e-KONG Group Limited

Stock Code: 524

Annual Report 2012

We are together

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Corporate Information

Board of Directors

Executive Directors

Richard John Siemens *(Chairman)*
Lim Shyang Guey

Non-executive Directors

William Bruce Hicks
Jennifer Wes Saran

Independent Non-executive Directors

John William Crawford J.P.
Gerald Clive Dobby
Shane Frederick Weir

Company Secretary

Lau Wai Ming Raymond

Auditor

Mazars CPA Limited
Certified Public Accountants

Legal Advisers

Deacons
Conyers Dill & Pearman

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
DBS Bank Limited

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business

3705 Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong
Tel: +852 2801 7188
Fax: +852 2801 7238

Stock Codes

Hong Kong Stock Exchange:	524
Ticker Symbol for ADR:	EKONY
CUSIP Reference Number:	26856N109

Website

www.e-kong.com

Principal Share Registrar

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

Branch Share Registrar in Hong Kong

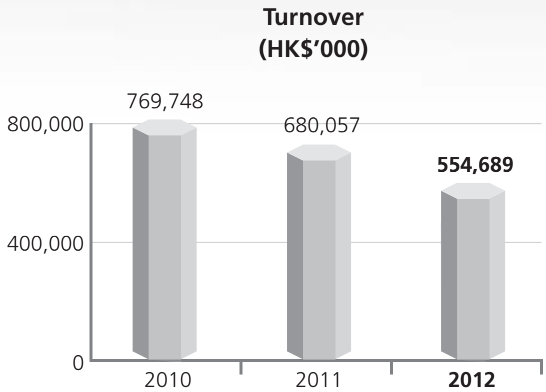
Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

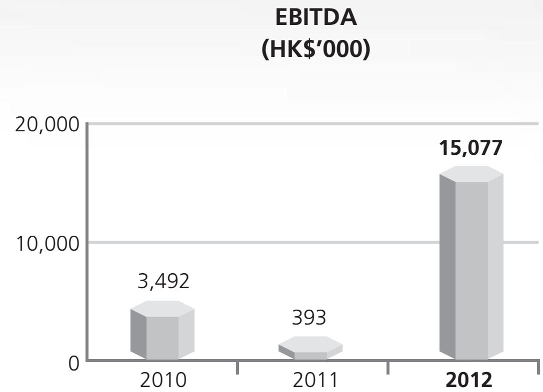
ADR Depositary

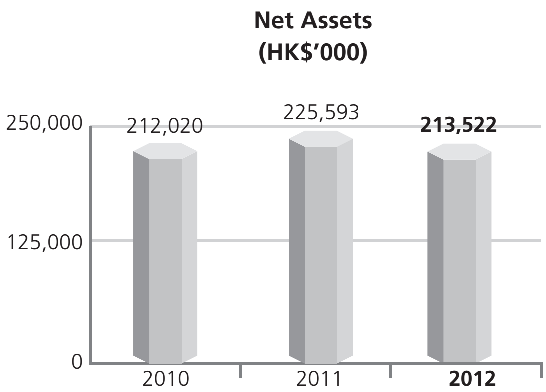
The Bank of New York Mellon
BNY Mellon Shareowner Services
P.O. Box 358516
Pittsburgh, PA 15252-8516
USA

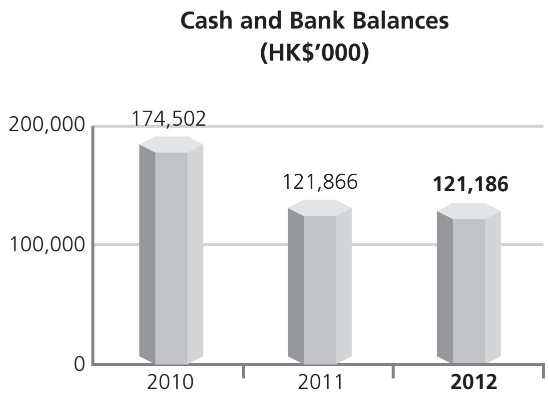
Financial Highlights

	2012 HK$'000	2011 HK$'000	% change
Turnover (from continuing and discontinued operations)	**554,689**	680,057	-18%
EBITDA (from continuing and discontinued operations)	**15,077**	393	+3,736%
Net Assets	**213,522**	225,593	-5%
Cash and Bank Balances	**121,186**	121,866	-1%









e-KONG Group currently has a portfolio of business interests in the telecommunications and information technology sectors in the United States, China, Hong Kong and Singapore and is actively pursuing other opportunities that are complementary to its existing operations or have high growth potential, ability to generate healthy cashflows and capabilities to produce optimum return on capital. The Company is listed on the main board of the Hong Kong Stock Exchange (SEHK: 524) and maintains a sponsored Level 1 ADR programme through The Bank of New York Mellon (Ticker Symbol: EKONY).

Chairman's Statement

2012 was a defining year for the Group. Over the past few years, the Group has been relatively successful in leveraging its existing assets and capitalising on technological advances as well as improvements in operating efficiency to maintain its core voice business and to progressively introduce new related products and services without making significant investments. However, in an ever-changing and competitive industry landscape, growing its business through incremental developments may no longer be sufficient to ensure long-term sustainability. Material transformation and diversification that keep abreast with rapid market changes are required in order to deliver step-function advancements in operating results and longer term benefits. In 2012, rather than continuing on a maintenance and incremental growth path, the Group made the concerted decision to be totally committed to a transformative strategy whereby it will make sizeable capital and operating investments to aggressively expand into the more lucrative and high growth segments of the Information and Communications Technologies (ICT) industry. In the short term, as each of the Group businesses go through this investment phase its financial performance is likely to be impacted, nevertheless we believe that the businesses being built today will deliver long-term shareholder value in the coming years.

In the US, the Group's jointly-controlled entity ANZ Communications LLC, following the successful completion of its merger and integration process, accelerated its efforts to reform its organisational set up, human resources structure and operating model as it prepares itself to launch a world class suite of next generation, cloud-based solutions to both the corporate and carrier markets. A well-experienced and innovative executive team now in place is working in unison to execute on the ANZ's business plan that encompasses a comprehensive product, marketing and sales strategy fully supported by an integrated, scalable and customisable technology platform. In building and deepening its corporate culture and identity that is well aligned with its business vision, ANZ has also introduced a new corporate logo (ANPI), a new tagline (Collaborate, Innovate, Deliver) and launched its new website (*www.anpi.com*). While there remains potential execution and sector risks, ANZ's management believes double-digit organic growth rates over the next few years is possible considering the large market size in the United States and that the market is just now reaching the stage of mainstream adoption of the targeted services.

