KongSun 江山

KONG SUN HOLDINGS LIMITED

Stock Code : 295

ANNUAL REPORT 2012

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS	Chan Chi Yuen *(Chairman)* Yu Pak Yan, Peter
INDEPENDENT NON-EXECUTIVE DIRECTORS	Lau Man Tak Man Kwok Leung Wong Yun Kuen
COMPANY SECRETARY	Chan Siu Mat
REGISTERED OFFICE	Unit 905, 9th Floor Wings Building Nos. 110–116 Queen's Road Central Central Hong Kong
AUDITOR	SHINEWING (HK) CPA Limited 43rd Floor, The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong
SOLICITOR	D.S. Cheung & Co., Solicitors
PRINCIPAL BANKERS	Standard Chartered Bank (Hong Kong) Limited The Bank of China (HK) Limited Bank of Communications Co., Ltd.
SHARE REGISTRAR AND TRANSFER OFFICE	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Center 183 Queen's Road East Hong Kong
STOCK CODE	295
CONTACT INFORMATION	Tel : 3970 4050 Fax : 3970 4055 Website : www.kongsun-hldgs.com

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), I would like to present the annual results of Kong Sun Holdings Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2012.

During the year of 2012, the Group has terminated the production line of Christmas trees, due to the increase in the cost of materials and labour cost in the People's Republic of China (the "PRC") and keen competition of the market. Although the turnover reduced sharply in this year, the Group's overall result would be improved in the foreseeable future. The Group remains optimistic about the prospect of the property market in the medium and long term. It is expected that revenue from the property business would have a healthy growth in the coming future.

The Group has undertaken researches, identifying and evaluating potential diversified investment projects. The Group will exercise additional cautions in the course of identifying suitable investment opportunities under the fluctuated global financial market.

Loss attributable to shareholders for the year ended 31 December 2012 has been reduced from approximately HK$43,416,000 to approximately HK$10,901,000. Loss per share decreased to HK1.23 cents as compared to HK6.04 cents in the previous year. Further reduction in deficit and possible return to profitability will be our next target for the years to come.

The major investments of the Group remain in Hong Kong and the PRC. The Group will continue to focus on its existing businesses and looking forward for strategic investment opportunities with an aim to further strengthen the asset base and/or to generate stable income to the Group.

Finally, I would like to take this opportunity to extend my sincere thanks to all our business partners, shareholders, directors and staff for their support and contribution to the Group during the past year. With their continued trust and support, we are confident that the Group will overcome any difficulties that may come ahead and emerge all the strongest.

CHAN CHI YUEN
Chairman

Hong Kong
26 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The Company's principal activity continued to be investment holding whilst its subsidiaries are mainly engaged in properties investment, manufacturing and sale of life-like plants and securities investment.

For the year ended 31 December 2012, the turnover of the Group amounted to approximately HK$8,560,000. Loss attributable to shareholders has decreased to approximately HK$10,901,000 from approximately HK$43,416,000 recorded in last year. The decrease of loss for the year was mainly contributed by the absence of the loss arising from fair value changes of convertible bonds made in last year, gain on fair value changes of investment properties and gain on disposal of available-for-sale financial assets.

PROPERTIES INVESTMENT

The Group's properties investment business had contributed approximately HK$1,720,000 to the total revenue of the Group for the year ended 31 December 2012. The turnover has reduced by about HK$538,000 due to investment properties not fully occupied during the year. In general, the property prices in Hong Kong have risen to record high levels due to the strong market demand and the inflow of capital, as the global money supply and liquidity have increased substantially. The Group's investment properties were valued at approximately HK$92,800,000 as at 31 December 2012, which represented an increment of approximately HK$15,550,000 as compared to last year. It is expected that the revenue from the properties investment business would have a steady growth in the coming future.

LIFE-LIKE PLANTS BUSINESS

The life-like plants business had contributed approximately HK$6,840,000 to the total revenue of the Group for the year ended 31 December 2012. The turnover of the segment reduced by approximately HK$62,331,000 when compared with last year. The significant decrease was mainly caused by the termination of production line of Christmas trees, where the impact have reflected in the Interim Report in 2012. Due to the increase in the cost of materials and labour cost in the PRC and keen competition of the market, the business of Christmas trees declined significantly.

For the business of artificial flowers, it was affected by adverse business environment brought by the European sovereign debt crisis and the uncertain United States economy, less sale orders were received. The Group will enhance its product differentiation and closely monitor the production costs without deteriorating the product quality to maintain its competitiveness in the industry.

SECURITIES INVESTMENT

As at 31 December 2012, the Group managed a portfolio of investments in capital market with fair value of approximately HK$23,465,000. The Group will be watchful on market developments and will continue to be prudent in managing its investment portfolio with a continuing focus on improving overall asset quality.

PROSPECTS

Despite of the competitiveness in life-like plants business, the Group would continue to enhance its product differentiation and cost control initiatives so as to remain competitive in the industry. The Group has undertaken a placing of shares during the year which further solid the working capital and financial position of the Group. The Group is committed to explore new investment and business opportunities to deliver the greatest return to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

As at 31 December 2012, the Group has shareholders' equity of approximately HK$14,690,000 and the share capital of the Company had the following changes:

On 31 July 2012, there was a capital reduction of the Company by cancelling share capital paid up or credited as paid up to the extent of HK$0.19 per share upon each of the shares in issue and by reducing the nominal value of all the issued and unissued shares in the share capital of the Company from HK$0.20 to HK$0.01 per share.

On 31 July 2012, there was a change in board lot size for trading in the shares of the Company from 5,000 shares to 25,000 shares.

On 31 July 2012, there was an increase in authorised share capital from HK$20,000,000 (divided into 2,000,000,000 shares) to HK$200,000,000 (divided into 20,000,000,000 shares) by the creation of an additional 18,000,000,000 shares of par value HK$0.01 each.

On 12 October 2012, 750,000,000 ordinary shares of par value HK$0.01 each were issued at the placing price of HK$0.07 per placing share.

INVESTMENT POSITION AND PLANNING

During the year ended 31 December 2012, the Group spent approximately HK$9,990,000 for acquisition of fixed assets, which included the property acquired through the property swap agreement at deemed cost of HK$8,980,000 as at the completion date of this agreement on 25 May 2012. Details of the property swap agreement were set out in announcement of the Company dated 24 February 2012.

The Group has invested in shares of certain companies that are traded over The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the year ended 31 December 2012, the Group has acquired and disposed of equity securities of a company listed on the Stock Exchange. As at 31 December 2012, the Group held long-term and short-term investments with fair value of approximately HK$22,332,000 and HK$1,133,000, respectively.

Saved as disclosed above, the Group did not have any other significant investment and there is no other material acquisition or disposal of subsidiaries and associated company during the year.

CHARGE ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2012, the Group's bank deposits in the amount of approximately HK$1,161,000 (31 December 2011: approximately HK$1,158,000) had been pledged to banks for the requirement of the customs authorities of the PRC.

As at 31 December 2012, the Group has pledged land and buildings with net book value of approximately HK$13,752,000 (31 December 2011: approximately HK$10,824,000) to secure general banking facilities granted to the Group.

Details of the contingent liabilities as at 31 December 2012 are set out in note 45 to the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group has approximately 115 employees located in Hong Kong and the PRC. They are remunerated according to the nature of the job market trends, with build-in-merit components incorporated in annual review to reward and motivate individual performance.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the total shareholders fund of the Group amounted to approximately HK$259,093,000 (2011: HK$217,682,000), total assets of approximately HK$289,020,000 (2011: HK$252,200,000), current liabilities of approximately HK$22,182,000 (2011: HK$24,550,000) and non-current liabilities of approximately HK$7,745,000 (2011: HK$9,968,000).

The debt ratio (based on the total liabilities over the equity) of the Group decreased from the ratio of 0.16 as at 31 December 2011 to 0.12 as at 31 December 2012.

The Group's business operation and investments are in Hong Kong and the PRC, most of the assets, liabilities and transactions of the Group are denominated in Hong Kong dollars and Renminbi. The Group does not enter into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Chi Yuen

Chairman

aged 46, joined the Group as an executive director from February 2007 to November 2009 and re-joined the Group on 8 December 2011 as an executive director. On 30 December 2011, Mr. Chan was appointed as the chairman of the Board. Mr. Chan is the director of certain subsidiaries of the Company. Mr. Chan holds a bachelor degree with honours in Business Administration and a master of science degree in Corporate Governance and Directorship. Mr. Chan is a fellow of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants and is an associate of The Institute of Chartered Accountants in England and Wales. Mr. Chan is a practicing certified public accountant and has extensive experience in financial management, corporate finance and corporate governance. Mr. Chan is currently an executive director and chief executive director of Noble Century Investment Holdings Limited (formerly known as Sam Woo Holdings Limited stock code: 2322). Mr. Chan is also an independent non-executive director of Asia Energy Logistics Group Limited (stock code: 351), China Gamma Group Limited (stock code: 164), China Gogreen Assets Investment Limited (stock code: 397), China Sandi Holdings Limited (formerly known as China Grand Forestry Green Resources Group Limited stock code: 910), Media Asia Group Holdings Limited (stock code: 8075), New Times Energy Corporation Limited (stock code:166) and U-RIGHT International Holdings Limited (stock code: 627). Mr. Chan was an non-executive director of New Times Energy Corporation Limited (stock code:166) from October 2006 to May 2012. Mr. Chan was an independent non-executive director of The Hong Kong Building and Loan Agency Limited (stock code: 145) from October 2009 to February 2011, Richly Field China Development Limited (stock code: 313) from February 2009 to August 2010 and Superb Summit International Group Limited (formerly known as Superb Summit International Timber Company Limited stock code: 1228) from April 2007 to June 2010.

Mr. Yu Pak Yan, Peter

Executive Director

aged 61, joined the Group on 1 August 2008 and is also the director of certain subsidiaries of the Company. Mr. Yu has over 30 years of experience in real estate and financial services industries. Mr. Yu has a Bachelor degree in Management from Youngstown State University in Ohio, USA and a Master of Science degree in Financial Services from American College in Pennsylvania, USA. Mr. Yu is a member of the Certified Commercial Investment Member Institute and was the first Chinese-American elected to the board of the San Francisco Association of Realtors. Mr. Yu worked in Pacific Union Real Estate Company in the United States from 1980–1995 and held senior positions in MetLife and New York Life Insurance Company in managing Asian customers in North America. Mr. Yu is currently an independent non-executive director of Kingston Financial Group Limited (stock code: 1031), M Dream Inworld Limited (stock code: 8100), China Sandi Holdings Limited (formerly known as China Grand Forestry Green Resources Group Limited stock code: 910) and Noble Century Investment Holdings Limited (formerly known as Sam Woo Holdings Limited stock code: 2322).

Mr. Lau Man Tak

Independent Non-executive Director

aged 43, joined the Group on 1 September 2008 and is the chairman of the audit committee and the member of the remuneration committee and nomination committee of the Company. Mr. Lau graduated from Hong Kong Polytechnic University with a Bachelor degree in Accountancy. Mr. Lau has more than 15 years of finance, accounting and auditing experiences. Mr. Lau is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lau is also a member of the Hong Kong Securities Institute and admitted as a fellow member of Hong Kong Institute of Directors in August 2012. Mr. Lau is currently an executive director and chairman of Aurum Pacific (China) Group Limited (stock code: 8148). Mr. Lau is also an independent non-executive director of Kingston Financial Group Limited (stock code: 1031), Climax International Company Limited (stock code: 439), AMCO United Holding Limited (formerly known as Guojin Resources Holdings Limited stock code: 630) and Sincere Watch (Hong Kong) Limited (stock code: 444). Mr. Lau was also an executive director and chief financial officer of China Sandi Holdings Limited (formerly known as China Grand Forestry Green Resources Group Limited stock code: 910) from April 2010 to September 2012 and an executive director of Warderly International Holdings Limited (stock code: 607) from December 2007 to January 2010.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Man Kwok Leung

Independent Non-executive Director

aged 66, joined the Group on 2 June 2009 and is the chairman of the nomination committee and is the member of the audit committee and remuneration committee of the Company. Mr. Man is a solicitor of the High Court of Hong Kong and a civil celebrant of marriages. Mr. Man has extensive experience in the legal practice. Mr. Man had been appointed by Xinhua News Agency as a district advisor from 1995 to 1997. Mr. Man is currently appointed as a director of Apleichau Kai Fong Primary School, the deputy chairman of Apleichau Kai Fong Welfare Association, the secretary of Apleichau Promotion of Tourism Association and the honorary legal advisor of Junior Police Officers' Association. Mr. Man is currently an independent non-executive director of Climax International Company Limited (stock code: 439), Hua Yi Copper Holdings Limited (stock code: 559) and Noble Century Investment Holdings Limited (formerly known as Sam Woo Holdings Limited stock code: 2322). Mr. Man was an independent non-executive director of Hong Kong Life Sciences and Technologies Group Limited (formerly known as ZMAY Holdings Limited stock code: 8085) from November 2009 to September 2012.

