from the New Option Scheme, the Company did not have any other share option scheme.

During the year under review, the Company did not grant any options to any person and therefore, as at 31 December 2012 there was no outstanding options to subscribe for any shares of the Company under the New Option Scheme.

(1) **Purpose**

The purpose of the New Share Option Scheme is to reward participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its shareholders as a whole.

(2) **Participants**

Directors (including Executive Directors, Non-executive Directors and Independent Non-executive Directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group.

(3) **The total number of shares available for issue**

The total number of shares which may be issued upon exercise of options to be granted under the New Option Scheme and any other share option schemes of the Company shall not, in the absence of shareholders' approval, exceed 10% of the shares in issue as at the date of adoption of the New Option Scheme on 27 April 2012 (i.e. 983,268,576 shares).

The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the Shares in issue from time to time. No options shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will exceed the 30% limit.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

(4) **The maximum entitlement of each participant under the New Option Scheme**

The total number of Shares issued and to be issued upon the exercise of the options granted and to be granted to each participant of the New Option Scheme of the Company (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue.

Any further grant of options in excess of this 1% limit shall be subject to the approval of the shareholders of the Company in general meeting with such grantee and his associates abstaining from voting and the requirements prescribed under the Listing Rules from time to time.

(5) **The period within which the shares must be taken up under an option**

An option may be exercised in accordance with the terms of the New Option Scheme at any time during the 10-year period from the date of grant.

(6) **The minimum period for which an option must be held before it can exercised**

The Board is empowered to impose, at its discretion, any minimum period that an option must be held at the time of granting any option.

(7) **The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid**

Acceptance of the option must be made within 28 days from the date of grant and HK$1.00 must be paid as a consideration for the grant of option.

(8) **The basis of determining the exercise price**

The exercise price of the option shall be such price determined by the Board at its absolute discretion and notified to the participant in the offer but shall be no less than the highest of:

(a) the closing price of the Shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day;

(b) the average closing price of the Shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and

(c) the nominal value of the Share.

(9) **The remaining life of the New Option Scheme**

The New Option Scheme is valid and effective for a period of 10 years commencing on 27 April 2012 and shall be expired on the tenth anniversary date, i.e. 27 April 2022.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2012, the interests and short positions of the directors and chief executive of the Company and their associates in the shares and underlying shares of the Company as recorded in the register to be kept under Section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

Ordinary shares of HK$0.01 each

Name of director	Capacity	Number of shares	Percentage of the issued ordinary share capital of the Company
Zhou Jian	Held by controlled corporation *(Note)*	2,610,395,180	26.55%

Note: Mr. Zhou Jian held 2,610,395,180 shares of the Company through Wise Sun Holdings Limited, a company wholly owned by Bright Ace Holdings Limited, a company beneficially owned by him.

Save as disclosed above, as at 31 December 2012, no interests and short position in the shares or underlying shares were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or any of their respective associates which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

At no time during the year was the Company or any of 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.

CONNECTED TRANSACTION

Significant related party transactions entered into by the Group during the year ended 31 December 2012, which do not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, are disclosed in Note 30 to the financial statements.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of director and chief executive, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long Positions

Ordinary shares of HK$0.01 each

Name of shareholder	Capacity	Number of issued ordinary shares	Percentage of the issued ordinary share capital of the Company
Wise Sun Holdings Limited	Beneficial owner *(Note 1)*	2,610,395,180	26.55%
Bright Ace Holdings Limited	Held by controlled corporation *(Note 1)*	2,610,395,180	26.55%
Zhou Jian	Held by controlled corporation *(Note 1)*	2,610,395,180	26.55%
Fortune Source International Limited	Beneficial owner *(Note 2)*	1,125,000,000	11.44%
Zhang Xiaoqun	Held by controlled corporation *(Note 2)*	1,125,000,000	11.44%
Long Gate Limited	Beneficial Owner *(Note 3)*	845,500,000	8.60%
Kwok Ho Wan	Held by controlled corporation *(Note 3)*	845,500,000	8.60%

Notes:

1. Wise Sun Holdings Limited is wholly owned by Bright Ace Holdings Limited which in turn is wholly owned by Mr. Zhou Jian.
2. Fortune Source International Limited is wholly owned by Mr. Zhang Xiaoqun.
3. Long Gate Limited is wholly owned by Mr. Kwok Ho Wan.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	99%
– five largest suppliers combined	100%
Sales	
– the largest customer	36%
– five largest customers combined	99%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF THE LISTING RULES

There was a banking facility (the "Facility") with the principal amount of HK$6,000,000 provided by a bank in Hong Kong to an indirectly-owned subsidiary of the Company (the "Subsidiary"), among the Entertainment Media Segment which was discontinued by the end of December 2010, and imposed certain specific performance obligations on the Company, pursuant to which, the Company should not (i) hold less than 51% of the Subsidiary's equity interests effectively and (ii) hold less than 100% of equity interest in an intermediate wholly-owned subsidiary of the Company which held the Subsidiary ("Intermediate Holding Company"). The bank had the right to demand for repayment of all outstanding amounts due by the Subsidiary under the Facility, unless otherwise approved by the bank, if there is any breach of the aforesaid conditions. As at 31 December 2012, the outstanding loan principal of this Facility amounted to approximately HK$4,854,000 and the original last monthly instalment repayment should be in the year 2014.

On 20 December 2010, the Company announced that it would not provide further financial assistance to the Entertainment Media Segment. As a result, the operation of the Subsidiary was discontinued by the end of December 2010. The aforesaid bank took legal action against the Subsidiary and the Intermediate Holding Company in respect of the Facility. A provisional liquidator was appointed for the Subsidiary on 11 July 2012. However, there was no corporate guarantee for the Facility issued by the Company and other subsidiaries of the Company in favour of the Subsidiary and the Intermediate Holding Company.

DIRECTORS' REPORT

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

The Company has not redeemed any of its securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.

CORPORATE GOVERNANCE

A report on the principal corporate governance practice adopted by the Company is set out in pages 8 to 18 of the annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

There is no information required to be disclosed pursuant to the Listing Rules.

AUDITOR

The financial statements have been audited by BDO Limited who will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as the auditor of the Company.

On behalf of the Board

Zhou Jian
Chairman

Hong Kong, 30 January 2013

INDEPENDENT AUDITOR'S REPORT

BDO

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25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

TO THE SHAREHOLDERS OF SUN INNOVATION HOLDINGS LIMITED
(known as "奧亮集團有限公司" for identification purpose)
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sun Innovation Holdings Limited (the "Company") and its subsidiaries (thereafter referred to as the "Group") set out on pages 30 to 98, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

INDEPENDENT AUDITOR'S REPORT

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Lam Siu Fung
Practising Certificate number: P05308
Hong Kong, 30 January 2013

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Continuing operations			
Revenue	5	184,457	139,390
Cost of sales and services		(167,709)	(125,497)
Gross profit		16,748	13,893
Other revenue and gains	6	899	735
Selling and distribution expenses		(46)	(61)
Administrative expenses and other net operating expenses		(22,324)	(21,422)
Finance costs	8	(1,451)	(1,720)
Losses on deregistration and dissolution of subsidiaries, net	25	–	(2,450)
Fair value gains on investment properties	14	12,200	14,400
Profit before taxation		6,026	3,375
Taxation	10(a)	(385)	(222)
Profit for the year from continuing operations	7	5,641	3,153
Discontinued operations			
Profit/(loss) for the year from discontinued operations	11	577	(1,419)
Profit for the year		6,218	1,734
Profit/(loss) attributable to:			
– Owners of the Company	7	5,959	1,936
– Non-controlling interest		259	(202)
		6,218	1,734
Earnings per share from continuing and discontinued operations:	12		
– Basic and diluted		HK cent 0.061	HK cent 0.020
Earnings per share from continuing operations:	12		
– Basic and diluted		HK cent 0.057	HK cent 0.033

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Profit for the year	**6,218**	1,734
Other comprehensive income		
Currency translation differences	**30**	(381)
Reclassification adjustment of exchange fluctuation reserve upon deregistration and dissolution of subsidiaries	**–**	2,987
Other comprehensive income for the year, net of tax	**30**	2,606
Total comprehensive income for the year	**6,248**	4,340
Total comprehensive income attributable to:		
– Owners of the Company	**5,989**	4,542
– Non-controlling interest	**259**	(202)
	6,248	4,340