In Asia, ZONE Singapore's transition entails a two-prong strategy consisting of organically building its broadband connectivity business while augmenting its data and voice business through the acquisition of a domain name registration and web / data hosting business assets. ZONE is committed to delivering broadband access, applications and services that meet the mounting demand of both individual and business customer segments. While much work has yet to be done, ZONE has now established a strong foundation for it to execute on fulfilling its vision to be the leading alternative communications service provider in Singapore.

The Group's transformation initiatives continue to capitalise on those growth opportunities that are driven by the three major market trends, namely, the migration from fixed telephony to broadband, the rapid adoption of IP access and services in place of the legacy services and the transition from mobile voice to mobile data. Such initiatives include the introduction of a suite of IP-based hosted solutions to replace traditional PABX and the availability of OTT-styled mobile applications as part of the services bundled with the hosted solution to enable customers on mobile devices to access to our suite of applications and services. The Group will continue to expand its service offerings in alignment with the above market trends, particularly those related to mobile connectivity and applications.

Besides focusing on the business transformation of its telecom-related operations, the Group has also made significant in-road in diversifying into the insurance distribution industry through its RMI companies. The Group sees a lot of similarities between the telecom and insurance industries, both being regulated industries with limited numbers of large players, huge market size and high growth potential. By bringing together distribution partners with large customer base and extensive distribution network on one hand, and reputable insurance companies willing to explore innovative alternate distribution channels on the other, RMI is placed in a unique position to capture a slice of the lucrative life and non-life insurance market. RMI is well in advance to execute on this tri-parte arrangements in Hong Kong through its partnership with the largest local telecom company and will soon duplicate this business model in North America and other Asian countries.

The Group's transformation and diversification journey will require the passage of time and also significant investment of resources before achieving meaningful results that will deliver long-term earnings growth and shareholder returns. It is important that the Group not only stay fully-committed on executing its long term strategy but also remained focused on ensuring that its financial fundamentals remain healthy in the coming few years. The Group foresees that internally generated cash flow will continue to fund the build-up stages of the new developments. However, the Group needs to ensure that it is financially and operationally robust during this investment period in order to withstand any unforeseen circumstances that could negatively impact on its performance and also be ready to fuel the growth stages of its business development plan. At the same time, similar to past years, we shall keep pursuing M&A opportunities that could either increase the economies of scale of our business and / or diversity into other high growth areas that bring significant shareholder value.

I would also like to take this opportunity to thank all fellow directors and employees for their invaluable efforts and hard work, dedication and commitment to the Group and to thank all our customers, shareholders, business associates and professional advisers for their continued support.

Richard John Siemens
Chairman

26 March 2013

Business Review

Overview

During the year under review, the Group's 50:50 joint venture company in the US, ANZ Communications LLC (ANZ), which recorded its first full financial year of operations since the completion of the merger transaction, delivered a satisfactory business performance which made a significant contribution to the Group's consolidated financial results. Besides focusing on growing its more well established carrier and ILEC-related businesses, ANZ, in the second half of 2012, also commenced investing and executing its plans to expand into the high growth cloud-based and hosted solutions business sectors by targeting the SOHO (Small office / Home office) and SMB (Small Medium Business) market. In Asia, the Group continued to enhance its telecommunication businesses mainly through the introduction of new broadband-based services as well as through the acquisition of assets of an accredited domain name registration and web / data hosting company in Singapore. The Group's non-telecom business, RMI, continues to execute on its mass marketing strategy of introducing insurance-related products to its partners with large customer base. Concurrently, RMI, through its international division, made progressed in adopting its mass marketing business model in North America and other parts of Asia.

The Group's turnover for the year 2012 was HK$554.7 million as compared to HK$474.6 million in 2011. The gross margin improved from 25.9% for 2011 to 29.3% mainly as a result of further improvements in operating efficiencies and better utilisation of its network infrastructure. EBITDA improved significantly from HK$0.4 million in the prior year to HK$15.1 million in 2012. However, the Group recorded a loss attributable to equity holders of the Company of HK$12.9 million for the year as compared with a profit of HK$16.8 million in the previous corresponding year. The primary reasons for this variance are attributed to a one-time gain on disposal of the discontinued operation in the prior year, as well as the additional amortisation and depreciation expenses resulting from the purchase of new assets and a negative adjustment to the deferred tax assets held by the Group for the current year. The Group's financial position as at year-end 2012 remained healthy with cash and cash balances of HK$121.2 million and net asset value at HK$213.5 million.

ANZ, United States

The Group, being a 50% equity holder of ANZ, records only its half share of the operating results, assets and liabilities of these jointly-controlled entities by way of the proportionate consolidation accounting method. For the year 2012, ANZ reported turnover of HK$951.0 million, EBITDA of HK$62.4 million and a net profit of HK$36.3 million, 50% of which was taken into account in the Group's consolidated results. ANZ continues to derive most of its revenue and earnings from providing voice and data related services to independent local exchange carriers (ILECs), competitive local exchange carriers (CLECs) and interexchange carriers (IXCs) as well as wireless carriers, corporate enterprise and residential customers throughout the United States.

As a result of a comprehensive business development study initiated in the first half of 2012, the management of ANZ has recommended specific strategies to materially diversify ANZ's product portfolio and associated revenue streams through significant and committed efforts to launch a suite of telecom solutions which incorporate SIP trunking, hosted IP-PBX, collaboration, unified communication, productivity and mobility functionalities. This suite of service offerings will initially be targeting at the SOHO and SMB market through direct and indirect sales distribution across the US and will soon thereafter be expanded to include centralised hosted wholesale offerings to the ILECs and other carrier communities. ANZ has already assembled a well-experienced executive team and is currently investing significant resources to execute its plans for the launch of the initial array of services in early 2013.

ANZ's strategic roadmap entails material diversification of its service offerings and an aggressive rollout timeline that will require upfront capital investment and on-going working capital over the next few years. In anticipation of the need for future funding beyond internally generated resources, ANZ and its equity holders, including the Group, have been pursuing various fundraising options including vendor, equity and debt financing.