Dr. Wong Yun Kuen

Independent Non-executive Director

aged 55, joined the Company since 20 April 2007 and is the chairman of the remuneration committee and the member of the audit committee and nomination committee of the Company. Dr. Wong received his Ph.D. degree from Harvard University, and was "Distinguished Visiting Scholar" at the Wharton School of the University of Pennsylvania. Dr. Wong has worked in financial industries in the United States and Hong Kong for many years, and has considerable experience in corporate finance, investment and derivative products. Dr. Wong is a member of the Hong Kong Securities Institute. Dr. Wong is an executive director of UBA Investments Limited (stock code: 768). Dr. Wong is also an independent non-executive director of Harmony Asset Limited (stock code: 428), Bauhaus International (Holdings) Limited (stock code: 483), Kaisun Energy Group Limited (stock code: 8203), China Yunnan Tin Minerals Group Company Limited (stock code: 263), Hua Yi Copper Holdings Limited (stock code: 559), Kingston Financial Group Limited (stock code: 1031) Climax International Company Limited (stock code: 439), China Sandi Holdings Limited (formerly known as China Grand Forestry Green Resources Group Limited stock code: 910), New Island Printing Holdings Limited (stock code: 377) and Sincere Watch (Hong Kong) Limited (stock code: 444). Harmony Asset Limited is also listed on Toronto Stock Exchange. Dr. Wong was an independent non-executive director of Superb Summit International Group Limited (formerly known as Superb Summit International Timber Company Limited (stock code: 1228) from April 2007 to June 2010, China E-Learning Group Limited (stock code: 8055) from August 2007 to June 2010 and Hong Kong Life Sciences and Technologies Group Limited (formerly known as ZMAY Holdings Limited stock code: 8085) from November 2009 to September 2012. Dr. Wong was also an executive director and chairman of Green Energy Group Limited (stock code: 979) from December 2009 to May 2010.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are properties investment, manufacturing and sale of life-like plants and securities investment.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest suppliers accounted for approximately 94.2% of the Group's total purchases. The largest supplier accounted for approximately 43.1% of the Group's total purchases.

During the year, the Group's five largest customers accounted for approximately 73.7% of the Group's total sales. The largest customer accounted for approximately 38.4% of the Group's total sales.

None of the directors, their associates or any shareholders of the Company, which to the knowledge of the directors, own more than 5% of the Company's issued share capital has a beneficial interest in any of the Group's five largest suppliers or customers.

RESULTS

The Group's loss for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 22 to 26.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 27 and other details of the reserves of the Company are set out in note 36 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK$307,164,000, may be distributed in the form of fully paid bonus shares.

FIXED ASSETS

Details of movements during the year in the investment properties, property, plant and equipment and prepaid lease payments of the Group are set out in notes 19, 20 and 21 to the financial statements respectively.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, reclassified and restated as appropriate, is set out on page 102. This summary does not form part of the audited consolidated financial statements.

DIRECTORS' REPORT

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year are set out in respective notes 35, 37 and 38 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of Hong Kong.

PURCHASE, REDEMPTION OR SALE OF COMPANY'S LISTED SECURITIES

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

DIRECTORS

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

EXECUTIVE DIRECTORS
Chan Chi Yuen *(Chairman)*
Yu Pak Yan, Peter

INDEPENDENT NON-EXECUTIVE DIRECTORS
Lau Man Tak
Man Kwok Leung
Wong Yun Kuen

In accordance with articles 81 to 84 of the Company's articles of association, Mr. Yu Pak Yan, Peter and Mr. Lau Man Tak will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and senior management of the Company are set out on pages 7 to 8.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding company, or any of its subsidiaries or fellow 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' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 31 December 2012, none of the directors or chief executives of the Company or their associates had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors or chief executives or their spouses or children under 18 years of age, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, no natural person or any entity had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Division 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, nor there was any substantial shareholder whose detail was required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

There are no transactions which would need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules").

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

AUDIT COMMITTEE

The audit committee has three independent non-executive directors of the Company. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial report matters including a review of the audited consolidated financial statements for the year ended 31 December 2012.

DIRECTORS' REPORT

AUDITORS

A resolution for the re-appointment of SHINEWING (HK) CPA Limited as auditor of the Group will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chan Chi Yuen
Chairman

Hong Kong
26 March 2013

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report of the Group for the year ended 31 December 2012.

CORPORATE GOVERNANCE CODE

The Board acknowledges the importance of the highest standards of corporate governance as the Board believes that effective corporate governance practices are fundamental to enhancing the shareholders' value and safeguarding interest of the shareholders. Accordingly, the Company has adopted sound corporate governance principles that emphasis an effective internal control and accountability to all shareholders.

The Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (the "CG Code") during the year under review, save for the deviation from code provisions A.2.1, A.4.1 and A.6.7 which are explained in the relevant paragraph in this report. The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The company does not have any officer with the title of "chief executive officer". Mr. Chan Chi Yuen, who acts as the chairman of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

Under the code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. However, none of the existing independent non-executive directors of the Company is appointed for specific terms but they are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company, which stipulates that one-third of the directors for the time being, or, if their number is not a multiple of three, then the number nearest to but not less than one-third shall retire from the office by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code in this respect.

Under the code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. One independent non-executive director of the Company did not attend the annual general meeting of the Company (the "AGM") held on 8 May 2012 due to other work commitments. The Company will strengthen its AGM planning process, by giving all Directors sufficient time to arrange their work in advance and providing any necessary support for their presence and participation in the meeting, so as to facilitate all directors attending the Company's future AGM.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS

RESPONSIBILITIES

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategies, decisions and performances. The senior management was delegated the authority and responsibilities by the Board of the day-to-day management and operations of the Group. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management.

All directors have full and timely access to all relevant information in relation to the Company as well as the advices and services of the company secretary, if and when required, with a view ensuring that the Board procedures and all applicable rules and regulations are followed.

There are established procedures for directors to seek independent professional advices for them to discharge their duties and responsibilities, where appropriate at the Company's expenses.

COMPOSITION

The Board currently comprises two executive directors and three independent non-executive directors from different business and professional fields. The directors, including independent non-executive directors, have brought a wide spectrum of valuable business and professional expertise, experiences and independent judgement to the Board for its efficient and effective delivery of the Board function.

The Board of the Company comprises the following directors:

Executive Directors:
Chan Chi Yuen
Yu Pak Yan, Peter

Independent Non-executive Directors:
Lau Man Tak *(Chairman of audit committee and member of remuneration and nomination committee)*
Man Kwok Leung *(Chairman of nomination committee and member of audit and remuneration committee)*
Wong Yun Kuen *(Chairman of remuneration committee and member of audit and nomination committee)*

The profiles of each director are set out in the "Biographical Details of Directors and Senior Management" section in this annual report.

Throughout the year and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules. It requires that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. The Company has received written annual confirmation from each independent non-executive director of their independence pursuant to the requirements of rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independence in accordance with the independence guidelines set out in the Listing Rules.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS *(continued)*

INDUCTION FOR DIRECTORS

Each newly appointed director will receive comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has proper understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant.

The directors are committed to complying with the CG Code A6.5 which came into effect on 1 April 2012 on directors' training. All directors have participated in continuous professional development by attending seminars and/or studying materials relevant to director's duties and responsibility and provided a record of training they received for the financial year ended 31 December 2012 to the Company.

BOARD, BOARD COMMITTEE MEETINGS AND SHAREHOLDERS MEETING

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The Board met 13 times during the year ended 31 December 2012.

Agenda and Board papers together with all appropriate, complete and reliable information are normally sent to all directors before each Board meeting to keep the directors apprised to the latest developments and financial position of the Company and to enable them to make informed decisions. All directors are given the opportunity to include matters in the agenda for regular Board meetings. The Board and each director also have separate and independent access to senior management whenever necessary.

Minutes of all Board meetings sufficient details of matters considered and decisions reached are kept by the secretary of the meetings are open for inspection by the directors. The attendance of individual members of the Board and other board committees meetings during the year ended 31 December 2012 is set out in the table below:

	Meetings attended/Eligible to attend				
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Shareholders meeting
Executive directors					
Chan Chi Yuen	13/13	NA	NA	NA	1/1
Yu Pak Yan, Peter	11/13	NA	NA	NA	1/1
Independent non-executive directors					
Lau Man Tak	13/13	3/3	2/2	1/1	0/1
Man Kwok Leung	13/13	3/3	2/2	1/1	1/1
Wong Yun Kuen	13/13	3/3	2/2	1/1	1/1

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS *(continued)*

BOARD, BOARD COMMITTEE MEETINGS AND SHAREHOLDERS MEETING *(continued)*

Board Committees

The Board has established 3 committees, namely the remuneration committee, the nomination committee and the audit committee for overseeing particular aspects of the Company's affairs. All board committees of the Company are established with defined written terms of reference.

The majority of the members of each board committees are independent non-executive directors. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advices in appropriate circumstances at the Company's expenses.

Remuneration Committee

The remuneration committee comprises three independent non-executive directors of the Company, namely Mr. Lau Man Tak, Mr. Man Kwok Leung and Dr. Wong Yun Kuen. Dr. Wong Yun Kuen is the chairman of the remuneration committee.

The primary objectives of the remuneration committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and senior management. In 2012 and up to the date of this report, the remuneration committee established transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

Nomination Committee

The nomination committee has been established by the Company in the Board meeting held on 26 March 2012 in compliance with the requirement of the CG Code. The nomination committee currently comprises three members, being three independent non-executive directors including Mr. Man Kwok Leung, Mr. Lau Man Tak and Dr. Wong Yun Kuen. Mr. Man Kwok Leung is the chairman of the nomination committee.

The principal responsibilities of the nomination committee are regular review of the Board composition, identifying and nominating suitable candidates as Board members, assessment of the independence of the independent non-executive directors and Board evaluation. During the period of 2012 and up to date of this report, the nomination committee reviewed the structure, size and composition (including the skills, knowledge, experience and length of service) of the Board and make recommendations on proposed changes to the Board to complement the Company's corporate strategy.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS *(continued)*

BOARD, BOARD COMMITTEE MEETINGS AND SHAREHOLDERS MEETING *(continued)*

Audit Committee

The audit committee comprises three independent non-executive directors of the Company, namely Mr. Lau Man Tak, Mr. Man Kwok Leung and Dr. Wong Yun Kuen. Mr. Lau Man Tak is the chairman of the audit committee. None of the members of the audit committee is a former partner of the Company's existing external auditors.

The main duties of the audit committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor (if any) or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The audit committee held three meetings during the year ended 31 December 2012 to review the financial results and report of the Company with the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors. Having made specific enquiry of the directors, the directors confirmed that they have complied with the code throughout the year ended 31 December 2012.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Group and have adopted the accounting principles generally accepted in Hong Kong and compiled with the requirements of Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. As at 31 December 2012, the directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The accounting systems and internal control of the Company are designed to prevent any misappropriation of the Company's assets, any unauthorised transactions as well as to ensure the accuracy of the accounting records and the true and fairness of the financial statements.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS *(continued)*

The Board also acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's financial reports, other inside information announcements and other financial disclosures required under Listing Rules, and reports to the regulators as well as to information required to be disclosed pursuant to statutory requirements.

The reporting responsibilities of the Company's independent auditor are set out in the Independent Auditor's Report on pages 20 to 21.

INTERNAL CONTROL

The Board, recognising its overall responsibility in ensuring the system of internal controls of the Company and for reviewing its effectiveness, is committed to implement an effective and sound internal control system to safeguard the interests of shareholders and the assets of the Group.

The Board is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk. The Board has conducted a review of the effectiveness and adequacy of the internal control system of the Group and has reached the conclusion that the Group's internal control system was in place and effective.

EXTERNAL AUDITORS' REMUNERATION

For the year ended 31 December 2012, the remuneration in respect of the services rendered by the Group's external auditor is set out as follows:

Services rendered for the Group	SHINEWING (HK) CPA Limited HK$'000
Audit services	700
Non-audit services (including taxation services, professional services rendered in relation to agreed upon procedures)	140
Total	840

THE SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY MEETING AND PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to Section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), extraordinary general meetings of the Company shall be convened on requisition, as provided by, or in default, may be convened by the requisitionists.

CORPORATE GOVERNANCE REPORT

PROCEDURES BY WHICH ENQUIRIES MAY BE PUT TO THE BOARD

Enquiries of shareholders can be sent to the Company by post to the Company's Hong Kong head office at Unit 905, 9th Floor, Wings Building, 110–116 Queen's Road Central, Central, Hong Kong. Shareholders' enquiries and concerns, where appropriate, will be forwarded to and answered by the Board.

COMMUNICATION WITH SHAREHOLDERS

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual general meeting of the Company provides a forum for shareholders to exchange views directly with the Board. The Company regards the annual general meeting of the Company as an important event and all directors, senior management and external auditors make an effort to attend the annual general meeting of the Company to address shareholders' queries. All the shareholders of the Company are given a minimum of 20 clear business days' notice of the date and venue of the annual general meeting of the Company. The Company supports the code's principle to encourage shareholders' participation. The Company has also complied with the requirements concerning voting by poll under the Listing Rules. Details of the poll voting procedures and the rights of shareholders to demand a poll are included in circulars to shareholders of the Company dispatched by the Company where applicable.

INVESTOR RELATIONS AND COMMUNICATIONS

To promote the relationship between the Company and investor and to enhance the transparency of the operation of the enterprise, the Board is committed to provide clear and updated information of the Company to shareholders through the publication of notices, circulars, interim and annual reports.