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	*13*	711	1,065
Investment properties	*14*	144,600	132,400
		145,311	133,465
Current assets			
Trading merchandise goods	*15*	12,361	1,059
Trade receivables, other receivables and prepayments	*16*	31,205	34,649
Tax recoverable		27	–
Bank balances and cash	*17*	238,873	182,342
		282,466	218,050
Current liabilities			
Trade payables, other payables and accruals	*18*	16,078	13,323
Bank borrowings	*19*	7,397	4,854
Tax payable		108	330
		23,583	18,507
Net current assets		258,883	199,543
Total assets less current liabilities		404,194	333,008
Non-current liabilities			
Bank borrowings	*19*	63,399	–
Deferred tax liabilities	*10(b)*	999	999
		64,398	999
Net assets		339,796	332,009
EQUITY			
Capital and reserves			
Share capital	*21*	98,327	98,327
Reserves		241,469	235,480
Equity attributable to owners of the Company		339,796	333,807
Non-controlling interest		–	(1,798)
Total equity		339,796	332,009

The financial statements were approved and authorised for issue by the Board of Directors on 30 January 2013 and are signed on its behalf by:

Zhou Jian	**Fan Lei**
DIRECTOR	*DIRECTOR*

STATEMENT OF FINANCIAL POSITION

as at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	13	25	36
Interests in subsidiaries	24	213,549	152,275
		213,574	152,311
Current assets			
Other receivables and prepayments	16	1,067	5,814
Bank balances and cash		184,588	146,877
		185,655	152,691
Current liabilities			
Other payables and accruals	18	288	887
Bank borrowings	19	2,490	–
		2,778	887
Net current assets		182,877	151,804
Total assets less current liabilities		396,451	304,115
Non-current liabilities			
Bank borrowings	19	63,399	–
Net assets		333,052	304,115
EQUITY			
Capital and reserves			
Share capital	21	98,327	98,327
Reserves	22	234,725	205,788
Total equity		333,052	304,115

The financial statements were approved and authorised for issue by the Board of Directors on 30 January 2013 and are signed on its behalf by:

Zhou Jian	**Fan Lei**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

		Attributable to owners of the Company									
	Notes	Share capital HK$'000 *(Note 21)*	Share premium HK$'000 *(Note 22(i))*	Convertible bonds – equity component HK$'000 *(Note 22(ii))*	Land and buildings revaluation reserve HK$'000 *(Note 22(iii))*	Contributed surplus HK$'000 *(Note 22(iv))*	Exchange fluctuation reserve HK$'000 *(Note 22(v))*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
As at 1 January 2011		88,827	210,901	7,531	7,355	49,510	(2,591)	(68,383)	293,150	(1,596)	291,554
Profit/(loss) for the year		–	–	–	–	–	–	1,936	1,936	(202)	1,734
Currency translation differences		–	–	–	–	–	(381)	–	(381)	–	(381)
Reclassification adjustment of exchange fluctuation reserve upon deregistration and dissolution of subsidiaries		–	–	–	–	–	2,987	–	2,987	–	2,987
		–	–	–	–	–	2,606	–	2,606	–	2,606
Total comprehensive income for the year		–	–	–	–	–	2,606	1,936	4,542	(202)	4,340
Issue of shares upon conversion of convertible bonds	*20&21*	9,500	34,146	(7,531)	–	–	–	–	36,115	–	36,115
As at 31 December 2011		98,327	245,047	–	7,355	49,510	15	(66,447)	333,807	(1,798)	332,009
As at 1 January 2012		98,327	245,047	–	7,355	49,510	15	(66,447)	333,807	(1,798)	332,009
Profit for the year		–	–	–	–	–	–	5,959	5,959	259	6,218
Currency translation differences		–	–	–	–	–	30	–	30	–	30
Total comprehensive income for the year		–	–	–	–	–	30	5,959	5,989	259	6,248
Deconsolidation of a subsidiary	*25*	–	–	–	–	–	–	–	–	1,539	1,539
As at 31 December 2012		98,327	245,047	–	7,355	49,510	45	(60,488)	339,796	–	339,796

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Cash flows from operating activities		
Profit before taxation from continuing operations	6,026	3,375
Profit/(loss) before taxation from discontinued operations	577	(1,419)
	6,603	1,956
Adjustments for:		
Allowance for doubtful debts on trade and other receivables	–	99
Depreciation of property, plant and equipment	359	451
Loss on disposal of property, plant and equipment	–	20
(Gains)/losses on deregistration, dissolution and deconsolidation of subsidiaries, net	(1,693)	2,450
Net exchange loss/(gain)	21	(381)
Fair value gains on investment properties	(12,200)	(14,400)
Interest income	(899)	(692)
Finance costs	1,926	2,100
Operating loss before working capital changes	(5,883)	(8,397)
Increase in trading merchandise goods	(11,302)	(1,059)
Decrease/(increase) in trade receivables, other receivables and prepayments	3,228	(26,212)
Increase in trade payables, other payables and accruals	6,182	7,570
Cash used in operating activities	(7,775)	(28,098)
Income tax paid	(634)	–
Interest paid	(1,455)	(793)
Net cash used in operating activities	(9,864)	(28,891)
Investing activities		
Interest received	1,112	448
Purchases of property, plant and equipment	(5)	(264)
Direct costs incurred on deregistration and dissolution	–	(43)
Deconsolidation of a subsidiary	(663)	–
Net cash generated from investing activities	444	141

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

for the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Financing activities		
New bank loans	67,553	–
Repayment of bank loans	(1,611)	(49,976)
Net cash from/(used in) financing activities	65,942	(49,976)
Net increase/(decrease) in cash and cash equivalents	56,522	(78,726)
Effect of foreign exchange rate changes	9	1
Cash and cash equivalents at the beginning of the year	182,342	261,067
Cash and cash equivalents at the end of the year	238,873	182,342
Represented by:		
Bank balances and cash	238,873	182,342

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

1. ORGANISATION AND OPERATIONS

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has its principal place of business at Rooms 1818-1823, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in Note 24.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of revised HKFRSs – first effective on 1 January 2012

Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets

The adoption of this revised standard has no significant impact on the Group's financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective and not early adopted

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group:

		Effective date
HKFRSs (Amendments)	Annual Improvement 2009-2011 Cycle	(ii)
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income	(i)
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities	(iii)
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities	(ii)
HKFRS 9	Financial Instruments	(iv)
HKFRS 10	Consolidated Financial Statements	(ii)
HKFRS 12	Disclosure of Interests in Other Entities	(ii)
HKFRS 13	Fair Value Measurement	(ii)
HKAS 27 (2011)	Separate Financial Statements	(ii)
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities	(iii)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective and not early adopted *(continued)*

Effective date:

(i) Annual periods beginning on or after 1 July 2012
(ii) Annual periods beginning on or after 1 January 2013
(iii) Annual periods beginning on or after 1 January 2014
(iv) Annual periods beginning on or after 1 January 2015

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

The improvements made amendments to the following standards:

(i) HKAS 1 Presentation of Financial Statements

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS (defined below). This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

(ii) HKAS 16 Property, Plant and Equipment

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

(iii) HKAS 32 Financial Instruments: Presentation

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective and not early adopted *(continued)*

(iv) HKAS 34 Interim Financial Reporting

The amendments clarify that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment needs to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit or loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds.

The amendments provide an exception to the consolidation requirements in HKFRS 10 Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective and not early adopted *(continued)*

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective and not early adopted *(continued)*

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosure requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors so far concluded that the application of these new pronouncements will have no material impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretation (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, these financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

Basis of measurement

These financial statements have been prepared under the historical cost basis, as modified for investment properties, which are carried at fair value, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

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

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

Business combination

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs incurred are expensed.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combination *(continued)*

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Subsidiaries

Subsidiaries are entities in which the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Interests in subsidiaries are included in the Company's statement of financial position at cost less any accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the profit or loss in the period in which it is incurred. In situations where it is probable that future economic benefits of the expenditure will flow to the entity, and the cost of which can be measured reliably, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Depreciation is charged so as to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rate is as follows:

Furniture, fixtures and equipment	20% to 33%

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

Investment properties

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

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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 (or CGU) is increased to the revised estimate of its recoverable amount to the extent 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 CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Trading merchandise goods

Trading merchandise goods were stated at the lower of cost and net realisable value. Cost includes cost of purchases computed using the weighted average method. Net realisable value was determined by reference to the anticipated sale proceeds of items sold in the ordinary course of business less estimated selling expenses after the end of reporting period or to management estimates based on prevailing market conditions.

Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. During the year, the Group's financial assets are classified as loans and receivables and financial assets at fair value through profit or loss, which are subsequently accounted for as follows:

(i) 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 are carried at amortised cost using the effective interest method, less any identified impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss where they are either held for trading or are designated as at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

(iii) Impairment

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of reporting period. Financial assets are 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 asset have been impacted. Objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or
– default or delinquency in interest or principal payments; or
– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

(iv) 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 through the expected life of the financial asset, or where appropriate, a shorter period.

(v) Derecognition of financial assets

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

Financial liabilities and equity issued by the Group

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

(i) Equity instruments

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

(ii) Convertible bonds

Convertible bonds that contain liability and equity components

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in convertible bonds – equity component under equity.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity issued by the Group *(continued)*

(ii) Convertible bonds (continued)

Convertible bonds that contain liability and equity components *(continued)*

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds – equity component until the embedded option is exercised in which case the balance stated in convertible bonds – equity component will be transferred to share premium. Where the option remains unexercised at the expiry dates, the balance stated in convertible bonds – equity component will be released to the retained profits/accumulated losses. No gain or loss is recognised upon conversion or expiration of the option.

(iii) Other financial liabilities

The Group's financial liabilities are classified as other financial liabilities and are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method as mentioned above, with interest expense recognised on an effective yield basis.

(iv) 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 through the expected life of the financial liability, or where appropriate, a shorter period.

(v) Financial guarantee contracts

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity issued by the Group *(continued)*

(vi) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Leases

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

The Group as lessor

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

The Group as lessee

Rentals payable under operating leases are charged to the profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Provisions and contingent liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

The carrying amount of deferred tax assets is reviewed at the end of 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 liabilities are recognised for taxable temporary differences arising on interests 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 and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Hong Kong dollars which is the functional currency of the Company.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Translation of foreign currencies *(continued)*

In preparing the financial statements of the individual entities, foreign currency transactions are translated into individual entity's functional currency at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. 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 included in profit or loss.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing at the end of reporting period. Income and expenses items (including comparatives) are translated at the average exchange rates at the dates of the transactions. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in exchange fluctuation reserve. Such translation differences, to the extent attributable to the owners of the Company, are recognised in profit or loss in the period when the foreign operations are disposed of.

Employees' benefits

Short term benefits

Salaries, annual bonuses and paid annual leaves are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

Retirement benefit schemes

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions, if any.

Related parties

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

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

  (ii) has significant influence over the Group; or

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

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

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

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

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

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

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

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

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

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

Revenue recognition

Revenue comprises the fair value for the sales of goods and rendering of services. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

(i) Rental income is recognised in accordance with the Group's accounting policy for leases.

(ii) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(iii) Interest income is recognised on a time-proportion basis using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements

Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset or a CGU can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or CGU, or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses as at 31 December 2012 was HK$3,393,000 (2011: HK$2,996,000). The amount of unrecognised tax losses at 31 December 2012 was HK$90,029,000 (2011: HK$107,800,000). Further details are set out in Note 10.

Estimated impairment of trade and other receivables

The Group makes allowance for impairment of trade and other receivables based on an estimate of the recoverability of these receivables. Allowances are applied to trade and other receivables where events of changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of receivables and allowance for impairment losses in the period in which such estimate had been changed.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

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

Estimates and judgements *(continued)*

Classification of bank borrowings

The Group classifies its mortgage bank loans as current or non-current liabilities based on whether certain conditions, which prevent the lender to demand immediate repayment from the Group, are breached. The Group has to exercise judgement whether it is in compliance with the conditions. Further details are set out in Note 19.

5. REVENUE AND SEGMENT REPORTING

An analysis of the turnover, which represents the Group's revenue from its principal activities for the year, is as follows:

	2012 HK$'000	2011 HK$'000
Continuing operations:		
Sales of goods	**179,041**	134,290
Rental income	**5,416**	5,100
	184,457	139,390

(a) **Reportable segments**

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions and to assess the performance.

The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Property investment
- Trading
- Entertainment media (mobile entertainment business) (discontinued during the year ended 31 December 2010 — *Note 11*)
- Telecommunication (maintenance and support services for cable use right between Japan and Hawaii) (discontinued during the year ended 31 December 2010 — *Note 11*)

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segment's profit or loss that is used by the chief operating decision-makers for assessment of segment performance.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

5. REVENUE AND SEGMENT REPORTING *(continued)*

(a) Reportable segments *(continued)*

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before taxation. The adjusted profit/(loss) before taxation is measured consistently with the Group's profit/(loss) before taxation except that other revenue and gains, allowance for doubtful debts on trade and other receivables, fair value gains on investment properties, gains/losses on deregistration, dissolution and deconsolidation of subsidiaries, net and finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

	Continuing operations						Discontinued operations							
	Property investment		Trading		Total		Entertainment media		Telecommunication		Total		Consolidated	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Revenue from external customers	**5,416**	5,100	**179,041**	134,290	**184,457**	139,390	**–**	–	**–**	–	**–**	–	**184,457**	139,390
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Reportable segment revenue	**5,416**	5,100	**179,041**	134,290	**184,457**	139,390	**–**	–	**–**	–	**–**	–	**184,457**	139,390
Reportable segment profit/(loss)	**4,278**	4,053	**10,584**	8,698	**14,862**	12,751	**(641)**	(938)	**–**	(3)	**(641)**	(941)	**14,221**	11,810
Taxation	**–**	–	**385**	222	**385**	222	**–**	–	**–**	–	**–**	–	**385**	222
Reportable segment assets	**146,041**	134,152	**61,674**	45,341	**207,715**	179,493	**44**	743	**–**	–	**44**	743	**207,759**	180,236
Reportable segment liabilities	**1,415**	1,443	**13,206**	6,909	**14,621**	8,352	**5,800**	8,575	**–**	–	**5,800**	8,575	**20,421**	16,927

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

5. REVENUE AND SEGMENT REPORTING *(continued)*

(b) Reconciliation of reportable segment profit or loss, assets and liabilities

	2012 HK$'000	2011 HK$'000
Profit before taxation (include continuing and discontinued operations)		
Reportable segment profit	**14,221**	11,810
Segment loss from discontinued operations	**641**	941
Other revenue and gains	**899**	735
Unallocated corporate expenses	**(20,484)**	(20,242)
Allowance for doubtful debts on trade and other receivables	**–**	(99)
Fair value gains on investment properties	**12,200**	14,400
Losses on deregistration and dissolution of subsidiaries, net	**–**	(2,450)
Finance costs	**(1,451)**	(1,720)
Consolidated profit before taxation from continuing operations	**6,026**	3,375

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

5. REVENUE AND SEGMENT REPORTING *(continued)*

(b) Reconciliation of reportable segment profit or loss, assets and liabilities *(continued)*

	2012 HK$'000	2011 HK$'000
Assets		
Reportable segment assets	**207,759**	180,236
Unallocated bank balances and cash	**217,519**	163,767
Unallocated corporate assets	**2,499**	7,512
Consolidated total assets	**427,777**	351,515
Liabilities		
Reportable segment liabilities	**20,421**	16,927
Tax payable	**108**	330
Deferred tax liabilities	**999**	999
Unallocated corporate liabilities	**66,453**	1,250
Consolidated total liabilities	**87,981**	19,506

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

5. REVENUE AND SEGMENT REPORTING *(continued)*

(c) Geographic information

The following table provides an analysis of the Group's revenue from external customers in its continuing operations and non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets ("Specified non-current assets").

	Revenue from external customers		Specified non-current assets	
	2012	2011	**2012**	2011
	HK\$'000	HK\$'000	**HK\$'000**	HK\$'000
Hong Kong (place of domicile)	**5,416**	19,123	**145,311**	133,465
Mainland China	**179,041**	120,267	**–**	–
	184,457	139,390	**145,311**	133,465

The revenue information from continuing operations above is based on the location of customers.

(d) Major customers

The Group's customer base is diversified and there were four (2011: four) customers with whom transactions have exceeded 10% of the Group's revenues.