Zone Telecom, Asia

During 2012, ZONE Asia recorded turnover of HK$78.0 million, compared to HK$82.9 million for the prior year. ZONE Hong Kong continued to expand its project-based offerings, extending its revenue opportunities into providing more IT and telecom complementary services. Besides hosted services such as IVR, IP-PBX and CRM solutions, ZONE has introduced cloud-based redundancy services to widen its range of offerings. ZONE's profile in the IP telephony industry was further enhanced following its appointment as the exclusive distributor for all of Asia by Elastix (*www.elastix.com*) to distribute its range of award-winning IP-PBX products.

ZONE Singapore remained focussed on transforming itself from being a pure long distance voice service provider into a comprehensive info-communication service company. It now provides local telephone services via its hosted IP-Centrex which complements its IDD services. Its broadband connectivity business is also registering positive growth with a broad spectrum of high speed fibre broadband offerings including point-to-point and point-to-multi-point virtual private networks. Following the completion of the acquisition of assets of Cybersite Pte Ltd in July 2012, ZONE Singapore now offers a full suite of hosting and cloud services comprising domain name registration, web design and web / email hosting.

In 2012, ZONE Singapore continued to be profitable with its voice business remaining stable and providing strong cash flow to further fuel its other business development activities. ZONE Singapore continues to broaden its revenue base through the introduction of new products and services to cater for business communication needs of SMBs and large enterprises. ZONE Singapore will continue to enhance its offerings with more innovative cloud applications that can be deployed quickly through its cloud infrastructure.

RMI, Hong Kong

During the year, RMI introduced the first fully transparent lost, damaged, stolen (LDS) mobile phone protection services in Hong Kong under its "i-Guard" brand in collaboration with the Hong Kong's premier telecommunications service provider, HKT Group. LDS serves to both establish the "i-Guard" brand as well as to introduce mass market mobile phone protection services in Hong Kong. The success of LDS for mobile phones has created a number of opportunities to extend into LDS for tablets as well as to introduce Extended Warranty for products sold by HKT Group, and other relevant insurance products in Hong Kong, all under the "i-Guard" brand. The "i-Guard" franchise will continue to expand its product portfolio in Hong Kong in collaboration with HKT Group and other partners.

In 2012, the setting up of RMI Canada in partnership with one of the largest Canadian insurance brokers was well in progress while, at the same time, it was in the advance stages of concluding a major distribution agreement with one of the largest distributors of gift cards in North America through a network of leading grocery and convenience outlets, pharmacy and specialty stores. RMI Canada will introduce mass market insurance and protection services in collaboration with this distributor to Canada. RMI will continue its international expansion in 2013 through further development opportunities in both the North American and Asian markets.

Outlook

The Group is excited about the potential growth prospects in the US, as its jointly-controlled entity ANZ launches it hosted solutions targeting SOHOs and SMBs across the country, a market segment that is estimated to be in excess of US$15 billion in value. At the same time in Asia, broadband connectivity and cloud services will continue to be the key growth drivers for the telecom business and the Group foresees increases in revenue contributions from its insurance-related RMI businesses, both in Hong Kong and overseas. Looking ahead, the Group is fully committed to transform its telecom operations both in Asia and the US and over the next few years, and will invest significant resources and efforts to evolve from voice-centric telecom service providers to all-encompassing telecom solutions providers. While in the short term the Group's financial performance will likely be negatively affected during the investment phase, the Group believes that the businesses being built today will deliver long term earnings growth and increase shareholders value in the coming years.

General Overview

The financial status and results of the Group for the year ended 31 December 2011 and as at 31 December 2011 presented in this report were significantly affected by the one-off financial impact arising from the ANZ Transaction completed in April 2011.

Accordingly, the results of the former ZONE US operations for the period from 1 January 2011 to the date of completion of the ANZ Transaction, as well as the results arising from the disposal of the ZONE US operations were separately presented as a "Discontinued Operation" in the consolidated income statement for the year ended 31 December 2011.

As stated in the Company's 2011 Annual Report, the Group's interests in ANZ were accounted for by the proportionate consolidation accounting method. Following the completion of the ANZ Transaction, the results of ANZ were therefore proportionally consolidated with the Group results and presented under continuing operations for that reporting period. This is a major contributing factor for the significant comparison differences between the turnover and operating results of 2012 from the prior year, as further elaborated on below.

Nevertheless, in order to comply with HKFRS 11 "Joint Arrangements" which is effective for accounting periods beginning 1 January 2013, the financial results of ANZ will thereafter be accounted for in the Group consolidated financial statements by the equity method and hence the Group's share of ANZ's assets, liabilities, income and expenses will no longer be recognised with similar items in the Group consolidated financial statements on a line-by-line basis.

For information purposes, had HKFRS 11 been adopted at the beginning of 2012, the Group's financial results and position would have been presented in the manner as shown in the Group's Unaudited Pro Forma Consolidated Income Statement for the year ended 31 December 2012 and the Unaudited Pro Forma Consolidated Statement of Financial Position as at 31 December 2012 at pages 94 to 96 under the section titled "Pro Forma Information".

Turnover and Results

During the year, the Group turnover increased by 16.9% from HK$474.6 million to HK$554.7 million. The increase in turnover is due to the inclusion of 12 months of operating results of the jointly-controlled entities in the Group's turnover for the current year as opposed to eight and a half months for the previous year as the ANZ Transaction was only completed as of 15 April 2011. When compared with the Group's combined turnover from its continuing and discontinued operations for the year ended 31 December 2011 of HK$680.1 million, the Group's turnover decreased by 18.4%.

The gross margin for the Group improved to 29.3%, compared to 25.9% for the previous year.

Total operating expenses of the Group amounted to HK$165.8 million, compared to HK$133.8 million in the previous year.

The Group recognised a gain on bargain purchase of HK$0.8 million in the subscription on equity interests of a new subsidiary in the RMI group. The gain is included in other revenue and income in the current year.

The operating results of the Group recorded a loss of HK$0.4 million, as compared to a loss of HK$9.1 million for the previous year.

The consolidated loss attributable to the equity holders of the Company of HK$12.9 million, compares to a profit of HK$16.8 million for the previous year, attributable primarily to the gains arising from the ANZ Transaction during the previous year, increased amortisation and depreciation expenses, and a negative adjustment to the deferred tax assets during the current year.

The Group's EBITDA for the year amounted to HK$15.1 million, compared to HK$0.4 million for the previous year.

Capital Structure, Liquidity and Financing

During the year, the Group continued to have a healthy financial position and, as at 31 December 2012, the net assets amounted to HK$213.5 million compared to HK$225.6 million as at 31 December 2011 or a net asset value per share of HK$0.410 as at 31 December 2012 (2011: HK$0.433).