SIGNIFICANT CHANGES ON THE MEMORANDUM OF ASSOCIATION

During the year under review, there is amendment in memorandum of association of the Company so as to incorporate up-to-date corporate information of the Company. No any changes were made in articles of association during the year. An updated version of the Company's memorandum of association and articles of association is available on both the websites of the Company and the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

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

TO THE SHAREHOLDERS OF KONG SUN HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Kong Sun Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 101, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of 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 financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the 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 loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chong Kwok Shing
Practising Certificate Number: P05139

Hong Kong
26 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	7	**8,560**	72,844
Sale of life-like plants	7	**6,840**	69,171
Properties rental income	7	**1,720**	2,258
Dividend income from equity investments	7	**–**	38
		8,560	71,467
Cost of sales		**(7,127)**	(67,332)
Gross profit		**1,433**	4,135
Other revenue	9	**3,585**	7,177
Loss on fair value changes of held-for-trading investments	27	**(187)**	(1,252)
Loss on disposal of held-for-trading investments	27	**–**	(873)
Impairment loss on available-for-sale financial assets	22	**(1,500)**	(11,358)
Impairment loss recognised in respect of goodwill	23	**(8,582)**	–
Impairment loss recognised in respect of property, plant and equipment	20	**(4,036)**	–
Gain on disposal of available-for-sale financial assets	22	**13,248**	–
Gain on fair value changes of investment properties	19	**14,734**	19,720
Distribution and selling expenses		**(458)**	(2,852)
Administrative expenses		**(20,001)**	(22,827)
Other operating expenses		**(10,143)**	–
Loss on fair value changes of convertible bonds	33	**–**	(32,706)
Loss on derecognition of contingent consideration	40	**–**	(856)
Finance costs	10	**(346)**	(1,900)
Loss before tax		**(12,253)**	(43,592)
Income tax credit	11	**1,352**	176
Loss for the year attributable to owners of the Company	12	**(10,901)**	(43,416)
Loss per share			
Basic and diluted	16	**HK(1.23) cents**	HK(6.04) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Loss for the year	12	**(10,901)**	(43,416)
Other comprehensive income (expenses)			
Exchange differences arising on translation of foreign operations		**22**	47
Loss on fair value changes of available-for-sale financial assets	22	**(313)**	(21,546)
Reclassification to consolidated income statement:			
Impairment loss on available-for-sale financial assets	22	**1,500**	11,358
Other comprehensive income (expenses) for the year, net of income tax		**1,209**	(10,141)
Total comprehensive expenses for the year attributable to owners of the Company		**(9,692)**	(53,557)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Investment properties	19	**92,800**	77,250
Property, plant and equipment	20	**45,697**	54,768
Prepaid lease payments	21	**13,475**	13,948
Available-for-sale financial assets	22	**22,332**	6,586
Goodwill	23	**–**	8,582
Deposit paid for acquisition of property, plant and equipment		**114**	–
		174,418	161,134
Current assets			
Inventories	24	**1,450**	10,997
Trade receivables	25	**694**	10,515
Other receivables, prepayments and deposits	26	**4,048**	6,190
Prepaid lease payments	21	**473**	473
Held-for-trading investments	27	**1,133**	1,320
Pledged bank deposits	28	**1,161**	1,158
Bank balances and cash	29	**105,643**	60,413
		114,602	91,066
Current liabilities			
Trade payables, other payables and accrued charges	30	**13,344**	18,983
Bank borrowings	31	**8,829**	5,353
Obligations under finance leases	32	**9**	214
		22,182	24,550
Net current assets		**92,420**	66,516
Total assets less current liabilities		**266,838**	227,650

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Bank borrowings	31	–	168
Obligations under finance leases	32	23	716
Deferred tax liabilities	34	7,722	9,084
		7,745	9,968
Net assets		259,093	217,682
Capital and reserves			
Share capital	35	14,690	143,793
Reserves		244,403	73,889
Total equity		259,093	217,682

The consolidated financial statements on pages 22 to 101 were approved and authorised for issue by the board of directors on 26 March 2013 and are signed on its behalf by:

Director *Director*

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current asset			
Investments in subsidiaries	17	**1,247**	470
Current assets			
Other receivables, prepayments and deposits	26	**211**	193
Amounts due from subsidiaries	18	**215,640**	172,257
		215,851	172,450
Current liabilities			
Other payables and accrued charges	30	**6,790**	6,586
Financial guarantee contract	45	**259**	235
		7,049	6,821
Net current assets		**208,802**	165,629
Net assets		**210,049**	166,099
Capital and reserves			
Share capital	35	**14,690**	143,793
Reserves	36	**195,359**	22,306
Total equity		**210,049**	166,099

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company								
	Share capital (Note 35) HK$'000	Share premium (Note 36) HK$'000	Capital redemption reserve (Note 36) HK$'000	Exchange reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Share options reserve (Note 37) HK$'000	Warrants reserve (Note 38) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	143,793	126,958	20	–	10,188	3,000	1,771	(14,491)	271,239
Loss for the year	–	–	–	–	–	–	–	(43,416)	(43,416)
Exchange differences arising on translation of foreign operations	–	–	–	47	–	–	–	–	47
Loss on fair value changes of available-for-sale financial assets	–	–	–	–	(21,546)	–	–	–	(21,546)
Reclassification to consolidated income statement: Impairment loss on available-for-sale financial assets	–	–	–	–	11,358	–	–	–	11,358
Total comprehensive income (expenses) for the year	–	–	–	47	(10,188)	–	–	(43,416)	(53,557)
At 31 December 2011	143,793	126,958	20	47	–	3,000	1,771	(57,907)	217,682
At 31 December 2011 and 1 January 2012	143,793	126,958	20	47	–	3,000	1,771	(57,907)	217,682
Loss for the year	–	–	–	–	–	–	–	(10,901)	(10,901)
Exchange differences arising on translation of foreign operations	–	–	–	22	–	–	–	–	22
Loss on fair value changes of available-for-sale financial assets	–	–	–	–	(313)	–	–	–	(313)
Reclassification to consolidated income statement: Impairment loss on available-for-sale financial assets	–	–	–	–	1,500	–	–	–	1,500
Total comprehensive income (expenses) for the year	–	–	–	22	1,187	–	–	(10,901)	(9,692)
Capital reduction (Note 35(b))	(136,603)	136,603	–	–	–	–	–	–	–
Placing of new shares (Note 35(d))	7,500	45,000	–	–	–	–	–	–	52,500
Issuing expenses in relation to share placing	–	(1,397)	–	–	–	–	–	–	(1,397)
Warrants lapsed during the year (Note 38)	–	–	–	–	–	–	(1,771)	1,771	–
At 31 December 2012	14,690	307,164	20	69	1,187	3,000	–	(67,037)	259,093

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES		
Loss before tax	**(12,253)**	(43,592)
Adjustments for:		
Amortisation of prepaid lease payments	**473**	473
Depreciation of property, plant and equipment	**5,098**	4,244
Finance costs	**346**	1,900
Gain on fair value changes of investment properties	**(14,734)**	(19,720)
Gain on disposal of available-for-sale financial assets	**(13,248)**	–
Gain on disposal of property, plant and equipment	**(1,772)**	(2,073)
Loss on written off of inventories	**6,672**	–
Loss on fair value changes of convertible bonds	**–**	32,706
Loss on fair value changes of held-for-trading investments	**187**	1,252
Impairment loss on available-for-sale financial assets	**1,500**	11,358
Loss on written off of property, plant and equipment	**3,471**	278
Interest income	**(1,324)**	(1,651)
Impairment loss recognised in respect of goodwill	**8,582**	–
Impairment loss recognised in respect of property, plant and equipment	**4,036**	–
Loss on derecognition of contingent consideration	**–**	856
Operating cash flows before movements in working capital	**(12,966)**	(13,969)
Decrease in inventories	**2,875**	6,345
Decrease (increase) in trade receivables	**9,821**	(8,600)
Decrease in other receivables, prepayments and deposits	**2,142**	55
Decrease in held-for-trading investments	**–**	2,250
Decrease in trade payables, other payables and accrued charges	**(5,639)**	(3,982)
Cash used in operating activities	**(3,767)**	(17,901)
Income tax paid	**(10)**	(111)
NET CASH USED IN OPERATING ACTIVITIES	**(3,777)**	(18,012)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets		**(21,771)**	–
Additions of investment properties		**(816)**	(370)
Increase in deposit paid for acquisition of property, plant and equipment		**(114)**	–
Interest received		**1,324**	1,651
Net cash outflows on acquisition of a subsidiary	40	**–**	(22,324)
Proceeds from disposal of plant and equipment		**1,129**	2,575
Proceeds from disposal of available-for-sale financial assets		**18,960**	–
Purchases of plant and equipment		**(2,890)**	(2,126)
Withdrawal of pledged bank deposits		**–**	5,963
Withdrawal of time deposits with maturities over three months		**–**	118,721
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(4,178)**	104,090
FINANCING ACTIVITIES			
Proceeds from placing of shares		**52,500**	–
New bank borrowings		**9,000**	4,700
Repayments of bank borrowings		**(5,692)**	(5,106)
Payment for share issue costs		**(1,397)**	–
Repayments of obligations under finance leases		**(898)**	(46)
Repayments of convertible bonds		**–**	(40,000)
Interest paid		**(346)**	(1,900)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**53,167**	(42,352)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**45,212**	43,726
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**60,413**	16,642
Effect of foreign exchange rate changes		**18**	45
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		**105,643**	60,413

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION

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

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries (together with the Company referred to as the "Group") are set out in Note 17.

The financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

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

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

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfer of Financial Assets

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's performance and the Group's and the Company's positions for the current and prior years and/or disclosures set out in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

Amendments to HKFRSs	Annual improvements 2009–2011 Cycle[2]
Amendments to HKFRS 1	Government Loans[2]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK (International Financial Reporting Interpretation Committee) — Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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

ANNUAL IMPROVEMENTS TO HKFRSs 2009–2011 CYCLE ISSUED IN JUNE 2012

The Annual Improvements to HKFRSs 2009–2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the application of the amendments will have a material effect on the consolidated and the Company's financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors anticipate that the amendments to HKAS 32 will have no effect on the consolidated and the Company's financial statements as the Group and the Company has already adopted this treatment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

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

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

HKFRS 9 FINANCIAL INSTRUMENTS

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

Key requirements of HKFRS 9 are described as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

HKFRS 9 FINANCIAL INSTRUMENTS *(continued)*

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

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

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

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

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK (SIC) — Int 12 Consolidation — Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) — Int 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

NEW AND REVISED STANDARDS ON CONSOLIDATION, JOINT ARRANGEMENTS, ASSOCIATES AND DISCLOSURES *(continued)*

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

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors of the Company anticipate that the application of these five standards may not have significant impact on the amounts reported in the consolidated financial statements under the current group structure.

AMENDMENTS TO HKFRS 10, HKFRS 12 AND HKAS 27 INVESTMENT ENTITIES

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

HKFRS 13 FAIR VALUE MEASUREMENT

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

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of the Company anticipate that the application of the new standard may affect certain amounts reported in the consolidated and the Company's financial statements and result in more extensive disclosures in the financial statements.

AMENDMENTS TO HKAS 1 PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

BASIS OF CONSOLIDATION

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

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

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

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

BUSINESS COMBINATIONS

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

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

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

BUSINESS COMBINATIONS *(continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

GOODWILL

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

INVESTMENTS IN SUBSIDIARIES

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss. The results of the 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)*

INVESTMENT PROPERTIES

Investment properties are properties held to earn rentals and/or for capital appreciation.

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

PREPAID LEASE PAYMENTS

Prepaid lease payments represent lease prepayments paid or payable for the right to use the land on which various plants and buildings are situated for a definite period, are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation of prepaid lease payments is calculated on a straight-line basis over the expected period of the rights.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

LEASING

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

The Group as lessor

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

The Group as lessee

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

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

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

Leasehold land and building

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

REVENUE RECOGNITION

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

Revenue from sales of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied.

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

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

FOREIGN CURRENCIES

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FOREIGN CURRENCIES *(continued)*

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

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange difference arising are recognised in equity under the heading of exchange reserve.

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

BORROWING COSTS

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

TAXATION *(continued)*

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

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

INVENTORIES

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

PROVISIONS

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

CASH AND CASH EQUIVALENTS

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS

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

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held-for-trading.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets *(continued)*

Financial assets at FVTPL (continued)

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "loss on fair value changes of held-for-trading investments" line item in the consolidated income statement. Fair value is determined in the manner described in Note 6.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the available-for-sale investment reserve is reclassified to profit or loss (see the accounting policy in respect of impairment of financial assets below).

Dividend on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Impairment of financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis other than those financial liability classified as at FVTPL, of which the interest expenses is included in net gains or losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities at FVTPL

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

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss is included in the fair value changes of convertible bonds line item in profit or loss and excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade payables, other payables and accrued charges, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Warrants

Warrants issued by the Company that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are classified as an equity instrument.