During the current year, revenues from four customers in the trading segment amounted to approximately HK\$66,522,000, HK\$57,256,000, HK\$28,641,000, and HK\$26,622,000 respectively. During the year ended 31 December 2011, revenues from four customers in trading segment amounted to approximately HK\$46,559,000, HK\$45,216,000, HK\$28,492,000 and HK\$14,023,000 respectively.

6. OTHER REVENUE AND GAINS

	2012	2011
	HK\$'000	HK\$'000
Continuing operations		
Interest income	**899**	692
Others	**–**	43
	899	735

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

7. PROFIT FOR THE YEAR

	2012 HK$'000	2011 HK$'000
Continuing operations		
This is arrived at after charging/(crediting):		
Cost of inventories sold	166,738	124,624
Loss on disposal of property, plant and equipment	–	20
Exchange differences, net	159	(264)
Auditor's remuneration:		
– audit services	724	682
– non-audit services	480	–
Depreciation of property, plant and equipment	359	451
Operating lease rentals in respect of rented premises	2,451	2,144
Staff costs:		
– Directors' remuneration *(Note 9)*	2,376	2,157
– Other staff costs:		
Salaries, wages and other benefits	6,964	7,641
Retirement benefit scheme contributions	239	248
Total staff costs	9,579	10,046

The consolidated profit attributable to owners of the Company includes a loss of HK$10,449,000 (2011: loss of HK$11,480,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

8. FINANCE COSTS

	Notes	2012 HK$'000	2011 HK$'000
Imputed interest on convertible bonds	*20*	–	970
Interests on:			
Borrowings wholly repayable within five years		475	1,130
Borrowings not wholly repayable within five years		1,451	–
		1,926	2,100
Attributable to continuing operations reported in the consolidated income statement		1,451	1,720
Attributable to discontinued operations	*11*	475	380
		1,926	2,100

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

The Directors' remuneration is analysed as follows:

	2012 HK$'000	2011 HK$'000
Fees:		
Independent non-executive directors	360	330
Other emoluments paid to executive directors:		
Salaries and other benefits	1,920	1,740
Retirement benefit scheme contributions	96	87
	2,016	1,827
	2,376	2,157

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

Directors' remuneration *(continued)*

No directors waived any remuneration in respect of the years ended 31 December 2012 and 2011.

	2012 HK$'000	2011 HK$'000
Zhou Jian		
– Salaries and other benefits	–	–
– Retirement benefit scheme contributions	–	–
	–	–
Fan Lei		
– Salaries and other benefits	1,920	1,740
– Retirement benefit scheme contributions	96	87
	2,016	1,827
Lau Cheong		
– Fee	120	110
Duan Xiongfei		
– Fee	120	110
Tam Tak Kei, Raymond		
– Fee	120	110

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

Five highest paid employees

The five highest paid individuals of the Group included one (2011: one) executive director of the Company, details of whose remuneration are set out above. The remuneration of the remaining four (2011: four) highest paid employees, other than directors of the Company, is as follows:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	3,808	3,798
Retirement benefit scheme contributions	109	104
	3,917	3,902

The number of non-director, highest paid employees whose remuneration fell within the following bands, is as follows:

	2012	2011
Nil to HK$1,000,000	2	2
HK$1,000,001 to HK$1,500,000	2	2

10. TAXATION

	2012 HK$'000	2011 HK$'000
(a) **Taxation charged in the consolidated income statement represents:**		
Current taxation – Hong Kong profits tax		
– provision for the year	450	222
– over-provision in respect of prior years	(65)	–
	385	222

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

10. TAXATION *(continued)*

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for both years. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

Taxation for the years can be reconciled to accounting profit as follows:

	2012 HK$'000	2011 HK$'000
Profit before taxation (including continuing and discontinued operations)	**6,603**	1,956
Taxation calculated at Hong Kong profits tax rate of 16.5% (2011: 16.5%)	**1,089**	323
Tax effect of expenses not deductible for tax purposes	**1,794**	1,132
Tax effect of non-taxable income	**(2,411)**	(2,532)
Tax effect of utilisation of previously unrecognised tax losses and other deductible temporary differences	**(315)**	(658)
Tax effect of unrecognised tax losses and temporary differences	**300**	1,957
Over-provision in respect of prior years	**(65)**	–
Tax effect of different tax rates of subsidiaries operating in other jurisdiction	**(7)**	–
Taxation for the year	**385**	222

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

10. TAXATION *(continued)*

(b) Deferred taxation

The movements in the components of deferred tax (liabilities)/assets recognised by the Group during the current and prior years are as follows:

Group

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Total** HK$'000
As at 1 January 2011	(3,791)	2,792	(999)
(Charge)/credit to profit or loss for the year	(204)	204	–
As at 31 December 2011	(3,995)	2,996	(999)
(Charge)/credit to profit or loss for the year	(397)	397	–
As at 31 December 2012	(4,392)	3,393	(999)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

10. TAXATION *(continued)*

(b) Deferred taxation *(continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax relates to the same fiscal authority. The following is the analysis of the deferred tax balances (after offset) for purpose of consolidated statement of financial position:

	Group	
	2012	2011
	HK$'000	HK$'000
Deferred tax liabilities	**(4,392)**	(3,995)
Deferred tax assets	**3,393**	2,996
	(999)	(999)

At the end of reporting period, the Group had unused tax losses of HK$110,593,000 (2011: HK$125,958,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$20,564,000 (2011: HK$18,158,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$90,029,000 (2011: HK$107,800,000) due to the unpredictability of future profit streams. As at 31 December 2012, included in unrecognised tax losses are losses of HK$83,000 that will expire in 5 years from the respective dates of incurrence. Other tax losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

11. DISCONTINUED OPERATIONS

During the year ended 31 December 2010, the Group ceased its operations in entertainment media business and telecommunication business (collectively referred to as the "Discontinued Operations"). On 20 December 2010, the Group decided not to continue to finance its entertainment media business and telecommunication business. Further details were set out in the Company's announcement dated 20 December 2010. As at 31 December 2010, the Discontinued Operations ceased operation and accordingly those segments were classified as discontinued operations in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The revenue, results and cash flows of the Discontinued Operations were as follows:

	Notes	**2012 HK$'000**	2011 HK$'000
Revenue		**–**	–
Administrative expenses and other net operating expenses		**(641)**	(940)
Finance costs	*8*	**(475)**	(380)
Gain on deconsolidation of a subsidiary	*25*	**1,693**	–
Allowance for doubtful debts on trade and other receivables		**–**	(99)
Profit/(loss) before taxation		**577**	(1,419)
Taxation		**–**	–
Profit/(loss) for the year from the Discontinued Operations		**577**	(1,419)
Operating cash (outflow)/inflow		**(25)**	208
Investing cash outflow		**(663)**	–
Financing cash outflow		**(40)**	–
Total cash (outflow)/inflow		**(728)**	208

Profit attributable to owners of the Company from discontinued operations for the year ended 31 December 2012 was HK$318,000 (2011: loss of HK$ 1,217,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of the basic earnings per share is based on the following data:

From continuing and discontinued operations

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**5,959**	1,936

	Number of shares	
	2012	2011
Weighted average number of ordinary shares for the purpose of basic earnings per share	**9,832,685,768**	9,616,064,889

From continuing operations

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Profit for the year for the purpose of basic earnings per share from continuing operations	**5,641**	3,153

Diluted earnings per share from continuing and discontinued operations

The denominators used are the same as those detailed above for calculating basic and diluted earnings per share from continuing and discontinued operations.

As convertible bonds outstanding during the prior year had an anti-dilutive effect on the basic earnings per share for the prior year, the conversion of the above potential dilutive shares was not assumed in the computation of diluted earnings per share. Except for the above, there is no other potential dilutive share during the current and prior years. Therefore the basic and diluted earnings per share for (i) continuing and discontinued operations and (ii) continuing operations in the current and prior years are equal.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

12. EARNINGS PER SHARE *(continued)*

From discontinued operations

Basic earnings per share for the discontinued operations is HK cent 0.004 (2011: loss per share of HK cent 0.013) per share, based on the profit for the year from the discontinued operations of HK$318,000 (2011: loss of HK$1,217,000) attributable to owners of the Company and the denominators detailed above for both basic and diluted earnings per share of the continuing and discontinued operations.