Capital expenditures for the year amounted to HK$16.4 million mainly in respect of the development of a new service platform, upgrading of switching facilities and acquisitions of network equipment in the US and Singapore.

Cash and bank balances (excluding pledged bank deposits) amounted to HK$121.2 million as at 31 December 2012 (2011: HK$121.9 million). As at 31 December 2012, HK$77.5 million (2011: Nil) was pledged as bank deposits to collateralise a letter of credit issued to a bank in respect of a banking facility extended to a subsidiary. In addition, bank guarantees of HK$2.0 million (2011: HK$2.3 million) were issued to suppliers for operational requirements.

As at 31 December 2012, total bank borrowings of the Group amounted to HK$85.7 million (2011: Nil), of which HK$77.5 million is denominated in United States dollars (equivalent to US$10,000,000) and the proceeds thereof are intended for general working capital purposes. The loan bears interest at a floating rate and is payable quarterly. The loan facility expires in August 2017, at which time the full amount outstanding is due and payable in United States dollars. The loan is collateralised by a bank letter of credit supported by the Company. The remaining balance of the bank borrowings of HK$8.2 million (2011: Nil) is denominated in Singapore dollars. The loan and interest at a floating rate are repayable monthly in Singapore dollars over a period of three years. The loan, which was utilised for the acquisition of assets during 2012, is secured by the net assets of a subsidiary company.

The Group's liabilities under equipment lease financing decreased by 93.0% to HK$0.1 million as at 31 December 2012 when compared to HK$0.9 million as at 31 December 2011.

As at 31 December 2012, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets was 40.2% (2011: 0.4%). The increase in the gearing ratio is due to the bank borrowings for the year.

Foreign Exchange Exposure

Since most of the Group's assets and liabilities, revenue and payments are denominated in Hong Kong and United States dollars, the Group considers there are no significant exposures to foreign exchange fluctuations as long as the Hong Kong-United States dollar exchange rate remains pegged. The Group continues to closely monitor the Singapore-United States dollar exchange rate and, if cash contributions from the Singapore operations or borrowings in Singapore dollars increase in future, the Group will, whenever appropriate, take any necessary action to reduce such exchange risks. In this regard, as at 31 December 2012, no related currency hedges had yet been undertaken by the Group.

Contingent Liabilities and Commitments

A jointly-controlled entity is involved in certain legal actions and claims arising in the ordinary course of business, subject to which certain representations, warranties and indemnities are provided by a subsidiary. Management believes that it is remote that the outcome of such litigation and claims will have a material effect on the Group's financial position.

Save as disclosed above, as at 31 December 2012, there were no material contingent liabilities or commitments.

Board of Directors and Senior Management

Board of Directors

Richard John Siemens, 68, Chairman, was appointed in January 2000. Mr. Siemens is the Chairman and a founding member of the Distacom Group, a privately-held group of companies engaging in mobile telecommunication business, and the non-executive Chairman of Sprintex Limited. Trained as a Chartered Accountant, Mr. Siemens's financial acumen and entrepreneurial leadership has been instrumental in the establishment of many well-known international telecommunication and broadcasting companies such as Hutchison Telecom, Orange, AsiaSat, STAR TV, Metro Radio, and mobile telecommunication businesses in Hong Kong, Italy, India, Japan and Madagascar led by Distacom.

Lim Shyang Guey, 53, Executive Director, was appointed in October 1999. Prior to coming to Hong Kong, Mr. Lim gained wide-ranging international exposure in the telecommunications and technology-related industries, including in New Zealand, Russia, Malaysia and Singapore. Mr. Lim holds a Bachelor of Engineering degree and a Master of Engineering degree, both from the University of Auckland in New Zealand.

William Bruce Hicks, 51, Non-executive Director, was appointed in December 2001. He is currently a founder of TPIZ Resources Limited, a Hong Kong-based firm which invests in and develops renewable energy projects in China. Mr. Hicks has been a director of various Distacom Group companies since 1994. Prior to that, Mr. Hicks worked at Hutchison Telecom in Hong Kong and Motorola, Inc. in the United States. He holds a B.S.E.E. degree from Michigan Technological University and an M.B.A. from the International Institute for Management Development (IMD) in Switzerland.

Jennifer Wes Saran, 57, Non-executive Director, was appointed in December 2011. She was a pioneer for women in the telecommunications industry. Since 1978 and for over 16 years, she took leading roles in managing sales to Fortune 100 clients in the U.S., to running the communications sector sales in the Philippines. Subsequently, Mrs. Saran launched Motorola's regulatory lobbying effort across 23 countries in Asia Pacific in spectrum allocation and telecommunications policy in emerging markets. She has also managed Teleglobe Canada's business development in North and Southeast Asia, and run her own IDD brokerage business. Currently, she is a co-founder of the Mind Group executive recruitment group operating across India, Hong Kong and Singapore. Mrs. Saran is a graduate in Political Science and International Law from the American University in Cairo.

John William Crawford J.P., 70, Independent Non-executive Director, was appointed in September 2004. He is also an independent non-executive director of Titan Petrochemicals Group Limited and Regal Portfolio Management Limited (being the manager of Regal Real Estate Investment Trust) as well as Entertainment Gaming Asia Inc. He was a founding partner of Ernst & Young, Hong Kong and vice chairman of the firm. Since his retirement from accounting practice, Mr. Crawford has been particularly involved in the education sector, including setting up international schools and providing consulting services. He is also actively involved in various community service areas such as being a founding member of UNICEF Hong Kong Committee and the Hong Kong Institute of Directors. In 1997, he was appointed a Justice of the Peace.

Gerald Clive Dobby, 73, Independent Non-executive Director, was appointed in December 2005. Mr. Dobby, previously held senior positions within the HSBC Group, is currently a director of several companies in Hong Kong and overseas.

Shane Frederick Weir, 58, Independent Non-executive Director, was appointed in August 2001. He is also an independent non-executive director of CIBT Education Group, Inc. and was appointed as an independent non-executive director of Titan Petrochemicals Group Limited since 29 June 2012. Mr. Weir is a qualified solicitor and consultant with Weir & Associates, Solicitors & Notaries. He has practiced in Hong Kong since 1985, including several years as an associate with Phillips & Vineberg. Mr. Weir is qualified as a solicitor, barrister, and notary public in Canada and a solicitor in the United Kingdom and Hong Kong.