For warrants issued to subscribers of the Company's shares, the fair value of warrants on the date of issue is recognised in equity (warrant reserve). The warrant reserve will be transferred to share capital and share premium upon exercise of the warrants. Where the warrants remain unexercised at the expiry date, the amount previously recognised in warrant reserve will be transferred to the retained earnings/accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial liabilities and equity instruments *(continued)*

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 payments when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at FVTPL 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 Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition

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

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

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

SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the date of grant is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

Equity-settled share-based payment transactions *(continued)*

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

IMPAIRMENT LOSSES ON TANGIBLE ASSETS OTHER THAN GOODWILL (SEE THE ACCOUNTING POLICY IN RESPECT OF GOODWILL ABOVE)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Litigation

The Group is involved in the lawsuits and claims for both years ended 31 December 2012 and 2011. The directors of the Company believe that the Group has substantial legal and factual bases to defend for their position and are of the opinion that the estimated losses arising from these lawsuits, if any, will not have a material adverse impact on the results of the operations or the financial position of the Group. Accordingly, no provision for such liabilities has been made in the financial statements. Details of litigation are disclosed in Note 39.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather those will be realised through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. As at 31 December 2012, the carrying amount of goodwill is nil (2011: HK$8,582,000). Impairment loss of HK$8,582,000 was recognised during the year ended 31 December 2012 (2011: nil). Details of the recoverable amount calculation are disclosed in Note 23.

Estimated impairment losses in respect of trade receivables

The policy for making impairment losses on trade receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required. As at 31 December 2012, the carrying amount of trade receivables was HK$694,000 (2011: HK$10,515,000). No impairment loss was recognised on trade receivables during the year ended 31 December 2012 (2011: nil). Details of trade receivables are disclosed in Note 25.

Fair value of financial guarantee contract

The Company provided financial guarantee to a bank in respect of banking facilities granted to a subsidiary. Fair value of financial guarantee at inception date amounted to approximately HK$770,000 (2011: HK$470,000) has been recognised in the Company's statement of financial position. The determination of the fair value of financial guarantees requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact the fair value of the financial guarantee and the results for the period in which such estimates change. Details of financial guarantee contract are disclosed in Note 45. As at 31 December 2012, the carrying amount of the financial guarantee contract in the Company's statement of financial position as at 31 December 2012 was HK$259,000 (2011: HK$235,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Fair value of investment properties

At the end of the reporting period, investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market conditions. In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation have reflected the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties being recognised in profit or loss. The carrying amount of investment properties measured at fair value at 31 December 2012 was approximately HK$92,800,000 (2011: HK$77,250,000)

Estimated useful lives of property, plant and equipment

The Group's property, plant and equipment are depreciated over the shorter of the unexpired term of leases and their estimated useful lives, and after taking into account of their estimated residual values, using the straight-line method, at the rates ranging from 2% to 20% per annum. The estimated useful life reflects the directors of the Company estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Impairment of property, plant and equipment and prepaid lease payments

The impairment loss for property, plant and equipment and prepaid lease payments are recognised for the amounts by which the carrying amount exceeds its recoverable amount, in accordance with the Group's accounting policy.

The Group evaluates whether property, plant and equipment and prepaid lease payments have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates such as the future revenue and discount rates, taking into account the existing business plan going forward, the current sales orders on hand and other strategic new business development. The Group's carrying values of property, plant and equipment and prepaid lease payments as at 31 December 2012 was approximately HK$45,697,000 (2011: HK$54,768,000) and HK$13,948,000 (2011: HK$14,421,000) respectively. Impairment loss of HK$4,036,000 (2011: nil) was recognised on property, plant and equipment during the year ended 31 December 2012. No impairment loss was recognised on prepaid lease payment during the year ended 31 December 2012 (2011: nil).

Impairment loss for inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. The carrying amount of inventories as at 31 December 2012 was approximately HK$1,450,000 (2011: HK$10,997,000). No impairment loss was recognised during the years ended 31 December 2012 and 2011. Details of inventories are disclosed in Note 24.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes bank borrowings, obligations under finance leases, net of pledged bank deposits, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, share premium and reserves.

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

6. FINANCIAL INSTRUMENTS

(A) CATEGORIES OF FINANCIAL INSTRUMENTS

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Available-for-sale financial assets	**22,332**	6,586	**–**	–
Fair value through profit or loss Held-for-trading investments	**1,133**	1,320	**–**	–
Loan and receivables (including cash and cash equivalents)	**109,698**	74,631	**215,641**	172,257
Financial liabilities				
At amortised cost	**16,167**	17,551	**6,790**	6,586
Financial guarantee contract	**–**	–	**259**	235

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS *(continued)*

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and the Company's major financial instruments include available-for-sale financial assets, trade receivables, other receivables, held-for-trading investments, pledged bank deposits, bank balances and cash, trade payables, other payables and accrued charges, bank borrowings, obligations under finance leases and financial guarantee contract. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 70% (2011: 92%) of the Group's sales and 65% (2011: 56%) of its costs are denominated in currencies other than the functional currency of the Group entity making the sale and purchase.

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

	Assets		**Liabilities**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States Dollars ("US$")	**2,185**	13,175	**–**	1,083
Renminbi ("RMB")	**45,608**	44,005	**1,881**	4,344

There was no foreign currency denominated monetary assets and monetary liabilities at the reporting date in the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS *(continued)*

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the US$ and RMB.

USD is not the functional currency of the Group entity and as HK$ is pegged to USD, the Group does not expect any significant movements in the USD/HK$ exchange rates. In the opinion of directors of the Company, the foreign currency sensitivity does not give additional value in view of insignificant movement in the USD/HK$ exchange rates.

The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in HK$ against RMB. 5% (2011: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for a 5% (2011: 5%) change in foreign currency rates. A positive number below indicates a decrease in post-tax loss for the year where HK$ strengthen 5% (2011: 5%) against RMB. For a 5% (2011: 5%) weakening of HK$ against RMB, there would be an equal and opposite impact on the loss for the year and the balances below would be negative.

	RMB impact	
	2012	2011
	HK$'000	HK$'000
Post-tax profit or loss	**1,826**	1,656

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

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to bank borrowings and obligations under finance leases of HK$259,000 (2011: HK$924,000) and HK$32,000 (2011: HK$930,000) respectively, at fixed rates and such fixed rate assets and liabilities were disclosed in the respective notes.

The Group and the Company is also exposed to cash flow interest rate risk in relation to variable-rate assets and liabilities. It is the Group's and the Company's policy to keep its assets and liabilities at floating rate of interests so as to minimise the fair value interest rate risk.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS *(continued)*

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Market risk *(continued)*

(ii) Interest rate risk (continued)

The Group's exposure to interest rates on financial assets and financial liabilities are detailed below.

Financial instruments with variable interest rate in nature

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Pledged bank deposits	**1,161**	1,158	**–**	–
Bank balances and cash	**105,643**	60,413	**–**	–
	106,804	61,571	**–**	–
Financial liabilities				
Bank borrowings	**8,570**	4,597	**–**	–

Sensitivity analysis

The sensitivity analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. As at 31 December 2012, if the interest rate of pledged bank deposits, bank balance and cash and bank borrowings had been 100 (2011: 100) basis point higher/lower, the Group's post-tax loss for the year would decrease/increase by approximately HK$820,000 (2011: decrease/increase in loss for the year of approximately HK$476,000).

(iii) Other price risks

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. The Group's other price risk is mainly concentrated on equity instruments listed in Hong Kong.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS *(continued)*

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Market risk *(continued)*

(iii) Other price risk (continued)

Sensitivity analysis

If the prices of the respective equity instruments had been 10% (2011: 10%) higher/lower:

- loss for the year ended 31 December 2012 would decrease/increase by approximately HK$113,000 (2011: decrease/increase by approximately HK$132,000) for the Group as a result of the changes in fair value of held-for-trading investments; and

- other comprehensive income (2011: expense) would increase/decrease by approximately HK$2,233,000 (2011: decrease/increase by approximately HK$659,000) for the Group as a result of the changes in fair value of available-for-sale financial assets.

Credit risk

As at 31 December 2012, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group or the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated and the Company's statement of financial position.

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

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

The Group's concentration of credit risk by geographical locations is mainly in the United States of America ("USA"), which accounted for approximately 67% (2011: 99%) of the total trade receivables as at 31 December 2012.

The Group has concentration of credit risk as approximately 67% (2011: 92%) and approximately 97% (2011: 100%) of total trade receivables was due from the Group's largest customer and the five largest customers respectively within the manufacturing and sale of life-like plants segment as at 31 December 2012.

The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in Note 45.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS *(continued)*

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuation in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. Specifically, bank loans with a repayment demand clause are included in the earliest time band regardless of the probability of the bank choosing to exercise their rights. The maturity dates of other financial liabilities are based on the agreed repayment terms.

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

The Group

	On demand/ within one year HK$'000	One to two years HK$'000	More than two years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2012					
Trade payables, other payables and accrued charges	**7,306**	**–**	**–**	**7,306**	**7,306**
Obligations under finance leases	**9**	**9**	**14**	**32**	**32**
Bank borrowings					
— fixed rate (Note)	**264**	**–**	**–**	**264**	**259**
— variable rate (Note)	**8,810**	**–**	**–**	**8,810**	**8,570**
	16,389	**9**	**14**	**16,412**	**16,167**
At 31 December 2011					
Trade payables, other payables and accrued charges	11,100	–	–	11,100	11,100
Obligations under finance leases	269	269	516	1,054	930
Bank borrowings					
— fixed rate (Note)	784	172	–	956	924
— variable rate (Note)	4,726	–	–	4,726	4,597
	16,879	441	516	17,836	17,551

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS *(continued)*

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

Note:

Bank borrowings with a repayment on demand clause are included in the "on demand/within one year" time band in the above maturity analysis. As at 31 December 2012, the aggregate undiscounted principal amounts of these bank loans with a fixed interest rate and variable interest rate amounted to approximately nil (2011: HK$442,000) and HK$8,570,000 (2011: HK$4,597,000) respectively. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowings will be fully repaid nine (2011: ten) years after the end of reporting period in accordance with the scheduled repayment dates set out in the loans agreements. At that time, the aggregate principal and interest cash outflows will amount to approximately HK$9,446,000 (2011: HK$5,730,000).

The Company

	On demand/ within one year HK$'000	One to two years HK$'000	More than two years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2012					
Other payables and accrued charges	**6,790**	**–**	**–**	**6,790**	**6,790**
Financial guarantee contract (Note)	**8,810**	**–**	**–**	**8,810**	**259**
	15,600	**–**	**–**	**15,600**	**7,049**
At 31 December 2011					
Other payables and accrued charges	6,586	–	–	6,586	6,586
Financial guarantee contract (Note)	4,726	–	–	4,726	235
	11,312	–	–	11,312	6,821

Note:

The amounts included above for financial guarantee contracts are the maximum amounts the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the land and buildings pledged to the counterparty which are guaranteed suffer market value losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS *(continued)*

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

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

(C) FAIR VALUE

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair value of obligations under finance lease and bank borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments;

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated and the Company's financial statements approximate their fair values due to their immediate or short-term maturities.

Fair value measurements recognised in the statements of financial position

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS *(continued)*

(C) FAIR VALUE *(continued)*

Fair value measurements recognised in the statements of financial position *(continued)*

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
At 31 December 2012				
The Group				
Financial assets at FVTPL				
Listed equity securities	**1,133**	**–**	**–**	**1,133**
Available-for-sale financial assets				
Listed equity securities	**22,332**	**–**	**–**	**22,332**
At 31 December 2011				
The Group				
Financial assets at FVTPL				
Listed equity securities	1,320	–	–	1,320
Available-for-sale financial assets				
Listed equity securities	6,586	–	–	6,586

There were no transfers between Level 1, 2 and 3 in the current and prior years.

Significant assumptions used in determining fair value of financial liabilities

Financial guarantee contract

The fair value of financial guarantee contracts is determined using option pricing models where the major assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. TURNOVER

An analysis of the Group's turnover for the year is as follows:

	2012 HK$'000	2011 HK$'000
Sale of life-like plants	**6,840**	69,171
Properties rental income	**1,720**	2,258
Dividend income from held-for-trading investments	**–**	38
Proceeds from disposal of held-for-trading investments	**–**	1,377
	8,560	72,844

The direct operating expenses from investment properties that generated rental income amounted to approximately HK$213,000 (2011: HK$159,000) for the year ended 31 December 2012.

8. SEGMENT INFORMATION

The Group's operating segment, based on information reported to the chief operating decision maker, the board of directors, for the purpose of resources allocation and performance assessment are as follows:

(a) The manufacturing and sale of life-like plants segment engaged in manufacturing and sale of life-like plants (including Christmas trees and artificial flowers products) in Hong Kong and the Peoples' Republic of China (the "PRC").

(b) The properties investment engaged in the investment in properties in Hong Kong.