Diluted earnings/(loss) per share from discontinued operations

As convertible bonds outstanding during the prior year had an anti-dilutive effect on the basic loss per share in the prior year, the conversion of the above potential dilutive shares was not assumed in the computation of diluted loss per share of the discontinued operations. Except for the above, there is no other potential dilutive share during the current and prior years. Therefore the basic and diluted earnings/(loss) per share for the discontinued operations in the current and prior years are equal.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

13. PROPERTY, PLANT AND EQUIPMENT

	Group	Company
	Furniture, fixtures and equipment HK$'000	Furniture, fixtures and equipment HK$'000
COST		
As at 1 January 2011	13,707	56
Additions	264	–
Disposals	(826)	–
As at 31 December 2011 and 1 January 2012	13,145	56
Additions	5	–
Disposals	(2,506)	–
As at 31 December 2012	10,644	56
ACCUMULATED DEPRECIATION		
As at 1 January 2011	12,435	8
Depreciation charge for the year	451	12
Disposals	(806)	–
As at 31 December 2011 and 1 January 2012	12,080	20
Depreciation charge for the year	359	11
Disposals	(2,506)	–
As at 31 December 2012	9,933	31
NET CARRYING AMOUNT		
As at 31 December 2012	711	25
As at 31 December 2011	1,065	36

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

14. INVESTMENT PROPERTIES

Group

	HK$'000
FAIR VALUE	
As at 1 January 2011	118,000
Fair value gains	14,400
As at 31 December 2011 and 1 January 2012	132,400
Fair value gains	12,200
As at 31 December 2012	144,600

Investment properties were valued at 31 December 2012 by DTZ Debenham Tie Leung Limited, an independent firm of professionally qualified valuers, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the locations and category of properties being valued, by direct comparison method on an open market value basis. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. This valuation gave rise to fair value gains of HK$12,200,000 (2011: HK$14,400,000).

The property rental income earned by the Group from its investment properties, most of which are leased out under operating leases, amounted to HK$5,416,000 (2011: HK$5,100,000). Direct operating expenses arising on the investment properties in the year amounted to HK$971,000 (2011: HK$873,000).

The Group's investment properties were located in Hong Kong, held under medium term leases, and pledged to secure banking facilities granted to the Group (Notes 19 and 28).

15. TRADING MERCHANDISE GOODS

Group

	2012	2011
	HK$'000	HK$'000
Goods in transit	**12,361**	1,059

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

16. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables, net of allowance	**29,217**	27,701	**–**	–
Other receivables and prepayments, net of allowance	**1,988**	6,948	**1,067**	5,814
	31,205	34,649	**1,067**	5,814

(i) The directors consider that the carrying amounts of trade receivables, other receivables and prepayments approximate their fair values as at 31 December 2011 and 2012.

No interest is charged on trade and other receivables.

(ii) The Group normally allows an average credit period of 60 to 90 days (2011: 30 to 90 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance for doubtful debts, based on the due date as of the end of reporting period was as follows:

	2012	2011
	HK$'000	HK$'000
Current	**20,729**	3,910
1 to 30 days	**8,488**	2,184
31 to 60 days	**–**	3,399
61 to 90 days	**–**	4,087
Over 90 days	**–**	14,121
	29,217	27,701

As at 31 December 2012, the Group's trade receivables of HK$ Nil (2011: HK$1,767,000) were individually determined to be impaired. As at 31 December 2011, the individually impaired receivables related to customers that were in financial difficulties or had prolonged delay in settlement, and management assessed that the full amount of the impaired receivables is expected to be irrecoverable. Consequently, an accumulated specific allowance for doubtful debts of HK$1,767,000 was made as at 31 December 2011. The Group does not hold any collateral over these balances.

Except for the above, no further allowance has been made for estimated irrecoverable amounts from the sale of goods and provision of services.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

16. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

(iii) The movements in the allowance for doubtful debts on trade receivables during the year, including both specific and collective loss components, are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
As at 1 January	**1,767**	3,751
Allowance for doubtful debts, net	**–**	15
Bad debts written off	**(1,767)**	(1,998)
Exchange fluctuation	**–**	(1)
As at 31 December	**–**	1,767

(iv) The movements in the allowance for doubtful debts on other receivables during the year, including both specific and collective loss components, are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
As at 1 January	**830**	1,101
Allowance for doubtful debts, net	**–**	84
Bad debts written off	**(830)**	(355)
As at 31 December	**–**	830

As at 31 December 2012, the Group's other receivables of HK$ Nil (2011: HK$830,000) were individually determined to be impaired. As at 31 December 2011, the individually impaired receivables had prolonged delay in settlement, and management assessed that the full amount of the impaired receivables is expected to be irrecoverable. Consequently, an accumulated specific allowance for doubtful debts of HK$830,000 was made as at 31 December 2011. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

16. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

(v) The ageing analysis of trade and other receivables which are past due but not impaired are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Less than 1 month past due	**8,488**	2,184
1 to 3 months past due	**–**	7,486
More than 3 months past due	**–**	14,121
As at 31 December	**8,488**	23,791

Receivables that were neither past due nor impaired relate to a wide range of debtors for whom there was no recent history of default.

Receivables that were past due but not impaired relate to independent debtors that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

17. BANK BALANCES AND CASH

As at 31 December 2012, included in the bank balances and cash of the Group was an amount of HK$613,000 (2011: HK$50,000) which is denominated in Renminbi ("RMB"). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

18. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**12,535**	9,180	**–**	–
Other payables and accruals	**3,543**	4,143	**288**	887
	16,078	13,323	**288**	887

The directors consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at 31 December 2011 and 2012.

The ageing analysis of the Group's trade payables based on due date as of the end of reporting period was as follows:

	2012	2011
	HK$'000	HK$'000
1 to 30 days	**12,521**	4,771
31 to 60 days	**–**	1,896
61 to 90 days	**–**	93
Over 90 days	**14**	2,420
	12,535	9,180

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

19. BANK BORROWINGS

The borrowings were due for repayment as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans – secured:				
On demand or within one year	**7,397**	4,854	**2,490**	–
After one year but within two years	**2,572**	–	**2,572**	–
In the second to fifth years inclusive	**8,231**	–	**8,231**	–
Over five years	**52,596**	–	**52,596**	–
	70,796	4,854	**65,889**	–
Current portion	**7,397**	4,854	**2,490**	–
Non-current portion	**63,399**	–	**63,399**	–
	70,796	4,854	**65,889**	–

The presentation of the amounts due above is based on the scheduled repayment dates set out in the loan agreements and does not take into account the effect of any repayment on demand clause.

The Group's bank borrowings consisted of the followings:

(i) As at 31 December 2012, mortgage bank loans which are secured by investment properties of the Group located in Hong Kong (Note 14) and assignment of rental proceeds duly executed in respect of the pledged investment properties.

The Group's mortgage bank loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. Based on a comfort letter issued by the lender dated 10 December 2012, the lender of these mortgage bank loans has undertaken not to demand the Group for repayment until 31 August 2014 unless certain conditions (the "Conditions") are breached.

The Group regularly monitors its compliance with the Conditions, and in the opinion of the directors, the Conditions have not been breached as at 31 December 2012 and up to the date of approval of these financial statements, and therefore the related portions of mortgage bank loans have been classified under the current and non-current liabilities of the Group in accordance with the above undertaking by the lender and the scheduled repayment dates set out in the mortgage bank loan agreements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

19. BANK BORROWINGS *(continued)*

(ii) As at 31 December 2011, a bank loan granted to a then subsidiary of the Company (the "Subsidiary") under the Special Loan Guarantee Scheme (the "SME loan") of the Hong Kong Special Administrative Region Government (the "Government") to the extent of HK$6,000,000. It represented a 5-year instalment loan which is 80% guaranteed by the Government and a corporate guarantee was provided to the bank by the Subsidiary's immediate holding company which is also an indirect wholly-owned subsidiary of the Company as at 31 December 2011 and 2012.

According to the Company's announcement dated 20 December 2010, the Group decided not to continue to finance its entertainment media business, and the Subsidiary, as one of the group companies engaged in the entertainment media business, ceased its operation before 31 December 2010, and has stopped the instalment repayment of the SME loan which was due on 26 December 2010. The aforesaid bank had issued a demand letter to the Subsidiary and stated that it might take any legal action against the Subsidiary in respect of the repayment of the SME loan.