Senior Management

Wong Wei Kit Anthony, 60, Chief Financial Officer, joined the Company in January 2009. Mr. Wong has more than 20 years of experience in managing telecommunications, media and technology projects. He was previously the Group Finance Director of Hutchison Telecommunications, where he led the M&A team to start up joint ventures and investment projects. Mr. Wong is a Canadian Chartered Accountant and has worked for Deloitte Touche in Vancouver and PricewaterhouseCoopers in Hong Kong. He received a Bachelor Degree in Business and Economics at Simon Fraser University, British Columbia, Canada.

Lau Wai Ming Raymond, 42, Legal Counsel and Company Secretary, joined the Company in June 2000. Mr. Lau is qualified as a solicitor in Hong Kong. Prior to joining the Company, he was acting as the legal counsel to a group of companies listed on the Hong Kong Stock Exchange. Mr. Lau graduated from the University of Hong Kong with LL.B., and holds a Certificate in Civil and Commercial Law issued by the China University of Political Science and Law.

Introduction

The directors of the Company are committed to maintaining high standards of corporate governance in performing their obligations to act in the best interests of shareholders and enhance long term shareholder value.

The board of directors (the "Board") of the Company, prior to 2005, established written corporate policies that provide a framework and guidelines for its members so they are able to perform their respective duties in an efficient and consistent manner, whereby corporate governance practices of the Company are strengthened, the corporate image is improved and the confidence of shareholders, regulators and the public can be assured.

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices ("Former Corporate Governance Code") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which was effective until 31 March 2012 and the Corporate Governance Code ("Corporate Governance Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") which became effective from 1 April 2012. The Board has amended the written corporate policies of the Company and taken other necessary steps to align with the Listing Rules as well as all code provisions and certain recommended best practices in the Former Corporate Governance Code and the Corporate Governance Code. The Board reviews these written corporate policies regularly and is committed to continuously improving the practices and ensuring an ethical corporate culture is maintained.

Board of directors

The Board is collectively responsible for all businesses and affairs of the Company. Pursuant to the Company's Bye-laws, the Board has delegated the day-to-day management of the Company's business to executive directors and focuses its attention on overall strategic matters relating to policies, finance and shareholding issues, while matters such as determining mechanisms for setting the Group's remuneration structure and policies and approving the annual remuneration and incentive plans of the Group are delegated to the Remuneration Committee.

As at 31 December 2012, the Board was comprised of two executive directors, namely, Mr. Richard John Siemens and Mr. Lim Shyang Guey, two non-executive directors, Mr. William Bruce Hicks and Mrs. Jennifer Wes Saran, and three independent non-executive directors, namely, Mr. John William Crawford J.P., Mr. Gerald Clive Dobby and Mr. Shane Frederick Weir. Mr. Siemens is the Chairman of the Company.

Except for the deviation described below, no director of the Company is aware of any information which would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2012, acting in compliance with the Former Corporate Governance Code and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Code provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual so that the responsibilities are not concentrated with any one person. The Company has, as part of its written corporate policies, established and recorded in writing the respective responsibilities of the Chairman and the chief executive (being undertaken by the Managing Director) of the Company, in which it is specified that the Chairman is responsible for providing leadership to and effective running of the Board, while the Managing Director is delegated with the authority and responsibility for overseeing the realisation of the budgets and objectives set by the Board. Nevertheless, with the unanimous approval of the Board, Mr. Richard John Siemens, the Chairman, has also assumed the role of the chief executive of the Company since 16 June 2007. The Board from time to time re-assesses the possible negative impact of the Company deviating from the Corporate Governance Code A.2.1, and believes that vesting the roles of both chairman and chief executive in the same person enables corporate planning and directing execution of business plans and growth strategies to be more effective. At the same time, it is believed that the balance of power and authority is adequately ensured by an effective Board which is comprised of experienced and high calibre individuals with a sufficient number thereof being independent non-executive directors.

Induction and continuous professional development of directors

Each newly appointed director receives induction on the first occasion of his / her appointment, so as to ensure that he / she has appropriate understanding of the business and operations of the Company and that he / she is fully aware of his / her responsibilities and obligations under the Listing Rules, the Corporate Governance Code and other applicable regulatory requirements.

There are also arrangements in place in respect of providing continuing professional development to directors as necessary in order to facilitate the performance of their duties. During the year, directors are provided with monthly updates on the Group's business development, performance and position to enable directors to effectively discharge their duties in an informed manner. The company secretary of the Company organised an in-house training to directors on applicable Listing Rules. Furthermore, the company secretary also distributed various reading materials to directors to update directors on the amendments to the relevant laws, rules and regulations to develop and refresh their professional skills. All directors are also encouraged to attend external training courses at the Company's expenses.

According to the records maintained by the Company, the training record of each director for the year ended 31 December 2012 is set out below.

Name of Director	Attending Seminar or Briefings / Perusal of Materials in relation to Business or Directors' Duties
Richard John Siemens	Yes
Lim Shyang Guey	Yes
William Bruce Hicks	Yes
Jennifer Wes Saran	Yes
John William Crawford J.P.	Yes
Gerald Clive Dobby	Yes
Shane Frederick Weir	Yes

Company secretary

The company secretary reports directly to the Chairman of the Company and supports the Board and each committee to ensure proper policy and procedures are followed. The company secretary also provides directors with updates on the Listing Rules and other applicable regulatory requirements to refresh and reinforce director's awareness of developments in maintaining strong corporate governance. The company secretary is an employee of the Company.

Board meetings

The Board meets regularly and on those occasions when a Board decision is required for major issues. Members of the Board are provided with adequate and timely information prior to Board meetings to ensure that the directors can make informed decisions when fulfilling their responsibilities. During the year under review, the Board held four meetings and the average attendance rate at the meetings in 2012 was 100% as set out below.

Name of Director	Attendance / Number of Board Meetings in 2012	Attendance Rate
Richard John Siemens *(Chairman)*	4 / 4	100%
Lim Shyang Guey	4 / 4	100%
William Bruce Hicks	4 / 4	100%
Jennifer Wes Saran	4 / 4	100%
John William Crawford J.P.	4 / 4	100%
Gerald Clive Dobby	4 / 4	100%
Shane Frederick Weir	4 / 4	100%

On those occasions where it was not practical to convene physical meetings, in lieu thereof, written resolutions of the Board together with full copies of related documents were circulated to all directors for consideration and approval. All such written resolutions were approved by all directors unanimously.

Minutes of meetings and written resolutions of the Board as well as its committees are kept by the company secretary and such records are available for inspection by directors at all reasonable times.