(c) The securities investment engaged in the trading of listed securities in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

SEGMENT REVENUE AND RESULTS

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

For the year ended 31 December 2012

	Manufacturing and sale of life-like plants HK$'000	Properties investment HK$'000	Securities investment HK$'000	Total HK$'000
Turnover	6,840	1,720	–	8,560
Segment revenue	6,840	1,720	–	8,560
Segment (loss) profit	(35,772)	16,082	1,300	(18,390)
Unallocated corporate operating income				99
Unallocated corporate operating expenses				(5,364)
Impairment loss on available-for-sale financial assets				(1,500)
Gain on disposal of available-for-sale financial assets				13,248
Finance costs				(346)
Loss before tax				(12,253)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

SEGMENT REVENUE AND RESULTS *(continued)*

For the year ended 31 December 2011

	Manufacturing and sale of life-like plants HK$'000	Properties investment HK$'000	Securities investment HK$'000	Total HK$'000
Turnover	69,171	2,258	1,415	72,844
Segment revenue	69,171	2,258	38	71,467
Segment (loss) profit	(15,669)	21,366	3,043	8,740
Unallocated corporate operating income				12
Unallocated corporate operating expenses				(5,524)
Impairment loss on available-for-sale financial assets				(11,358)
Loss on derecognition of contingent consideration				(856)
Loss on fair value changes of convertible bonds				(32,706)
Finance costs				(1,900)
Loss before tax				(43,592)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for both years.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment (loss) profit represents the (loss from) profit earned by each segment without allocation of certain indirect administration costs, bank interest income, directors' emoluments, finance costs, gain on disposal of available-for-sale financial assets, loss on fair value changes of convertible bonds, loss on derecognition of contingent consideration and impairment loss on available-for-sale financial assets. This is the measure reported to the chief operating decision marker for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

SEGMENT ASSETS AND LIABILITIES

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

	At 31 December 2012 HK$'000	At 31 December 2011 HK$'000
Segment assets		
Manufacturing and sale of life-like plants	**64,724**	104,183
Properties investment	**92,976**	78,301
Securities investment	**96,414**	45,942
Total segment assets	**254,114**	228,426
Unallocated corporate assets	**34,906**	23,774
Consolidated total assets	**289,020**	252,200

	At 31 December 2012 HK$'000	At 31 December 2011 HK$'000
Segment liabilities		
Manufacturing and sale of life-like plants	**6,389**	12,008
Properties investment	**165**	365
Securities investment	**–**	25
Total segment liabilities	**6,554**	12,398
Unallocated corporate liabilities	**23,373**	22,120
Consolidated total liabilities	**29,927**	34,518

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

- all assets are allocated to reportable segments other than available-for-sale financial assets, certain other receivables, prepayments and deposits, pledged bank deposits and certain bank balances and cash as these assets are managed on a group basis.

- all liabilities are allocated to reportable segments other than certain other payables and accrued charges, deferred tax liabilities, bank borrowings and obligations under finance leases as these liabilities are managed on a group basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

OTHER SEGMENT INFORMATION

2012

	Manufacturing and sale of life-like plants HK$'000	Properties investment HK$'000	Securities investment HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets (Note)	9,990	816	–	–	10,806
Amortisation of prepaid lease payments	473	–	–	–	473
Depreciation of property, plant and equipment	5,051	47	–	–	5,098
Gain on fair value changes of investment properties	–	(14,734)	–	–	(14,734)
Loss on fair value changes of held-for-trading investments	–	–	187	–	187
Gain on disposal of available for sales financial assets	–	–	–	(13,248)	(13,248)
Gain on disposal of property, plant and equipment	(1,772)	–	–	–	(1,772)
Loss on written off of property, plant and equipment	3,471	–	–	–	3,471
Loss on written off of inventories	6,672	–	–	–	6,672
Impairment loss on available-for-sale financial assets	–	–	–	1,500	1,500
Impairment loss recognised in respect of goodwill	8,582	–	–	–	8,582
Impairment loss recognised in respect of property, plant and equipment	4,036	–	–	–	4,036
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss:					
Interest income	–	–	(1,322)	(2)	(1,324)
Finance costs	–	–	–	346	346
Income tax (credit) expenses	(1,401)	42	–	7	(1,352)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

OTHER SEGMENT INFORMATION

2011

	Manufacturing and sale of life-like plants HK$'000	Properties investment HK$'000	Securities investment HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets (Note)	3,051	399	–	–	3,450
Amortisation of prepaid lease payments	473	–	–	–	473
Depreciation of property, plant and equipment	4,179	65	–	–	4,244
Gain on fair value changes of investment properties	–	(19,720)	–	–	(19,720)
Loss on derecognition of contingent consideration	–	–	–	856	856
Impairment loss on available-for-sale financial assets	–	–	–	11,358	11,358
Loss on fair value changes of held-for-trading investments	–	–	1,252	–	1,252
Loss on disposal of held-for-trading investments	–	–	873	–	873
Loss on written off of property, plant and equipment	–	278	–	–	278
Gain on disposal of plant and equipment	(2,073)	–	–	–	(2,073)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss:					
Interest income	–	–	(1,639)	(12)	(1,651)
Finance costs	318	–	–	1,582	1,900
Income tax (credit) expenses	(213)	37	–	–	(176)
Loss on fair value changes of convertible bonds	–	–	–	32,706	32,706

Note: Non-current assets excluded those relating to financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

GEOGRAPHICAL INFORMATION

The Group's operations are located in Hong Kong (place of domicile) and the PRC.

The Group's revenue from external customers and information about its non-current assets by geographical locations of the assets are detailed below:

	Revenue from external customers		**Non-current assets** (Note)	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Hong Kong (place of domicile)	**3,774**	8,148	**111,607**	86,026
PRC	**–**	–	**40,479**	68,522
USA	**2,625**	58,789	**–**	–
Others	**2,161**	4,530	**–**	–
	8,560	71,467	**152,086**	154,548

Note: Non-current assets excluded those relating to financial instruments.

INFORMATION ABOUT MAJOR CUSTOMERS

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

	2012 HK$'000	2011 HK$'000
Customer A	**2,625**	54,383
Customer B	**1,077**	N/A*

* The corresponding revenue did not contribute over 10% of the total sales of the Group

All the above revenue was derived from the sale of life-like plants.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. OTHER REVENUE

	2012 HK$'000	2011 HK$'000
Net foreign exchange gain	**136**	3,083
Gain on disposal of property, plant and equipment	**1,772**	2,073
Interest income	**1,324**	1,651
Sundry income	**353**	370
	3,585	7,177

10. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	**271**	259
Finance leases	**75**	28
Interest on convertible bonds	**–**	1,582
Interest on bank overdrafts	**–**	31
	346	1,900

11. INCOME TAX CREDIT

	2012 HK$'000	2011 HK$'000
Under provision in prior years:		
PRC Enterprise Income Tax	**10**	111
Deferred tax (Note 34):		
Current year	**(1,362)**	(287)
	(1,352)	(176)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong profit tax has been made as the Group has no estimated assessable profits arising in Hong Kong during the two years ended 31 December 2012 and 2011.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. INCOME TAX CREDIT *(continued)*

The tax charge for the year can be reconciled to the loss per the consolidated income statement as follow:

	2012 HK$'000	2011 HK$'000
Loss before tax	(12,253)	(43,592)
Tax at the domestic income tax rate at 16.5% (2011: 16.5%)	(2,022)	(7,193)
Tax effect of expenses not deductible for tax purpose	5,654	8,042
Tax effect of income not taxable for tax purpose	(5,091)	(4,495)
Tax effect of tax loss not recognised	1,408	14,485
Tax effect of deductible temporary differences not recognised	145	(212)
Utilisation of tax losses previously not recognised	(10)	(9,331)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,446)	(1,583)
Under provision in prior years	10	111
Income tax credit for the year	(1,352)	(176)

Details of the deferred tax liabilities are set out in Note 34.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. LOSS FOR THE YEAR

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

	2012 **HK$'000**	2011 HK$'000
Auditor's remuneration	**700**	814
Staff costs:		
Directors' remuneration (Note 13)	**2,160**	304
Wages, salaries and other benefits (excluding directors)	**6,148**	15,125
Retirement benefit costs (excluding directors)	**386**	313
Total staff costs	**8,694**	15,742
Cost of inventories recognised as an expense	**7,127**	67,332
Loss on written off of property, plant and equipment (Note)	**3,471**	278
Loss on written off of inventories (Note)	**6,672**	–
Amortisation of prepaid lease payments	**473**	473
Depreciation of property, plant and equipment	**5,098**	4,244
Operating lease rental on rented premises	**856**	879
Net foreign exchange gain	**(136)**	(3,083)

Note:

Included in other operating expenses in the consolidated income statement for the year ended 31 December 2012 were loss on written off of property, plant and equipment and inventories of approximately HK$3,471,000 (2011: nil) and HK$6,672,000 (2011: nil), respectively. The board of directors resolved to terminate the manufacturing and sale of Christmas trees business included in the manufacturing and sale of life-like plants segment during the year ended 31 December 2012 as a result of the keen competition and decline in the demand for Christmas trees products of the Group. Relevant inventories and property, plant and equipment were obsolete and written off during the year ended 31 December 2012. In the opinion of the directors of the Company, the carrying amount of such assets cannot be recovered through use or disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. DIRECTORS' EMOLUMENTS

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is stated as follows:

For the year ended 31 December 2012

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit costs HK$'000	Total HK$'000
Executive directors:				
Chan Chi Yuen	**1,800**	–	–	**1,800**
Yu Pak Yan, Peter	**90**	–	–	**90**
Independent non-executive directors:				
Lau Man Tak	**90**	–	–	**90**
Man Kwok Leung	**90**	–	–	**90**
Wong Yun Kuen	**90**	–	–	**90**
	2,160	–	–	**2,160**

For the year ended 31 December 2011

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit costs HK$'000	Total HK$'000
Executive directors:				
Chan Chi Yuen (appointed on 8 December 2011)	4	–	–	4
Tse On Kin (resigned on 30 December 2011)	60	–	–	60
Yu Pak Yan, Peter	60	–	–	60
Independent non-executive directors:				
Lau Man Tak	60	–	–	60
Man Kwok Leung	60	–	–	60
Wong Yun Kuen	60	–	–	60
	304	–	–	304

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. DIRECTORS' EMOLUMENTS *(continued)*

No emoluments were paid by the Group to any directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office for both years ended 31 December 2012 and 2011.

None of the director waived or agreed to waive any emoluments for both years ended 31 December 2012 and 2011.

There was no chief executive in the Group during the yeas ended 31 December 2012 and 2011.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2011: nil) was director of the Company whose emolument is included in Note 13 above. The emoluments of the remaining four (2011: five) individuals were as follows:

	2012 **HK$'000**	2011 HK$'000
Salaries, allowances and benefits in kind	**1,122**	2,310
Retirement benefit costs	**46**	34
	1,168	2,344

The emoluments were all within the following band:

	Number of individuals	
	2012	2011
Nil–HK$1,000,000	**4**	5

For both years ended 31 December 2012 and 2011, no emoluments was paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office.

15. DIVIDEND

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

16. LOSS PER SHARE

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

	2012 HK$'000	2011 HK$'000
Loss for the year attributable to owners of the Company	**(10,901)**	(43,416)

	Number of shares	
	2012 **'000**	2011 '000
Weighted average number of ordinary shares for the purpose of basic loss per share	**885,401**	718,962

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options and conversion of Company's outstanding warrants since their exercise because the exercise price of those share options and warrants was higher than the average market price for shares for both 2012 and 2011.

17. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2012 **HK$'000**	2011 HK$'000
Unlisted shares, at cost	**1,247**	470
Less: Impairment loss	**–**	–
	1,247	470

The list below denotes particulars of the subsidiaries which in the opinion of the directors of the Company, principally affect the results, assets and liabilities of the Group as at 31 December 2012 and 2011. To give details of other subsidiaries would in the opinion of the directors of the Company, result in particulars of excessive length. The class of shares held is ordinary unless otherwise stated. As of 31 December 2012 and 2011, the Group had effective interests in the following principal subsidiaries:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Coast Holdings Limited	Hong Kong	100,000 shares of HK$1 each	100%	–	100%	Properties investment
Kingston Property Investment Limited	Hong Kong	20,000 shares of HK$1 each	100%	–	100%	Properties investment
Dongguan United Art Plastic Products Limited (Note (ii))	PRC	Paid up capital of HK$49,000,000 (RMB55,066,200)	100%	–	100%	Inactive
LSHK	Hong Kong	600,000 shares of HK$1 each	100% (Note (i))	–	100%	Sale of artificial flowers
LSPRC	PRC	Paid up capital of US$250,000	100% (Note (i))	–	100%	Manufacturing and sale of artificial flowers
FT Far East Limited (Note (ii))	Hong Kong	2 shares of HK$1 each	100%	–	100%	Inactive
FT China Limited	Hong Kong	2 shares of HK$1 each	100%	–	100%	Investment holding
Star Wave Investments Limited	Hong Kong	1 share of HK$1 each	100%	100%	–	Securities investment
Smartrun Investments Limited	BVI	1 share of US$1 each	100%	100%	–	Securities investment

Notes:

(i) The subsidiaries were acquired during the year ended 31 December 2011. Details of the acquisition of subsidiaries are set out in Note 40.

(ii) The subsidiaries were engaged in the manufacturing and sale of Christmas trees during the year ended 31 December 2011 and became inactive during the year ended 31 December 2012.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. AMOUNTS DUE FROM SUBSIDIARIES

	The Company	
	2012	2011
	HK$'000	HK$'000
Amounts due from subsidiaries	**239,922**	191,528
Less: Impairment loss recognised	**(24,282)**	(19,271)
	215,640	172,257

(a) The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

The operating performance of the subsidiaries was unsatisfactory due to intense competition. In the opinion of the directors of the Company, it is uncertain that sufficient cash flows would be generated by the subsidiaries in the foreseeable future as the subsidiaries suffered financial difficulties and sustained losses. In view of the uncertainty of the recovery of the outstanding balance in those subsidiaries which sustained losses and had poor operating performance and that the subsidiaries were not financially capable of repaying to the Company, the directors of the Company concluded that it is appropriate to make an impairment loss on the amounts due from subsidiaries. As at 31 December 2012, there was accumulated impairment losses of approximately HK$24,282,000 (2011: HK$19,271,000) recognised on the amounts due from subsidiaries. Further details are set out in Note 18(b). The directors of the Company consider that the accumulated impairment losses provided are adequate but not excessive.