During the year ended 31 December 2011, the Subsidiary and its immediate holding company further received a writ of summon from the Court of First Instance and the statement of claim from the legal representative of the plaintiff claiming for (i) outstanding principal amount and related overdue interest and (ii) cost of legal action in respect of the claim on a full indemnity basis to be taxed if not agreed and further or other relief (collectively the "Claim"). The entire outstanding SME loan as at 31 December 2011 was classified under the current liabilities of the Group in the financial statements.

During the year ended 31 December 2012, a provisional liquidator was appointed for the Subsidiary by the order of the Official Receiver's Office in July 2012 and thereafter the Group lost control of the Subsidiary which was therefore deconsolidated from the Group on the same date. Nevertheless, at the same time, the obligation under the SME loan and the related accrued interest payable were borne by the immediate holding company of the Subsidiary (as the provider of the corporate guarantee). Accordingly the SME loan and the related accrued interest payable were still included under the current liabilities of the Group as at 31 December 2012.

As at 31 December 2012, the carrying amount of the SME loan and the related accrued interest payable was HK$4,854,000 (2011: HK$4,854,000) and HK$878,000 (2011: HK$408,000) respectively. The related accrued interest payable was included in the Group's trade payables, other payables and accruals as calculated in accordance with the loan agreement and the Claim. In the opinion of the directors, the related cost of legal action and further or other relief in connection with the Claim cannot be measured reliably and hence no provision has been made as at 31 December 2011 and 2012. No further action has been taken against the Group during the current year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

19. BANK BORROWINGS *(continued)*

(ii) *(continued)*

Up to the date of approval of these financial statements, the SME loan and the related accrued interest payable have not been settled nor has any negotiation been made with the bank. There was no corporate guarantee issued by the Company in favour of the Subsidiary nor the immediate holding company of the Subsidiary, and the directors of the Company are of the opinion that adequate provisions and disclosures have been made in these financial statements, and the above matter in the non-repayment of the SME loan and the related accrued interest payable has no further material adverse financial impact to the Company or the Group.

Further details of the Group's management of liquidity risk are set out in Note 33(b).

As at 31 December 2011 and 2012, all the bank loans of the Group and the Company are denominated in Hong Kong dollars.

The bank loans bear floating interest rates at effective rates ranging from 3.25% to 6.25% (2011: 2.13% to 6.25%) per annum.

The directors of the Company consider that the carrying amounts of the Group's and the Company's bank borrowings approximate their fair values as at 31 December 2011 and 2012.

20. CONVERTIBLE BONDS

On 17 June 2009, the Company entered into a placing agreement with a placing agent regarding a "best-efforts" placing of convertible bonds in the principal amount of HK$200,000,000 at a conversion price of HK$0.04 per share (the "Placing Bonds"). On the same date, the Company also entered into a subscription agreement with Wise Sun Holdings Limited ("Wise Sun") for subscription of convertible bonds in the principal amount of HK$120,000,000 at a conversion price of HK$0.04 per share (the "Subscription Bonds", the Placing Bonds and the Subscription Bonds are collectively referred to as the "Convertible Bonds"). Further details of the Convertible Bonds were set out in the Company's announcement dated 17 June 2009.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

20. CONVERTIBLE BONDS *(continued)*

In September 2009, the Company issued the Subscription Bonds in the aggregate principal amount of HK$120,000,000 to Wise Sun and the Placing Bonds in the aggregate principal amount of HK$200,000,000 to various subscribers. Further details of the completion of the subscription and placing of the Convertible Bonds were set out in the Company's announcements dated 4 and 18 September 2009.

The maturity date of the Convertible Bonds was the second anniversary from the date of issue of an aggregate principal amount of HK$30,000,000 of the Subscription Bonds that were committed by Wise Sun to subscribe under the subscription agreement (i.e. maturity on 4 September 2011). The Convertible Bonds bore coupon interest on the outstanding principal amount thereof from the date of issue at a coupon interest rate of 0.5% per annum.

Since the exercise of conversion option embedded in the Convertible Bonds would result in settlement by the exchange of a fixed amount of cash for a fixed number of shares of the Company, the embedded conversion option is therefore accounted for as an equity instrument. The aggregate principal amount of HK$320,000,000 from the issue of the Convertible Bonds has been split into liability and equity components.

As at 1 January 2011, the outstanding principal amount of the Convertible Bonds amounted to HK$38,000,000. During the prior year, the Convertible Bonds in such principal amount of HK$38,000,000 were fully converted into shares of the Company. The conversion gave rise to the issue of 950,000,000 shares (Note 21) of the Company and reduction in carrying value of liability component and equity component by HK$36,115,000 and HK$7,531,000 respectively.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

20. CONVERTIBLE BONDS *(continued)*

The movements of the liability component and equity component of the Convertible Bonds during the year ended 31 December 2011 are as follows:

Group and Company

	Liability component of convertible bonds HK$'000	Equity component of convertible bonds HK$'000	Total HK$'000
As at 1 January 2011, with liability component classified under current liabilities	35,188	7,531	42,719
Issue of shares upon conversion of the Convertible Bonds *(Note 21)*	(36,115)	(7,531)	(43,646)
Effective interest expense recognised *(Note 8)*	970	–	970
Interest paid	(43)	–	(43)
As at 31 December 2011	–	–	–

Effective interest on the Convertible Bonds for the year ended 31 December 2011 is calculated using the effective interest method by applying the average effective interest rate of 11.80% per annum.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

21. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2012	2011	**2012**	2011
			HK$'000	HK$'000
Authorised ordinary shares:				
As at 1 January 2011, 31 December 2011 and 31 December 2012 of HK$0.01 each	**75,000,000,000**	75,000,000,000	**750,000**	750,000
Issued and fully paid ordinary shares:				
As at 1 January of HK$0.01 each	**9,832,685,768**	8,882,685,768	**98,327**	88,827
Issue of shares upon conversion of convertible bonds *(Note)*	**–**	950,000,000	**–**	9,500
As at 31 December of HK$0.01 each	**9,832,685,768**	9,832,685,768	**98,327**	98,327

Note:

In prior year, 950,000,000 new ordinary shares (Note 20) of par value HK$0.01 each were issued at a conversion price of HK$0.04 each on exercise of the Convertible Bonds, resulting in release of liability and equity components of the Convertible Bonds by an aggregate amount of HK$43,646,000 of which HK$9,500,000 was credited to share capital and the remaining balance of HK$34,146,000 was credited to the share premium account.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

22. RESERVES

Company

	Notes	Share premium HK$'000 (Note (i))	Convertible bonds – equity component HK$'000 (Note (ii))	Contributed surplus HK$'000 (Note (iv))	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2011		210,901	7,531	49,510	(68,879)	199,063
Issue of shares upon conversion of convertible bonds	*20&21*	34,146	(7,531)	–	–	26,615
Loss and total comprehensive income for the year		–	–	–	(19,890)	(19,890)
As at 31 December 2011		245,047	–	49,510	(88,769)	205,788
Profit and total comprehensive income for the year		–	–	–	28,937	28,937
As at 31 December 2012		245,047	–	49,510	(59,832)	234,725

Notes:

(i) **Share premium**

The application of the share premium account is governed by Section 40 of Bermuda Companies Act 1981.

(ii) **Convertible bonds – equity component**

This reserve represents the value of the unexercised equity component of convertible bonds issued by the Company net of related deferred tax and direct issue costs, where applicable.

(iii) **Land and buildings revaluation reserve**

Land and buildings revaluation reserve arose in 2005 upon the fair value adjustment when the Group reclassified its land and buildings as investment properties.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

22. RESERVES *(continued)*

Notes (continued):

(iv) **Contributed surplus**

Contributed surplus of the Group represents the net balance of (i) the credit arising from the capital reorganisation of the Company during the year ended 31 December 2009 (the "Capital Reorganisation") be transferred to the contributed surplus account and; (ii) all amounts standing to the credit of the share premium account of the Company immediately after the Capital Reorganisation be cancelled and the credit arising therefrom be transferred to the contributed surplus. Both took place in the year ended 31 December 2009.

In addition to the retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

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

(v) **Exchange fluctuation reserve**

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, mainly denominated in RMB. The reserve is dealt with in accordance with the accounting policy in Note 3 "Translation of foreign currencies".

No dividend was paid or proposed during 2012, nor has any dividend been proposed since the end of reporting period (2011: HK$Nil).