Appointment and re-election

All non-executive directors are appointed for specific terms and upon expiry thereof, the terms are renewable for fixed terms of three years provided that either party may terminate such appointment by giving to the other party not less than one month's notice in writing. All directors, including executive and non-executive directors, retire from office by rotation and are eligible for re-election at annual general meetings.

In accordance with the Company's Bye-laws, not less than one-third of the directors for the time being will retire from office by rotation, provided that every director shall be subject to retirement by rotation at least once every three years at each annual general meeting. Any director appointed to fill a casual vacancy on the Board or as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Messrs. Lim Shyang Guey, Gerald Clive Dobby and Shane Frederick Weir will retire by rotation at the forthcoming annual general meeting and are eligible for re-election.

Board committees

The Board has delegated certain powers, authorities and discretion to a number of Board committees consisting of such directors and members of senior management as it deems appropriate. Such committees act in conformity with the guidelines and regulations (where applicable) as provided in the code provisions in the Former Corporate Governance Code and the Corporate Governance Code and the written corporate policies as promulgated by the Board, and in fulfilment of the purposes for which the committees were appointed.

Executive Management Committee

The Executive Management Committee is currently comprised of the two executive directors, the chief financial officer and the company secretary. The committee is principally responsible for directing, planning and managing the Group's businesses and operations, formulating strategies and policies for the consideration of the Board and implementing the same to best achieve the Group's overall business objectives in an effective and efficient manner.

The committee meets regularly to review the Group's business performance with the senior management of each operation within the Group. Ad hoc meetings are also held on an as-needed basis and the committee members are also engaged in frequent informal discussions. In 2012, ten formal meetings were held and the attendance record is set out below.

Name of Director / Officer	Attendance / Number of Executive Management Committee Meetings in 2012	Attendance Rate
Richard John Siemens *(Chairman of the Committee)*	10 / 10	100%
Lim Shyang Guey	10 / 10	100%
Wong Wei Kit Anthony	9 / 10	90%
Lau Wai Ming Raymond	10 / 10	100%

Audit Committee

The Audit Committee was established on 29 September 1999 by the Board and comprises three Board members, all of whom are independent non-executive directors. A set of written terms of reference, which describes the authority and duties of the committee as well as proceedings of its meetings, is based on the recommendations as set out in "A Guide For Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants in February 2002. These terms of reference were adopted by the Board in the past and subsequently revised in accordance with both the Former Corporate Governance Code and the Corporate Governance Code, which terms of reference are incorporated in the written corporate policies of the Company. The terms of reference and related written corporate policies of the Company are under regular review by the committee and the Board to ensure alignment with the Corporate Governance Code and best market practices.

The committee's principal role is to review the quality and fairness of the financial reports of the Company and consider the nature and scope of audit reviews. It also assesses the effectiveness of the accounting, financial and internal control systems of the Group.

The committee is granted the authority to conduct or authorise investigations into any activities within its terms of reference.

In 2012, two meetings were held to review and make recommendation to the Board on the consolidated financial statements of the Group for the interim and annual results, and, in particular, assess any changes in accounting policies and practices, major judgmental areas and compliance with applicable legal and accounting requirements and standards, and other matters such as assessing internal control systems. The committee also reviewed, with management and the auditor of the Company, the accounting principles and practices adopted by the Group and discussed / assessed all key auditing, internal controls and financial reporting matters, including a review of the interim consolidated financial statements of the Group for the six months ended 30 June 2012 and the audited consolidated financial statements of the Group for the year ended 31 December 2012.

The attendance rate at the meetings in 2012 was 100% as set out below. As deemed necessary by the committee, the external auditor and executive officers of the Company attended the meetings to answer any questions raised. Full minutes of the meetings were recorded and submitted to the Board for its information and review. In addition, several ad hoc meetings were held during the year with management of the Company to discuss accounting, reporting and other issues.

Name of Director	**Attendance / Number of Audit Committee Meetings in 2012**	**Attendance Rate**
John William Crawford J.P. *(Chairman of the Committee)*	2 / 2	100%
Gerald Clive Dobby	2 / 2	100%
Shane Frederick Weir	2 / 2	100%

The Company's external auditor carried out, in the course of the statutory audit process, a review of the effectiveness of the Company's material internal financial controls to the scope laid out in their audit plans. Any non-compliance matters and internal control weaknesses noted during the audit and the auditor's recommendations thereon were reported to and dealt with by the committee.

Remuneration Committee

The Remuneration Committee was established on 18 December 2001 and the composition of the Remuneration Committee was changed on 27 March 2012 in compliance with Rule 3.25 of the Listing Rules that requires the committee to be chaired by an independent non-executive director. Accordingly, the Remuneration Committee is now comprised of Mr. Shane Frederick Weir as the Chairman of the committee and Mr. John William Crawford J.P., both independent non-executive directors, and Mr. Richard John Siemens, the Chairman of the Board. Mr. Lim Shyang Guey, another executive director, is the alternate member for Mr. Richard John Siemens. A set of written terms of reference, which describes the authority and duties of the committee as well as proceedings of its meetings, was adopted by the Board in accordance with both the Former Corporate Governance Code and the Corporate Governance Code, which terms of reference are incorporated in the written corporate policies of the Company. Such terms of reference and related written corporate policies of the Company are under regular review by the Board to ensure alignment with the Corporate Governance Code and best market practices.

The committee is responsible for determining mechanisms for setting the Group's remuneration structure and policies with reference to fair and objective standards, approving the annual remuneration and incentive plans of the Group and, in particular, determining with delegated responsibility, the remuneration packages of individual executive directors and senior management, reviewing and approving management's remuneration proposals with reference to corporate goals and objectives and dealing with such other matters relating to remuneration issues as directed by the Board. During the year under review, one meeting was held and the attendance rate was 100% as set out below.

Name of Director	**Attendance / Number of Remuneration Committee Meetings in 2012**	**Attendance Rate**
Shane Frederick Weir* *(Chairman of the Committee)*	1 / 1	100%
Richard John Siemens	1 / 1	100%
John William Crawford J.P.	1 / 1	100%

* *Appointed as the Chairman of the Committee on 27 March 2012 in place of Mr. Richard John Siemens. Mr. Siemens remains as a member of the Committee.*

Nomination Committee

The Nomination Committee was formulated on 9 December 2011 by the Board and comprises Mr. Richard John Siemens as the Chairman of the committee, together with Mr. John William Crawford J.P. and Mr. Gerald Clive Dobby, both independent non-executive directors. A set of written terms of reference, which describes the authority and duties of the committee as well as proceedings of its meetings, was adopted by the Board in accordance with both the Former Corporate Governance Code and the Corporate Governance Code, which terms of reference are incorporated in the written corporate policies of the Company. Such terms of reference and related written corporate policies of the Company are under regular review by the Board to ensure alignment with the Corporate Governance Code and best market practices.