(b) Movements of impairment losses recognised in respect of amounts due from subsidiaries are analysed as follows:

	The Company	
	2012	2011
	HK$'000	HK$'000
At 1 January	**19,271**	5,392
Impairment loss	**5,011**	13,879
At 31 December	**24,282**	19,271

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. INVESTMENT PROPERTIES

	The Group	
	2012	2011
	HK$'000	HK$'000
FAIR VALUE		
At 1 January	**77,250**	57,160
Additions	**816**	370
Increase in fair value recognised in profit or loss	**14,734**	19,720
At 31 December	**92,800**	77,250

The investment properties of the Group are situated in Hong Kong and held under long-term leases.

The fair value of the Group's investment properties at 31 December 2012 and 2011 have been arrived at on the basis of a valuation carried out on that day by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent qualified professional valuer not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

The Group leases out certain investment properties under operating leases, for an initial period of 1 to 3 years, with an option to renew on renegotiated terms.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

20. PROPERTY, PLANT AND EQUIPMENT

The Group

	Land and Buildings HK$'000	Leasehold Improvement HK$'000	Plant and Machinery HK$'000	Furniture, Fixtures and Equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2011	28,215	7,383	5,787	447	–	41,832
Additions	–	419	53	139	2,469	3,080
Disposals	–	–	(828)	(11)	(373)	(1,212)
Written off	–	(1,282)	–	–	–	(1,282)
Acquired on acquisition of a subsidiary	11,113	1,967	7,631	219	295	21,225
Effect of foreign currency exchange differences	–	–	–	2	–	2
At 31 December 2011	39,328	8,487	12,643	796	2,391	63,645
Additions	8,980	488	17	204	301	9,990
Disposals	(6,267)	–	(331)	–	(922)	(7,520)
Effect of foreign currency exchange differences	–	1	1	1	–	3
Written off	–	–	(4,577)	–	–	(4,577)
At 31 December 2012	42,041	8,976	7,753	1,001	1,770	61,541
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2011	1,684	2,713	1,479	200	–	6,076
Provided for the year	1,132	1,714	1,083	158	157	4,244
Eliminated on disposals	–	–	(313)	(3)	(123)	(439)
Written off	–	(1,004)	–	–	–	(1,004)
At 31 December 2011	2,816	3,423	2,249	355	34	8,877
Provided for the year	1,492	1,968	1,012	215	411	5,098
Impairment recognised for the year	–	–	4,036	–	–	4,036
Eliminated on disposals	(865)	–	(142)	–	(56)	(1,063)
Effect of foreign currency exchange differences	–	–	–	2	–	2
Written off	–	–	(1,106)	–	–	(1,106)
At 31 December 2012	3,443	5,391	6,049	572	389	15,844
CARRYING AMOUNTS						
At 31 December 2012	38,598	3,585	1,704	429	1,381	45,697
At 31 December 2011	36,512	5,064	10,394	441	2,357	54,768

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

THE GROUP *(continued)*

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

Land and buildings	Over the shorter of the term of the lease, or 25–50 years
Leasehold improvement	Over the shorter of the term of the lease, or 5 years
Plant and machinery	6.67%–10%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

Certain land and buildings of the Group held under medium-term lease situated in Hong Kong were acquired on 31 May 2011 due to the business acquisition (see Note 40 for details). The fair values of the land and buildings upon the acquisition were estimated with reference to the valuation made by Grant Sherman, an independent qualified professional valuer, on an open market value basis.

The net carrying amounts of furniture, fixtures and equipment and motor vehicle of approximately HK$429,000 (2011: HK$441,000) and HK$1,381,000 (2011: HK$2,357,000) includes an amount of approximately HK$34,000 (2011: HK$44,000) and nil (2011: HK$964,000) in respect of assets held under finance lease respectively.

The Group has pledged land and buildings with a net carrying amount of approximately HK$13,752,000 (2011: HK$10,824,000) to secure general banking facilities (Note 31) granted to the Group.

During the year ended 31 December 2012, the directors of the Company conducted a review on the Group's property, plant and equipment and determined that a number of those assets were impaired. Due to worse business environment during the year ended 31 December 2012, sale order of artificial flowers dropped significantly and the cash flow and profit can be generated from the usage of the assets decreased. Accordingly, impairment losses of HK$4,036,000 (2011: nil) have been recognised, which are used in the manufacturing and sale of artificial flowers. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use were 15.32% (2011: 15.32%).

The carrying amount of land comprises:

	The Group	
	2012	2011
	HK$'000	HK$'000
Leasehold land and building in Hong Kong		
Medium lease	**13,752**	10,824
Leasehold land and building in the PRC		
Medium lease	**24,846**	25,688
	38,598	36,512

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. PREPAID LEASE PAYMENTS

	The Group	
	2012	2011
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Current asset	**473**	473
Non-current asset	**13,475**	13,948
	13,948	14,421

The prepaid lease payments represent the leasehold land situated in the PRC and held under medium-term leases.

The amortisation charge of approximately HK$473,000 (2011: HK$473,000) for the year are included in administrative expenses in the consolidated income statement.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2012	2011
	HK$'000	HK$'000
List investments:		
— Equity securities listed in Hong Kong, at fair value	**22,332**	6,586

The available-for-sale financial assets are stated at fair value. The fair value of the listed securities has been determined by reference to published price quotations in active markets. Loss on fair value changes of available-for-sale financial assets of approximately HK$313,000 (2011: loss on approximately HK$21,546,000) has been recognised in other comprehensive income and accumulated in available-for-sale investment revaluation reserve.

During the year ended 31 December 2012, the Group has determined the value of its investment in certain listed securities to be impaired in view of the fair value of the available-for-sale financial assets significantly below its original cost. As a result, impairment loss of approximately HK$1,500,000 (2011: HK$11,358,000) has been recognised in profit or loss for the year.

During the year ended 31 December 2012, the Group disposed of certain listed securities at a consideration of approximately HK$18,960,000 (2011: nil), with a carrying amount of approximately HK$5,712,000 (2011: nil) before the disposal. A gain on disposal of approximately HK$13,248,000 (2011: nil) has been recognised in profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. GOODWILL

	The Group HK$'000
Cost	
Arising on acquisition of subsidiaries (Note 40)	8,582
At 31 December 2011, 1 January 2012 and 31 December 2012	8,582
Impairment	
At 1 January 2011, 31 December 2011 and 1 January 2012	–
Impairment loss recognised in the year	8,582
At 31 December 2012	8,582
Carrying values	
At 31 December 2012	–
At 31 December 2011	8,582

During the year ended 31 December 2011, the Group acquired 100% equity interests of LSHK and its subsidiary (together as "Lisun Group") with a goodwill of approximately HK$8,582,000. Details are set out in Note 40.

For the purposes of impairment testing, goodwill has been allocated to the Group's cash-generating unit ("CGU") comprising two subsidiaries in the manufacturing and sale of life-like plant operation segment and was fully impaired during the year ended 31 December 2012 (2011: nil).

IMPAIRMENT TESTING ON GOODWILL

The recoverable amount of CGU was determined on the basis of value-in-use calculation with reference to a valuation performed by Grant Sherman, a qualified valuer not connected with the Group. The calculation uses cash flow projection based on financial budgets approved by management covering a five years (2011: ten years) period and pre-tax discount rate of 15.32% (2011: 15.32%). Cash flow beyond the five years (2011: ten years) period have been extrapolated using a steady 3% (2011: 5%) growth rate. The management determined the budgeted growth rate based on past performance and its expectation on the relevant industry growth forecasts and did not exceed the average long term growth rate for the relevant industry. Based on the forecast and the valuation performed by Grant Sherman, the directors of the Company were of the opinion that the recoverable amount is less than its carrying amount as at 31 December 2012, an impairment of approximately HK$8,582,000 (2011: nil) was recognised accordingly.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

24. INVENTORIES

	The Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**1,133**	9,741
Work in progress	**202**	734
Finished goods	**115**	522
	1,450	10,997

25. TRADE RECEIVABLES

	The Group	
	2012	2011
	HK$'000	HK$'000
Trade receivables	**694**	10,515

The Group allows a credit period normally ranging from 0 to 90 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period. The Group does not hold any collateral over these balances.

	The Group	
	2012	2011
	HK$'000	HK$'000
1 to 30 days	**681**	827
31 to 90 days	**6**	9,091
91 to 180 days	**7**	597
	694	10,515

The ageing analysis of trade receivables by due date that is past due but not impaired is as follow:

	The Group	
	2012	2011
	HK$'000	HK$'000
1 to 30 days	**7**	10
31 to 90 days	**–**	596
91 to 180 days	**–**	2
	7	608

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

25. TRADE RECEIVABLES *(continued)*

Receivables that were past due but not impaired related to two customers (2011: a number of customers) that have a good track record with the Group. Based on past experience, the 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.

Receivables of approximately HK$687,000 (2011: HK$9,907,000) that were neither past due nor impaired relate to customers for whom there was no recent history of default.

The Group's trade receivables that are denominated in currency other than the functional currency of the relevant Group entities are as follows:

	The Group	
	2012	2011
	'000	'000
US$	**86**	1,343

26. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	The Group		**The Company**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other receivables	**19**	2,545	**–**	–
Prepayments and deposits (Note i)	**3,029**	3,645	**211**	193
Unsecured loan receivable (Note ii)	**1,000**	–	**–**	–
	4,048	6,190	**211**	193

Notes:

(i) As at 31 December 2012, included in the prepayment and deposits is a refundable deposit of HK$1,000,000 (2011: nil) paid for the acquisition of 40% equity interest in an entity incorporated in Hong Kong from an independent third party. The transaction will be completed upon the fulfillment of certain conditions.

The above deposit is refundable and classified as current assets in the consolidated financial statements as at 31 December 2012.

(ii) As at 31 December 2012, the loan receivable granted to an independent third party is unsecured, bears interest at a fixed interest rate at 4% per annum and is repayable on 30 December 2013.

Recoverability of other receivables, prepayments and deposits is assessed on individual basis. At the end of 2012 and 2011, management assesses each of the outstanding balance of other receivables, prepayments and deposits to determine whether impairment loss has been adequately provided for, taking into account their credit position, repayment history and age of the amount owing to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

The Group's other receivables, prepayments and deposits that are denominated in currency other than the functional currency of the relevant Group entities are as follows:

	The Group	
	2012	2011
	'000	'000
RMB	**10**	–

27. HELD-FOR-TRADING INVESTMENTS

	The Group	
	2012	2011
	HK$'000	HK$'000
Listed investments:		
— Equity securities listed in Hong Kong	**1,133**	1,320

Held-for-trading investments are stated at fair value. The fair value of the listed securities has been determined by reference to published price quotations in active markets. Loss on fair value changes of held-for-trading investments of approximately HK$187,000 (2011: HK$1,252,000) has been recognised in profit or loss during the year ended 31 December 2012.

During the year ended 31 December 2011, the Group disposed of certain listed securities at a consideration of approximately HK$1,377,000, with a carrying amount of approximately HK$2,250,000 before the disposal. A loss on disposal of approximately HK$873,000 has been recognised in profit or loss for the year. No listed securities were disposed of during the year ended 31 December 2012.

28. PLEDGED BANK DEPOSITS

As at 31 December 2012, bank deposits of HK$1,161,000 (2011: HK$1,158,000), with fixed interest rate at 0.36% (2011: 0.36%) per annum, were pledged to banks for the requirement of the PRC customs authorities respectively and were therefore classified as current assets.

Included in pledged bank deposits are the following amounts denominated in currency other than the functional currency of the relevant Group entities which are subject to foreign exchange control regulations or not freely transferable:

	The Group	
	2012	2011
	'000	'000
RMB	**934**	938

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market rates for both years.

Included in bank balances and cash are the following amounts denominated in currency other than the functional currency of the relevant Group entities, and RMB bank balances are subject to foreign exchange control regulations or not freely transferable:

	The Group	
	2012	2011
	'000	'000
US$	**195**	356
RMB	**35,732**	34,708

30. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**58**	3,616	**–**	–
Other payables and accrued charges	**13,286**	15,367	**6,790**	6,586
	13,344	18,983	**6,790**	6,586

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	The Group	
	2012	2011
	HK$'000	HK$'000
1 to 30 days	**58**	44
31 to 90 days	**–**	20
91 to 180 days	**–**	2,341
181 to 360 days	**–**	1,211
	58	3,616

The average credit period on purchases of goods is 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

30. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES *(continued)*

The Group's trade payables, other payables and accrued charges that are denominated in currencies other than the functional currency of the relevant Group entities are as follows:

	The Group	
	2012	2011
	'000	'000
US$	**–**	140
RMB	**1,534**	3,511

31. BANK BORROWINGS

At 31 December 2012, details of the bank borrowings carried at amortised cost and repayable within 5 years were as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Secured (Note (i))	**8,570**	4,597
Unsecured (Note (ii))	**259**	924
	8,829	5,521
Carrying amount repayable (Note (iii)):		
Within one year	**2,908**	1,080
More than one year, but not exceeding two years	**–**	168
	2,908	1,248
Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**5,921**	4,273
	8,829	5,521
Less: Amounts shown under current liabilities	**(8,829)**	(5,353)
Amounts shown under non-current liabilities	**–**	168

Notes:

(i) Secured by a mortgage over the Group's land and building (Note 20) and bear variable interest ranging from 1.375% to 2% (2011: 2%) per annum below prime rate or 2.5% (2011: 2.5%) per annum over 1 month Hong Kong Interbank Offered Rate, whichever is lower. The weighted average effective interest rate on the bank borrowing is 2.47% (2011: 2.84%) per annum.