23. SHARE-BASED PAYMENT TRANSACTIONS

The Company operates the following equity-settled share option arrangements:

(i) **Share Option Scheme**

In prior years, the Company adopted a share option scheme on 16 May 2002 (the "2002 Share Option Scheme") which was expired on 15 May 2012. On 27 April 2012, the Company adopted a new 10-year share option scheme (the "New Option Scheme") and terminated the 2002 Share Option Scheme on the same date. Pursuant to the New Option Scheme, the directors are authorised to grant options to any executive or non-executive directors, any executives and employees and those persons who have contributed or will contribute to the Group as incentive schemes and rewards.

As at 31 December 2011 and 2012, no share option has been granted.

(ii) **Options granted under general mandate**

No option was granted under general mandate during the year (2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

24. INTERESTS IN SUBSIDIARIES

Company

	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**11,736**	11,736
Loans to subsidiaries	**108,872**	103,667
Amounts due from subsidiaries	**763,384**	746,268
	883,992	861,671
Less: Impairment loss on investment cost	**(11,736)**	–
Allowance for loans to/amounts due from subsidiaries	**(658,707)**	(709,396)
	213,549	152,275

The amounts due from subsidiaries are unsecured, interest-free and in substance form part of the Company's interests in the subsidiaries in the form of quasi-equity loans.

The loans to subsidiaries are interest-bearing at interest rate ranging from prime rate quoted by a designated bank in Hong Kong minus 1.5% to plus 1.5% per annum (2011: prime rate minus 1.5% to plus 1.5% per annum). In the opinion of the directors, these amounts are not repayable within twelve months from end of the reporting period.

Accumulated impairment losses on investment cost and allowances for loans to subsidiaries and amounts due from subsidiaries of HK$11,736,000 (2011: HK$Nil) and HK$658,707,000 (2011: HK$709,396,000) respectively were recognised as at 31 December 2012 because their recoverable amounts of the investment costs, loans to subsidiaries and amounts due from subsidiaries were estimated to be less than their respective carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

24. INTERESTS IN SUBSIDIARIES *(continued)*

The following list contains only the particulars of the principal subsidiaries as at 31 December 2012 which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length.

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company		Nature of business
			Direct	Indirect	
City Trend International Limited	British Virgin Islands	US$1	100%	–	Investment holding
Cornwick Investments Limited	Hong Kong	HK$2	–	100%	Holding investment properties in Hong Kong
Digital Domain Development Limited #	British Virgin Islands	US$1	100%	–	Investment holding
Digital Domain Development Limited #	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Enterprise Limited #	British Virgin Islands	US$1	100%	–	Investment holding
Digital Domain International Limited #	British Virgin Islands	US$1	100%	–	Investment holding
Digital Domain (International) Limited #	Hong Kong	HK$1	–	100%	Dormant
Ever Union Medical Services Group Limited #	Hong Kong	HK$100	–	100%	Investment holding
Ever Union Services Development Limited	Hong Kong	HK$100	–	100%	Investment holding and provision of consultancy services
S.I. Entertainment Investment (801) Limited	British Virgin Islands	US$1	100%	–	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

24. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's subsidiaries as at 31 December 2012 are as follows *(continued)*:

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company Direct	Indirect	Nature of business
S.I. Travel Group Limited	British Virgin Islands/Hong Kong	US$1	100%	–	Trading
Sai Chak Company Limited	Hong Kong	HK$100,000	–	100%	Holding investment properties in Hong Kong
Sino Front Investments Limited	Hong Kong	HK$1	–	100%	Securities investment and financial services
Sun Innovation Enterprises Limited #	British Virgin Islands	US$1	100%	–	Investment holding
Sun Innovation HK Properties Holdings Limited	British Virgin Islands	US$1	–	100%	Investment holding
Sun Innovation International Group Limited #	British Virgin Islands	US$1	100%	–	Investment holding
Sun Innovation Management Services Limited	Hong Kong	HK$2	100%	–	Provision of management services
Sun Innovation Properties Holdings Limited	British Virgin Islands	US$2	100%	–	Investment holding
Sun Innovation Resources Limited	Hong Kong	HK$2	–	100%	Provision of management services
Treasure Well Development Limited #	British Virgin Islands	US$1	100%	–	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

24. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's subsidiaries as at 31 December 2012 are as follows *(continued)*:

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company Direct	Indirect	Nature of business
Well Venture Holdings Limited	Hong Kong	HK$1	–	100%	Securities investment and investment holding
Wide Profit Enterprises Limited	British Virgin Islands	US$100	–	100%	Investment holding
長和投資咨詢（深圳）有限公司 #*	The People's Republic of China	RMB1,500,000	–	100%	Provision of consultancy services

Notes:

\# The subsidiaries have been newly incorporated/established during the year.

* The company is a wholly foreign owned enterprise. The entire registered capital amounted to RMB10,000,000, and the remaining balance of registered capital is required to be paid up on or before 15 July 2014.

All the above are limited liability companies.

Certain subsidiaries of the Company were deregistered, dissolved or deconsolidated during the prior and current years, details of which are set out in Note 25.

Unless otherwise stated, the above subsidiaries' places of operations are the same as their respective places of incorporation/establishment.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

25. DEREGISTRATION, DISSOLUTION AND DECONSOLIDATION OF SUBSIDIARIES

Sun Innovation Entertainment Media Group Limited, Sun Innovation Telecommunication Group Limited and S.I. Macau Entertainment Company Limited, which were wholly-owned subsidiaries of the Company, were struck off on 1 May 2012.

During the current year, a provisional liquidator was appointed for Cellcast (Asia) Limited, i.e. the Subsidiary, by the order of the Official Receiver's Office and thereafter the Group lost control of the Subsidiary which was therefore deconsolidated from the Group on the same date.

During the prior year, Drive USA Inc., Circle Telecom USA, LLC, Sky Telemedia (China) Limited, S.I. TV Shopping (BVI) Limited, Katharsis Trading Limited and 廣州市泓亮商務有限公司, which were the then subsidiaries of the Company, were deregistered/dissolved.

The net assets/(liabilities) of the subsidiaries deregistered, dissolved and deconsolidated, where appropriate, at the relevant dates were as follows:

	2012 HK$'000	2011 HK$'000
Trade receivables, other receivables and prepayments	3	158
SME loan and accrued interest payable	(5,502)	–
Trade payables, other payables and accruals	(3,898)	(738)
Bank balances	663	–
Net identifiable assets and liabilities	(8,734)	(580)
Reclassification adjustment of exchange fluctuation reserve	–	2,987
Direct costs incurred on deregistration and dissolution	–	43
Non-controlling interest	1,539	–
Bank borrowings and related liabilities of the Subsidiary borne by the Group	5,502	–
Gains/(losses) on deregistration, dissolution and deconsolidation of subsidiaries, net	1,693	(2,450)
	–	–
Net cash flow arising on deregistration, dissolution and deconsolidation:		
Bank balances and cash disposed of	(663)	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

26. RETIREMENT BENEFIT SCHEME

The Group contributes to defined contribution provident funds, including the scheme set up pursuant to the Hong Kong Mandatory Provident Fund Ordinance (the "MPF Scheme"), which are available to all Hong Kong employees. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a maximum of HK$1,250 (from 1 June 2012 onwards)(Year ended 31 December 2011: HK$1,000) (the "Mandatory Contribution"). The employees are entitled to 100% of the employer's Mandatory Contributions upon their retirement age of 65 years old, death or total incapacity. The unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group was HK$335,000 (2011: HK$73,000).

27. OPERATING LEASE COMMITMENTS

(i) As at 31 December 2012, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group Land and buildings	
	2012	2011
	HK$'000	HK$'000
Not later than one year	**2,455**	2,662
Later than one year and not later than five years	**2,693**	235
	5,148	2,897

Leases for land and buildings are negotiated for an average term of three years at fixed rental.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

27. OPERATING LEASE COMMITMENTS *(continued)*

(ii) As at 31 December 2012, the Group had future aggregate minimum lease rental receivables under non-cancellable operating leases as follows:

	Investment properties	
	2012	2011
	HK$'000	HK$'000
Not later than one year	**4,101**	3,019
Later than one year and not later than five years	**3,520**	1,380
	7,621	4,399

The investment properties have committed tenants for an average term of three years.