The committee is responsible for identifying, recruiting and evaluating new nominees to the Board and the assessment of the qualifications of all directors. The criteria adopted to select and recommend candidates for directorship include the candidate's experience, professional knowledge, integrity, time commitment and other statutory or regulatory requirements, together with addressing and dealing with such other matters relating to nominations as directed by the Board from time to time. During the year under review, one meeting was held and the attendance rate was 100% as set out below.

Name of Director	Attendance / Number of Nomination Committee Meetings in 2012	Attendance Rate
Richard John Siemens *(Chairman of the Committee)*	1 / 1	100%
John William Crawford J.P.	1 / 1	100%
Gerald Clive Dobby	1 / 1	100%

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties including (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Annual General Meeting

The 2012 Annual General Meeting of the Company was held on 16 May 2012. All directors and the auditor of the Company attended the meeting. In 2011, the Board adopted the shareholders communication policy to ensure that shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company and to allow shareholders and investors to engage actively with the Company.

Directors' responsibility for the consolidated financial statements

The directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2012 that give a true and fair view of the state of affairs of the Group in accordance with the statutory requirements and applicable reporting standards.

The statement of the auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out on page 29 under the section titled "Independent Auditor's Report".

Internal controls

The Board has overall responsibility for maintaining the Group's internal control systems and reviewing their effectiveness. The internal control systems of the Group are designed to provide reasonable assurance against material misstatements or losses, to manage the risks of system failures, and to assist in the achievement of the Group's goals. The systems are also structured to safeguard the Group's assets, to ensure the maintenance of proper accounting records, adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and compliance with applicable laws, rules and regulations.

The Board considers that it is a continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever-changing business environment and regulatory framework. A review of the Group's internal control systems is conducted annually by the Audit Committee in conjunction with work undertaken by the auditor of the Company. As part of an on-going process for identifying, evaluating and managing material risks faced by the Group, the Company conducts regular reviews of material business processes and procedures in the Group's operations. The Board considers that the Group's internal control systems are reasonably implemented. Nevertheless, the Group will continue the process of reviewing the effectiveness of the internal control systems, focusing on specific business processes and will consider, if deemed necessary in future, to set up an internal audit department to assist in fulfilling the objectives of the process.

Directors and officers liability insurance

The Company has arranged for appropriate liability insurance to indemnify directors and officers of the Group against their liabilities in respect of, among others, legal actions against them and arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

Model code for securities transactions by directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), as set out in Appendix 10 to the Listing Rules, as its own securities code. All directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code throughout the year ended 31 December 2012.

Auditors' remuneration

For the year ended 31 December 2012, the remuneration payable to the auditors of the Group (including 50% of such remuneration payable by the jointly-controlled entities) amounted to approximately HK$2,360,000, of which HK$2,284,000 related to audit services and HK$76,000 to taxation and other non-audit services.

Shareholders' rights

The Company endeavours to ensure equality among all shareholders, especially minority shareholders so that they can fully exercise their rights and undertake their obligations, and to ensure that shareholders are informed and able to participate in the important matters of the Company by establishing effective channels for the Company to communicate with its shareholders. The Company complies strictly with the relevant requirements in respect of voting matters and voting procedures so as to safeguard the legal interests of the Company and its shareholders. The Company encourages its shareholders to participate in general meetings and express their opinions at such meetings.

Shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the right to vote at general meetings may deposit a written requisition to convene an extraordinary general meeting ("EGM") with the Company at its principal place of business at 3705 Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong and marked for the attention of the Board of directors or the company secretary.

The written requisition must state the objects of the meeting, signed by the shareholder(s) concerned and may consist of one or more documents in like form, each signed by one or more of those shareholders.

The written requisition will be verified by the Company's share registrar and upon confirmation that the written requisition is proper and in order, the company secretary will request the Board to convene an EGM by serving a proper meeting notice in compliance with all applicable legal and regulatory requirements to all registered shareholders of the Company.

Procedures for a Shareholder to Propose a Person for Election as a Director

In accordance with the Bye-laws of the Company, a shareholder may propose a person for election as a director of the Company at any general meeting by lodging the following documents at the principal place of business of the Company at 3705 Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong and marked for the attention of the Board of directors or the company secretary, or at its Branch Share Registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong:

1. A notice in writing signed by a shareholder (other than the person to be proposed) of the intention to propose that person for election as a director; and

2. A notice in writing signed by that person of his willingness to be elected as a director including that person's biographical details as required by Rule 13.51(2) of the Listing Rules.

The period available for lodgement of the aforesaid notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Report of Directors

The board of directors (the "Board") of the Company herein presents its report and the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012.

Principal activities

The principal activity of the Company is investment holding.

The Group currently has a portfolio of business interests in the telecommunications and information technology sector in the United States, China, Hong Kong and Singapore. The Group's turnover during the financial year consisted primarily of revenue generated from these operations. Contemporaneously, the Group is actively pursuing other opportunities that are complementary to its existing operations or have high growth potential, ability to generate healthy cashflows and capabilities to produce optimum returns on capital.

In the United States, ANZ Communications LLC ("ANZ") is a holding company owned as to 50% by Zone USA, Inc., a wholly-owned subsidiary of the Company, with the balance beneficially owned by approximately 130 Rural Local Exchange Carriers (RLECs). ANZ, through its Federal Communications Commission (FCC)-licensed operating subsidiaries ANPI, LLC and ANPI Business, LLC, provides a variety of voice and data telecommunication services to RLECs, competitive local exchange carriers (CLECs), inter-exchange carriers (IXCs), as well as corporate enterprise and residential customers throughout the U.S. (*www.anpi.com*). ANZ's network includes voice and data switching facilities and a SONET-based network spanning cities such as Atlanta, Chicago, Dallas, New York City, Las Vegas and Los Angeles. The Company's Network Operations Center is located in Frisco, Texas near Dallas.