(ii) Unsecured bank borrowings bear fixed interest ranging from 6.75% to 8.95% (2011: 6.75% to 8.95%) per annum. The weighted average effective interest rate on the bank borrowing is 8.18% (2011: 7.90%) per annum.

(iii) The amounts due are based on the scheduled repayment dates set out in the loan agreements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

32. OBLIGATIONS UNDER FINANCE LEASES

The Group leased certain of its motor vehicles and office equipment under finance lease. The average lease term is 3 years (2011: 4 years). Interest rates underlying all obligations under finance leases fixed at respective contract dated are 6.29% to 7.26% per annum as at 31 December 2011. The weighted average effective interest rate on the obligations under finance leases is 6.59% per annum as at 31 December 2011. The obligations under finance leases as at 31 December 2012 were interest-free. These leases had no terms of purchase options and escalation clauses. No arrangements have been entered into for contingent rental payments.

	The Group			
	Minimum lease payment		Present value of minimum lease payments	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance lease:				
Within one year	**9**	269	**9**	214
In more than one year but not more than two years	**9**	269	**9**	230
In more than two years but not more than five years	**14**	516	**14**	486
	32	1,054	**32**	930
Less: future finance charges	**–**	(124)	**N/A**	N/A
Present value of lease obligations	**32**	930	**32**	930
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(9)**	(214)
Amount due for settlement after 12 months			**23**	716

The Group's obligations under finance leases of motor vehicles and office equipment are secured by the lessors' title to the leased assets.

Financial lease obligations are denominated in Hong Kong dollars, functional currency of the relevant Group entity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

33. CONVERTIBLE BONDS

THE GROUP AND THE COMPANY

	2012 HK$'000	2011 HK$'000
Convertible bonds measured at fair value:		
At 1 January	–	7,294
Loss on changes in fair value	–	32,706
Repayment	–	(40,000)
At 31 December	–	–

On 16 December 2008, the Company issued unsecured convertible bonds with principal value of HK$40,000,000 ("CB") upon the completion of the acquisition of FT China Limited and FT Far East Limited. CB beared interests at 4% per annum payable annually in arrear with the first payment to be made on the date falling 12 months from the date of issue and with the maturity date on 16 December 2011.

The principal terms of CB were as follows:

— The holders of the CB were entitled to convert any part of the principal amount into new ordinary shares of the Company at a conversion price of HK$0.10 each (subject to adjustment) at any time within three years from the date of issue of CB. The conversion price of the CB had been adjusted to HK$1.70 with effect from 27 October 2010 after the completion of the open offer of the Company.

— The holder of the CB had the right at any time during the period after end of the twenty months from the date of issue until the maturity date to redeem the whole or part of the principal amount.

— The Company had the right at any time during the conversion period to mandatorily convert the whole or part of the CB into the Company's shares.

As CB contained various embedded derivatives, the directors of the Company determined that the convertible bonds do not contain any equity component and the entire bonds were designated as "financial liabilities at FVTPL" which requires the bonds to be carried at fair value at the end of the reporting period and the changes in fair values were recognised in the consolidated income statement. During the year ended 31 December 2011, a loss on changes in fair value of approximately HK$32,706,000 had been recognised in the consolidated income statement.

On the maturity date at 16 December 2011, the CB had been fully redeemed by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. DEFERRED TAX LIABILITIES

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

	Revaluation of prepaid lease payment HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 31 January 2011	6,190	376	6,566
Acquisition of a subsidiary (Note 40)	–	2,805	2,805
Credit to profit or loss	(204)	(83)	(287)
At 31 December 2011 and 1 January 2012	5,986	3,098	9,084
Credit to profit or loss	(217)	(1,145)	(1,362)
At 31 December 2012	5,769	1,953	7,722

At the end of the reporting period, the Group had unused tax losses of approximately HK$131,048,000 (2011: HK$122,893,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$36,941,000 (2011: HK$36,322,000) that can be carried forward for 5 years from the year in which the respective loss arose. Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$1,642,000 (2011: HK$758,000). No deferred tax assets have been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

35. SHARE CAPITAL

THE GROUP AND THE COMPANY

	Number of shares '000	Share capital HK$'000
Authorised		
Ordinary shares of HK$0.20 each as at 1 January 2011, 31 December 2011 and 1 January 2012	2,000,000	400,000
Capital reduction during the year (Note (a))	–	(380,000)
Increase in authorised capital during the year (Note (c))	18,000,000	180,000
Ordinary shares of HK$0.01 each as at 31 December 2012	20,000,000	200,000
Issued and fully paid		
Ordinary shares of HK$0.20 each as at 1 January 2011, 31 December 2011 and 1 January 2012	718,962	143,793
Capital reduction during the year (Note (b))	–	(136,603)
Placing of new shares (Note (d))	750,000	7,500
Ordinary shares of HK$0.01 each as at 31 December 2012	1,468,962	14,690

Notes:

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 30 July 2012, the Company effected a capital reorganisation which involved:

(a) The par value of each authorised, issued and fully paid share was reduced from HK$0.20 to HK$0.01 by cancellation of HK$0.19 on each authorised, issued and fully paid share;

(b) The credit of approximately HK$136,603,000 arose as a result of the Capital Reduction was transferred to the share premium account of the Company;

(c) The authorised share capital of the Company was increased from HK$20,000,000 (divided into 2,000,000,000 shares) to HK$200,000,000 (divided into 20,000,000,000 shares) by the creation of an additional 18,000,000,000 ordinary shares of par value of HK$0.01 each which rank pari passu with the existing shares in all respects;

(d) Pursuant to a conditional placing agreement dated 13 June 2012 entered into between the Company and the placing agent, the placing agent agreed to place 750,000,000 new shares of HK$0.01 each at the price of HK$0.07 per placing share. All conditions of the placing agreement have been fulfilled and completion of the placing agreement took place on 12 October 2012.

The proceed of HK$7,500,000 representing the par value, were credited to the Company's share capital. The reminding proceeds of HK$45,000,000, were credited to the share premium account. The new shares rank pari passu with the existing shares in all aspects. Details of the transaction were set out in the Company's announcement dated 12 October 2012.

All the above shares rank pari passu in all aspects with other shares in issue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. RESERVES

THE COMPANY

	Share premium HK$'000	Capital redemption reserve HK$'000	Share options reserve HK$'000	Warrants reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	126,958	20	3,000	1,771	(58,944)	72,805
Loss and total comprehensive expense for the year	–	–	–	–	(50,499)	(50,499)
At 31 December 2011 and 1 January 2012	126,958	20	3,000	1,771	(109,443)	22,306
Loss and total comprehensive expense for the year	–	–	–	–	(7,153)	(7,153)
Capital reduction (Note 35(b))	136,603	–	–	–	–	136,603
Warrants lapsed during the year (Note 38)	–	–	–	(1,771)	1,771	–
Placing of new shares (Note 35(d))	45,000	–	–	–	–	45,000
Issuing expenses in relation to share placing	(1,397)	–	–	–	–	(1,397)
As at 31 December 2012	307,164	20	3,000	–	(114,825)	195,359

NATURE AND PURPOSE OF RESERVES

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

The capital redemption reserve represents the amount by which the Company's issued share capital is diminished on cancellation of the shares redeemed or purchased.

(ii) Share options reserve

Share options reserve represents the fair value of unexercised share options granted by the Company recognised in accordance with the accounting policy "Share-based Payment Transactions" as stated in Note 3.

(iii) Warrants reserve

Warrants reserve represents the fair value of warrants on the date of issue by the Company recognised in accordance with the accounting policy "Financial Instruments" as stated in Note 3.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

37. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Share Option Scheme"), was adopted pursuant to a resolution passed on 22 July 2009 for the primary purpose of providing incentives to eligible persons, and will expire on 21 February 2013. Eligible participants of the Share Option Scheme include an employee or a Director of the Company or the Group's holding companies or subsidiaries, adviser, consultant, agent, contractor, customer, supplier or any entity in which the Group or its holding companies or subsidiaries holds any equity interest who has contribution to the Group.

Details and the major terms of the Share Option Scheme are as follows:

(I) PURPOSE

The purpose of the Share Option Scheme is to enable the Company to grant options to the participants in recognition of their contribution to the Group.

(II) PARTICIPANTS

The directors of the Company may offer to grant an option to any employee or director of the Company or the Group's holding companies or subsidiaries, adviser, consultant, agent, contractor, customer, supplier or any entity in which the Group or its holding companies or subsidiaries holds any equity interest who has contribution to the Group.

(III) TERMS OF OPTIONS

The share options granted under the Share Option Scheme are subject to such terms and conditions as may be determined by the directors of the Company at their absolute discretion and specified in the offer of a share option, which terms and conditions may include (a) vesting conditions which must be satisfied before a share option holder's share option shall become vested and capable of being exercised; and (b) the directors of the Company may, in its absolute discretion, specify performance conditions that must be achieved before a share option can be exercised and/or the minimum period for which a share option must be held before it can be exercised.

(IV) OPTION PRICE

The option price will be determined by the directors of the Company at their absolute discretion and notified to an option-holder. The minimum option price shall not be less than the highest of (a) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of offer of an option; (b) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of an option; and (c) the nominal value of the shares of the Company.

(V) MAXIMUM NUMBER OF SHARES

(1) 10% Limit

(a) The total number of shares which may be issued upon exercise of all options to be granted must not in aggregate exceed 10% of the aggregate of the shares of the Company in issue as at the date of adoption of the Share Option Scheme. Options lapsed in accordance with the terms of the Share Option Scheme and any other scheme will not be counted for the purpose of calculating the 10% limit in this paragraph.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

37. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

(V) MAXIMUM NUMBER OF SHARES *(continued)*

(1) 10% Limit *(continued)*

(b) With the approval of the shareholders of the Company in general meeting, the directors of the Company may "refresh" the 10% limit under paragraph (a) (and may further refresh such limit in accordance with this paragraph) provided that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the limit as "refreshed" shall not exceed 10% of the shares in issue as at the date on which the shareholders approve the "refreshed" limit.

Options previously granted (including those outstanding, cancelled and lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

(c) Subject to the limits as stated in elsewhere, the directors of the Company may, with the approval of the shareholders, grant options in excess of the 10% limit to participants specifically identified before shareholders' approval is sought. In such situation, the Company will send a circular to the shareholders of the Company containing a generic description of the specified participants who may be granted such options, the number and terms of such options to be granted and the purpose of granting such options to the specified participants with an explanation of how the terms of the options will serve the purpose.

(2) 30% Limit

The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme shall not exceed 30% of the shares of the Company in issue from time to time. No options may be granted under the Share Option Scheme if this will result in the limit being exceeded.

(VI) MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

Subject always to the limits as stated in elsewhere, the directors of the Company shall not grant any options to any participant which, if exercised, would result in such participant becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him (including those options exercised or outstanding) in any 12-month period exceed 1% of the shares of the Company in issue at such date. The directors of the Company may grant options to any participant in excess of the individual limit of 1% in any 12-month period with the approval of the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

(VII) TIME OF EXERCISE OF OPTIONS

An option under the Share Option Scheme which is vested and has not lapsed may be exercised at any time during such period notified by the directors of the Company as not exceeding 10 years from the date on which a participant is offered such option. The exercise of options may also be subject to any conditions imposed by the directors of the Company at the time of offer.

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For the year ended 31 December 2012

37. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

(VIII) PERIOD OF THE SHARE OPTION SCHEME

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption of the Share Option Scheme, after which period no further options will be granted. The directors of the Company may terminate the Share Option Scheme at any time and in such event no further options shall be granted under the Share Option Scheme but any options which have been granted but not yet exercised shall continue to be valid and exercisable.

At 31 December 2012, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 34,208,382 (2011: 34,208,382), representing 2.33% (2011: 4.76%) of the shares of the Company in issue at that date. No consideration is payable on the grant of an option.

Details of option are as follows:

Date of grant	Vesting period	Exercise period	Exercise price	Fair value at grant date
22 February 2010	–	22 February 2010 to 21 February 2013	HK$0.422 per share	HK$0.10 per share

The following table discloses movements of the Company's share options held by an employee and consultants during the year:

Category	Date of grant	Outstanding at 1 January 2012 and 31 December 2012
Employee	22 February 2010	5,095,588
Consultants	22 February 2010	29,112,794
		34,208,382
Exercisable at the end of the year		34,208,382
Weighted average exercise price		HK$0.422

The estimated fair value of the options granted on the above-mentioned date was HK$3,000,000 and recognised in 2010. The Group did not recognised any expense in relation to share options granted by the Company for the year ended 31 December 2012 (2011: nil).