28. CREDIT FACILITIES, PLEDGE OF ASSETS AND GUARANTEES

As at 31 December 2012, the Group had aggregate banking facilities of HK$70,796,000 (2011: HK$4,854,000) from banks for guarantees and loans. The banking facilities are secured by:

(i) Pledge of all investment properties of the Group as at 31 December 2012 (Note 14) and assignment of rental proceeds duly executed in respect of the pledged investment properties.

(ii) Cross guarantees totalling HK$55,000,000 as at 31 December 2011 given by the Company and certain of its subsidiaries in respect of a shared banking facility of the Company and these subsidiaries.

Under the guarantee, the Company and certain subsidiaries that are a party to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee. The bank loans have been early repaid in August 2011. The relevant guarantee has been released during the year.

(iii) 80% guarantee given by the Government and a corporate guarantee from a subsidiary of the Company for the SME loan as disclosed in Note 19.

(iv) As at 31 December 2012, a margin securities trading account of a wholly-owned subsidiary of the Company is secured by an unlimited corporate guarantee provided by the Company. This margin facility has not been utilised as at 31 December 2012.

29. CAPITAL COMMITMENTS

The Group and the Company did not have any significant capital commitment as at 31 December 2011 and 2012.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

30. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Members of key management personnel during the year comprised only of the executive directors whose remuneration is set out in Note 9.

31. MAJOR EVENT

On 18 November 2012, the Company has entered into a memorandum of understanding ("MOU") with vendors, pursuant to which the vendors have expressed their intention to sell, and the Company has expressed its intention to acquire the whole or part of the equity interests in a target company and the shareholders' loan due by the target company, if any.

The proposed acquisition contemplated under the MOU is subject to the entering into of the formal agreement by the Company and the vendors and the relevant terms and conditions have not yet been finalised as at the end of the reporting period and up to the date of approval of these financial statements. Further details are set out in the Company's announcement dated 19 November 2012.

32. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which includes the borrowings disclosed in Note 19, bank balances and cash disclosed in Note 17 and equity attributable to owners of the Company, comprising share capital and reserves disclosed in Note 22 and the consolidated statement of changes in equity.

The Group's risk management reviews the capital structure on a semi-annual basis. The Group will consider both debt financing and equity financing for its capital requirements. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

32. CAPITAL RISK MANAGEMENT *(continued)*

The Group has a target gearing ratio of below 10% determined as the proportion of net debt to equity. The gearing ratio at the end of reporting period was as follows:

	2012	2011
	HK$'000	HK$'000
Debts	**70,796**	4,854
Bank balance and cash	**(238,873)**	(182,342)
Net debt	**(168,077)**	(177,488)
Equity	**339,796**	332,009
Net debt to equity ratio	**N/A**	N/A

33. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the individual customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased. Trade receivables are due within 60 days to 90 days (2011: 30 days to 90 days) from the date of billing. Debtors with balances that are more than 2 months past due are normally requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

33. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

As at 31 December 2012, the Group has a concentration of credit risk as 99% and 100% (2011: 58% and 97%) respectively of the total gross trade receivables were due from the Group's largest customer and the five largest customers respectively.

The credit risk of the Group's financial assets, which comprise gross trade receivables, other receivables and bank balances and cash, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in Notes 28(iv) and 33(b).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 16.

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

33. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk *(continued)*

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for borrowings is prepared based on the scheduled repayment dates:

Group	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
2012						
SME loan	4,854	4,854	4,854	–	–	–
Other bank loans – term loans subject to repayment on demand clause	65,942	69,401	4,647	64,754	–	–
Trade payables, other payables and accruals	15,948	15,948	15,948	–	–	–
	86,744	90,203	25,449	64,754	–	–
2011						
SME loan	4,854	4,854	4,854	–	–	–
Trade payables, other payables and accruals	12,864	12,864	12,864	–	–	–
	17,718	17,718	17,718	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

33. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk *(continued)*

Company	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
2012						
Other bank loans	65,889	69,348	4,594	64,754	–	–
Other payables and accruals	261	261	261	–	–	–
	66,150	69,609	4,855	64,754	–	–
Financial guarantee issued						
Maximum amount guaranteed	–	–	–	–	–	–
2011						
Other payables and accruals	841	841	841	–	–	–
Financial guarantee issued						
Maximum amount guaranteed	–	–	–	–	–	–

The table that follows summarises the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand or within one year" time band in the maturity analysis contained in Note 19. Taking into account the Company's and the Group's financial positions, save as those disclosed in Note 19(ii), the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

33. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk *(continued)*

Group	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
2012					
Bank loans – term loans subject to a repayment on demand clause based on scheduled repayments	88,901	4,647	4,594	13,783	65,877
SME loan and the related interest payable	5,732	5,732	–	–	–
	94,633	10,379	4,594	13,783	65,877
2011					
SME loan and the related interest payable	5,262	5,262	–	–	–

Company	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
2012					
Bank loans – term loans subject to a repayment on demand clause based on scheduled repayments	88,848	4,594	4,594	13,783	65,877
2011					
Bank loans – term loans subject to a repayment on demand clause based on scheduled repayments	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

33. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. All bank borrowings were issued at variable rates which exposed the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out below.

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

	Group			
	2012		2011	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Variable-rate borrowings				
Bank loans	**3.25 - 6.25**	**70,796**	6.25	4,854

	Company			
	2012		2011	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Variable-rate borrowings				
Bank loans	**3.25**	**65,889**	–	–

The interest rates and terms of repayment of the Group's and the Company's borrowings are disclosed in Notes 19 and 20.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

33. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Interest rate risk *(continued)*

Sensitivity analysis

As at 31 December 2012, it is estimated that a general decrease/increase of 100 basis points in interest rates, with all other variables held constant, would increase the Group's profit after taxation and decrease the accumulated losses by HK$708,000/HK$1,681,000 (2011: HK$49,000/HK$1,775,000). Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2011.

(d) Currency risk

Currency risk to the Group is minimal as most of the Group's transactions are carried out in the respective functional currencies of the group entities.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2012 and 2011.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised as at 31 December 2011 and 2012 may be categorised as follows:

	2012 HK$'000	2011 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash), at amortised cost	**268,817**	210,966
Financial liabilities		
Financial liabilities, at amortised cost	**86,744**	17,718

35. COMPARATIVE FIGURES

Certain comparatives have been reclassified to confirm with the current year presentation.

FIVE YEARS FINANCIAL SUMMARY

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

	Year ended 31 December												
	2012			2011			2010			2009			2008
	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000	Continuing operations HK$'000	Discontinued operation HK$'000	Total HK$'000	Total HK$'000
Results													
Revenue	**184,457**	**–**	**184,457**	139,390	–	139,390	25,204	5,322	30,526	6,024	11,752	17,776	39,051
Profit/(loss) attributable to owners of the Company	**5,641**	**318**	**5,959**	3,153	(1,217)	1,936	(21,474)	(7,559)	(29,033)	(55,734)	(6,529)	(62,263)	(111,268)
Assets and Liabilities													
Total assets	**427,733**	**44**	**427,777**	350,772	743	351,515	388,111	679	388,790	410,136	10,340	420,476	173,072
Total liabilities	**(82,181)**	**(5,800)**	**(87,981)**	(10,931)	(8,575)	(19,506)	(89,821)	(7,415)	(97,236)	(92,319)	(8,791)	(101,110)	(122,020)
	345,552	**(5,756)**	**339,796**	339,841	(7,832)	332,009	298,290	(6,736)	291,554	317,817	1,549	319,366	51,052
Non-controlling interest	**–**	**–**	**–**	–	1,798	1,798	–	1,596	1,596	–	(1,186)	(1,186)	(1,951)
Equity attributable to owners of the Company	**345,552**	**(5,756)**	**339,796**	339,841	(6,034)	333,807	298,290	(5,140)	293,150	317,817	363	318,180	49,101

Note:

During the year ended 31 December 2010, the Group ceased its entertainment media business, telecommunication business and leisure and entertainment events business.

PARTICULARS OF PROPERTIES

	Type	Lease term
Properties held for investment		
(1) Shop A (including the external walls), Ground Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong	Commercial	Medium
(2) Shop B (including the external walls), Ground Floor, Loading and Unloading Bays Nos. U1, U2, U3, U9 and U10, 1st Floor and car parking space Nos. 22, 23, 33, 50 and 50A, 2nd Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong	Commercial	Medium