The Black-Scholes option pricing model had been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

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For the year ended 31 December 2012

37. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

This fair value was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

Grant date	22 February 2010
Exercise price	HK$0.422
Expected volatility	50.55%
Expected life	1.5 years
Risk-free rate	0.445%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 1.5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

38. WARRANTS

As set out in the Company's announcement dated 13 December 2010, the Company has issued 95,860,000 warrants to the subscribers of the offer shares conferring the rights to the holders thereof to subscribe in cash for 95,860,000 ordinary shares of the Company of HK$0.01 (2011: HK$0.20) per share at an initial exercise price of HK$0.28 per share at any time during the period from 13 December 2010 to 12 December 2012.

The warrants with subscription price of HK$0.02 per share are recognised in the warrants reserve on initial recognition with a fair value of approximately HK$1,917,000. The transaction cost directly attributable to the issue of the share warrants of approximately HK$146,000 was debited to the warrants reserve.

On 12 October 2012, the Company conducted a placing of its shares. As a result of completion of placing, the exercise price of warrants have been adjusted from HK$0.28 per share to HK$ 0.21 per share.

At 31 December 2011, the Company had outstanding 95,860,000 warrants, the exercise in full of which would result in the issue of 95,860,000 ordinary shares of HK$0.20 each. During the year ended 31 December 2012, no warrants were exercised or cancelled (2011: nil). The share warrants became expired on 12 December 2012 and the warrants reserve of HK$1,771,000 was transferred to accumulated losses during the year ended 31 December 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

39. LITIGATION

On 3 November 2003, an action was commenced by Mr. Cheung Yik Wang ("CYW"), who claims himself as an investor of Easternet Limited which owns 46% of Xswim (Holding) Limited ("Xswim Holding") which is a 54% owned subsidiary of the Company, against Mr. Kong Li Szu as 1st defendant, the Company's former director, and the Company as 2nd defendant for recovering a sum of HK11,600,000 together with interest and costs in connection with a cheque issued on 20 December 2002 by the Company to CYW which was dishonoured upon presentation for payment. It was alleged that the cheque was issued by the Company as a guarantee for payment of a cheque issued by Mr. Kong. A defence was filed by the Company on 19 January 2004. CYW also filed a reply to defence on 17 February 2004. Up to the date of approval of these financial statements, this action is still in progress and no hearing date has been fixed.

In the opinion of the directors of the Company, in 2002, Xswim Holding, a non-wholly owned subsidiary of the Company, and its subsidiaries ("Xswim Group") advanced to the Company an aggregate of approximately HK$15,241,000. In 2002, the Company repaid Xswim Group HK$5,600,000 leaving a balance of approximately HK$9,641,000 outstanding (the "Outstanding Balance") and requested CYW to advance HK$2,000,000 (the "Intended Loan") to the Company. As a result, the Company and Mr. Kong respectively issued on 20 December 2002 a cheque with an amount of HK$11,600,000 each payable to CYW as securities for the Outstanding Balance and the Intended Loan, although CYW has never advanced the Intended Loan to the Company. The Company repaid in full the Outstanding Balance to Xswim Group in 2003. Upon the full repayment of the Outstanding Balance in 2003, in the opinion of the directors of the Company, the Company no longer had legal or financial obligations to pay CYW and thus refused to present the cheque previously issued to CYW in 2003. As at 31 December 2012 and 2011, with the advices by the Company's legal adviser, the directors of the Company were of the opinion that the Group has proper and valid defences to the CYW's action and accordingly, no provision for loss had been accounted for in these financial statements.

40. ACQUISITION OF A SUBSIDIARY

On 31 May 2011, the Group acquired 100% equity interest of Lisun Plastic Factory Limited and its subsidiary (together as "Lisun Group") at a total consideration of HK$20,000,000. Lisun Group is engaged in manufacturing and sale of artificial flowers and was acquired to provide an opportunity for the Group to diversify its products and expand its customer base. The acquisition has been accounted for using acquisition method. The amount of goodwill arising as a result of the acquisition was approximately HK$8,582,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. ACQUISITION OF A SUBSIDIARY *(continued)*

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Fair value at 31 May 2011 HK$'000
Net assets acquired	
Property, plant and equipment	21,225
Inventories	3,017
Trade and other receivables	3,490
Amount due from a related company	756
Pledged bank deposits	103
Bank balances and cash	472
Bank overdraft	(2,796)
Trade payables, other payables and accrued charges	(2,873)
Amount due to a related company	(3,807)
Obligations under finance leases	(293)
Bank and mortgage loan	(5,927)
Deferred tax liabilities	(2,805)
Net identifiable assets and liabilities	10,562
Arising on acquisition:	
Goodwill (Note 23)	8,582
Contingent consideration	856
Total consideration for acquisition	20,000
Analysis of net outflow of cash and cash equivalents in respect of the acquisition of Lisun Group:	
Cash consideration paid	20,000
Less: Bank balances and cash acquired	(472)
Add: Bank overdraft acquired	2,796
Net cash outflow in respect of the acquisition of the subsidiary	22,324

Pursuant to the terms of the sale and purchase agreement, Reach Billion Limited (the "Vendor") and Ms. Chu (the "Guarantor") undertake to Smart Future Investments Limited, a subsidiary of the Company (the "Purchaser") that the audited net profit before interest, tax, depreciation and amortisation of Lisun Group for the year ended 31 December 2011 (the "2011 Net Profit") shall not be less than HK$2 million (the "Profit Guarantee"). In the event that the 2011 Net Profit is less than the amount of Profit Guarantee, the Vendor and the Guarantor are required to pay the shortfall of the Profit Guarantee multiply by six to the Purchaser. The maximum liability of the Vendor in respect of the Profit Guarantee shortfall shall not exceed HK$12 million.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. ACQUISITION OF A SUBSIDIARY *(continued)*

The fair value of such contingent arrangement amounted to approximately HK$856,000 at the date of acquisition is presented separately on the consolidated statement of financial position. The fair value was determined with reference to the valuation by an independent qualified professional valuer, Kovas Magni Appraisal Limited. Changes in variables and assumptions may result in changes in the fair value.

As the contingent arrangement contains various embedded derivatives, the directors of the Company determined that the contingent arrangement be designated as "financial assets at FVTPL" which shall be carried at fair value at end of the reporting period. During the year ended 31 December 2011, the carrying amount of the contingent consideration of approximately HK$856,000 was charged to the consolidated income statement as a result of the fact that the Profit Guarantee was met.

Since its acquisition by the Group, the Lisun Group contributed approximately HK$8,747,000 and a profit of approximately HK$600,000 to the Group's turnover and loss for the year ended 31 December 2011 respectively.

Had the acquisition of the Lisun Group been completed on 1 January 2011, total Group's turnover for the year would have been approximately HK$75,197,000, and the Group's loss for the year would have been approximately HK$44,064,000.

Goodwill arose on acquisition of the Lisun Group represents the control premium.

No goodwill arising on this acquisition is expected to be deductible for tax purposes.

41. DEREGISTRATION OF SUBSIDIARY

During the year ended 31 December 2011, the Group deregistered the entire equity interests of a subsidiary, Elite Corner Limited. The subsidiary was inactive during the year ended 31 December 2011.

42. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees but subject to a maximum amount of HK$1,250 (1 June 2012 onwards) (31 December 2011: HK$1,000) per month for each employee.

As stipulated by the rules and regulations in the PRC, the Group contributes to the retirement funds scheme managed by local social security bureau in the PRC. The Group contributes a certain percentage of the basic salaries of its employees to the retirement plan to fund the benefits.

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. During the year ended 31 December 2012, the total retirement benefit cost charged to the consolidated income statement amounted to approximately HK$386,000 (2011: HK$313,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

43. RELATED PARTY TRANSACTIONS

(a) The balances with the subsidiaries and the respective terms are disclosed in Note 18.

(b) Compensation of directors of the Company and key management personnel.

The remuneration of directors of the Company and other members of key management during the year was as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Short-term benefits	**2,681**	718
Post-employment benefits	**14**	12
	2,695	730

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

44. COMMITMENTS

(A) CAPITAL COMMITMENT

Capital commitment outstanding at 31 December 2012 and 2011 authorised or contracted but not provided for in the financial statements were as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Authorised and contracted for		
— acquisition of plant and equipment	**1,026**	99

There was no capital commitment outstanding as 31 December 2012 and 2011 not provided for in the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

44. COMMITMENTS *(continued)*

(B) LEASE COMMITMENT

The Group as lessee

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

	2012 HK$'000	2011 HK$'000
Within one year	**616**	174
In the second to fifth years inclusive	**1,071**	–
	1,687	174

Operating lease payments as at 31 December 2012 represented rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 1 year with fixed monthly rentals. The operating lease contracts contained market review clauses in the event that the Group exercises its option to renew. The Group did not have an option to purchase the leased asset at the expiry of the lease period.

The Company as lessee

The Company did not have any commitment for future minimum lease payments under non-cancellable operating leases as 31 December 2012 and 2011.

The Group as lessor

Property rental income earned during the year was approximately HK$1,720,000 (2011: HK$2,258,000). The properties are expected to generate rental yields of 1.85% (2011: 2.92%) on an ongoing basis. The properties held have committed tenants for the next year.

Motor vehicle rental income earned during the year was approximately HK$138,000 (2011: HK$23,000). The motor vehicle is expected to generate rental yields of 20.81% (2011: 3.56%) on an ongoing basis. The motor vehicle held has committed tenants for the next 2 years.

At the end of the reporting period, the Group had contracted with tenants for the following non-cancellable future minimum lease payments:

	2012 HK$'000	2011 HK$'000
Within one year	**489**	2,120
In the second to fifth years inclusive	**115**	2,189
	604	4,309

The Company as lessor

The Company did not contract with tenants for any non-cancellable future minimum lease payments as at 31 December 2012 and 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

45. FINANCIAL GUARANTEE CONTRACT

The Company had issued a guarantee to a bank in respect of banking facilities of HK$9,200,000 to LSHK on 18 July 2011. The banking facilities were renewed on 4 May 2012, the Company had issued another guarantee to bank in respect of renewed banking facilities of approximately HK$11,425,000 on the same day.

LSHK is an entity covered by a guarantee arrangement issued by the Company to a bank in respect of banking facilities granted to LSHK which remains in force so long as the subsidiary has drawn down under the banking facilities. Under the guarantee, the Company is a party to the guarantee for all borrowings of subsidiary from the bank which is the beneficiary of the guarantee.

As at 31 December 2012, the directors of the Company do not consider it probable that a claim will be made against the Company under any of the guarantee. The maximum liability of the Company at the end of the reporting period under the guarantee issued is the outstanding amount of the facility drawn down by LSHK of approximately HK$8,570,000 (2011: HK$4,597,000). Fair value of the financial guarantee as at 4 May 2012, the inception date, amounted to approximately HK$777,000 (18 July 2011: HK$470,000) was arrived at on the basis of a valuation carried out by Grant Sherman, an independent qualified professional valuer not connected with the Group. During the year ended 31 December 2012, an amortisation on financial guarantee of approximately HK$753,000 (2011: HK$235,000) has been recognised in the Company's income statement.

The carrying amount of the financial guarantee issued by the Company as at 31 December 2012 was approximately HK$259,000 (2011: HK$235,000).

46. MAJOR NON-CASH TRANSACTION

On 24 February 2012, the Group, entered into the property sale agreement with certain joint vendors (the "Vendors"), pursuant to which the Group transferred the ownership of property ("Property I") to the Vendors and the Vendors transferred the ownership of another property ("Property II") to the Group. Upon completion, the Group became the owner of Property II and the Vendors became the owner of Property I. A gain of HK$1,698,000 from the sales of property was recognised in consolidated income statement during the year ended 31 December 2012.

Details of transactions were set out in the Company's announcements dated 24 February 2012 and 25 May 2012.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified where appropriate, is set out below:

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000
Turnover	**8,560**	72,844	84,262	90,705	–
Sale of life-like plants	**6,840**	69,171	82,006	88,268	–
Properties rental income	**1,720**	2,258	1,702	1,685	–
Dividend income from equity investments	**–**	38	–	–	–
	8,560	71,467	83,708	89,953	–
LOSS BEFORE TAX	**(12,253)**	(43,592)	(25,330)	(10,740)	(43,228)
Income tax credit	**1,352**	176	1,426	3,209	–
LOSS FOR THE YEAR	**(10,901)**	(43,416)	(23,904)	(7,531)	(43,228)
ATTRIBUTABLE TO:					
Owners of the Company	**(10,901)**	(43,416)	(23,904)	(7,531)	(43,227)
Non-controlling interests	**–**	–	–	–	(1)
	(10,901)	(43,416)	(23,904)	(7,531)	(43,228)

ASSETS AND LIABILITIES AND NON-CONTROLLING INTERESTS

	At 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000
TOTAL ASSETS	**289,020**	252,200	301,384	252,439	214,485
TOTAL LIABILITIES	**(29,927)**	(34,518)	(30,145)	(53,472)	(184,327)
NON-CONTROLLING INTERESTS	**–**	–	–	–	(11)
	259,093	217,682	271,239	198,967	30,147