In Hong Kong, ZONE Limited ("ZONE Hong Kong"), a wholly-owned subsidiary of the Company, is a telecommunication service provider licensed by the Communications Authority of Hong Kong. ZONE Hong Kong specialises in offering telecom and IT-related services and solutions. Founded in 1999, ZONE Hong Kong has evolved over the years from an International Long Distance (IDD) service provider (*www.zone1511.com*) into a technology partner servicing both SMEs and large corporations as well as carriers (*www.zonetel.com*). ZONE Hong Kong also offers to customers, in addition to IDD services and a range of value-added services, an array of products and services including IP telephony (consultancy, implementation, Hong Kong call origination and international termination), telecom connectivity hardware, a customer relationship management system (ZONE CRM) and various enterprise and carrier-grade telecommunications facilities.

In China, 深圳盈港科技有限公司 ("ZONE China"), a wholly-owned subsidiary of the Company, is engaged in marketing and reselling voice and data products and services of China Mobile (中國移動) and China Telecom (中國電信) group companies in Shenzhen, serving cross-border telecommunication needs of customers in Hong Kong and overseas.

In Singapore, ZONE Telecom Pte Ltd ("ZONE Singapore"), a wholly-owned subsidiary of the Company, is an info-communication service provider licensed by the Infocomm Development Authority of Singapore. ZONE Singapore offers, in addition to IDD and other value-added services (*www.zone1511.com.sg*), broadband connectivity, and a comprehensive suite of data services and solutions to business organisations and residential customers (*www.zonetel.com.sg*) as well as domain name registration, web design and hosting and email hosting services through its subsidiary Cybersite Services Pte Ltd (*www.cybersite.com.sg*).

Descriptions of the activities of other principal subsidiaries of the Company are set out in note 17 to the consolidated financial statements.

Segmental information

Analyses of the Group's segmental information by business and geographical segments for the year ended 31 December 2012 are set out in note 36 to the consolidated financial statements.

Results and dividends

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 31.

The Board does not recommend payment of a dividend for the year ended 31 December 2012 (2011: Nil).

Group financial summary

A summary of results, assets and liabilities of the Group for the last five financial years is set out on page 93.

Major customers and suppliers

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 13.7% of total turnover for the year, and sales to the largest customer included therein amounted to approximately 4.7%.

The aggregate purchases attributable to the five largest suppliers of the Group accounted for approximately 45.2% of total purchases of the Group for the year, and purchases from the largest supplier included therein amounted to approximately 14.4%.

At no time during the year have the directors of the Company, their associates or those shareholders which, to the knowledge of the directors of the Company, owned more than 5% of the Company's share capital, had any interests in any of the five largest customers or suppliers.

Property, plant and equipment

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the consolidated financial statements.

Board of directors

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

Executive Directors:

Richard John Siemens *(Chairman)*
Lim Shyang Guey

Non-executive Directors:

William Bruce Hicks
Jennifer Wes Saran

Independent Non-executive Directors:

John William Crawford J.P.
Gerald Clive Dobby
Shane Frederick Weir

Biographical details of directors of the Company are set out on page 11 under the section titled "Board of Directors and Senior Management".

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company considers such directors to be independent.

In accordance with bye-law 87 of the Company's Bye-laws, Mr. Lim Shyang Guey, Mr. Gerald Clive Dobby and Mr. Shane Frederick Weir will retire by rotation at the forthcoming annual general meeting and are eligible for re-election.

Directors' interests in securities

As at 31 December 2012, the interests and short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, the "SFO") as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company or The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules are set out below.

Name of director	Capacity	Number of Shares* held	Approximate percentage of shareholding
Richard John Siemens	Held by controlled corporations	126,240,200 *(Note 1)*	24.2%
Jennifer Wes Saran	Personal	1,841,200	0.4%
	Held by controlled corporations	74,676,461 *(Note 2)*	14.3%
William Bruce Hicks	Personal	3,949,914	0.8%
	Held by a controlled corporation	67,962,428 *(Note 3)*	13.0%
Lim Shyang Guey	Personal	3,930,000	0.8%
Shane Frederick Weir	Personal	10,000	0.0%

* *"Shares" means ordinary shares of HK$0.01 each in the share capital of the Company.*

Notes:

1. *26,040,000 Shares are beneficially owned by Siemens Enterprises Limited and 100,200,200 Shares are beneficially owned by Goldstone Trading Limited, both companies controlled by Mr. Richard John Siemens.*

2. *74,676,461 Shares are held by Future (Holdings) Limited which is controlled by Ganado Investments Corporation Ltd. which, in turn, is controlled by Mrs. Jennifer Wes Saran.*

3. *67,962,428 Shares are beneficially owned by Great Wall Holdings Limited, a company controlled by Mr. William Bruce Hicks.*

All interests disclosed above represent long positions in the shares of the Company and there were no underlying shares held by the directors as at 31 December 2012.

Save as disclosed above, as at 31 December 2012, none of the directors or the chief executive of the Company (including their spouses and children under the age of 18) had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangement to enable directors to acquire shares or debentures

Apart from the share option scheme adopted by the Company on 28 June 2002, which no share options have ever been granted pursuant thereto, and has ceased to be valid or effective since 28 June 2012, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable any director or the chief executive of the Company to acquire benefits, by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors, the chief executive of the Company nor any of their spouses or children under the age of 18 had any interests in, or had been granted, any rights to subscribe for shares in or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights during the year.

Directors' service contracts

The service contracts with all non-executive directors, including the independent non-executive directors, will expire on 31 December 2014 or, in the case of Mrs. Jennifer Wes Saran and Mr. Gerald Clive Dobby, on 31 December 2015 and thereafter are renewable for fixed terms of three years provided that either party may terminate the appointment by giving to the other party not less than one month's notice in writing.

As at 31 December 2012, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

Directors' interests in contracts of significance

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

Substantial shareholders

As at 31 December 2012, the interests and short positions of the persons, other than the directors or the chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, are set out below.

Name of shareholder	Number of Shares* held	Approximate percentage of shareholding
Goldstone Trading Limited	100,200,200	19.2%
Future (Holdings) Limited	74,676,461	14.3%
Ganado Investments Corporation Ltd.	74,676,461	14.3%
Great Wall Holdings Limited	67,962,428	13.0%
Siemens Enterprises Limited	26,040,000	5.0%

* *"Shares" means ordinary shares of HK$0.01 each in the share capital of the Company.*

The above interests represent the same interests as the corporate interests of Mr. Richard John Siemens (being held through Goldstone Trading Limited and Siemens Enterprises Limited), Mrs. Jennifer Wes Saran (being held through Future (Holdings) Limited and Ganado Investments Corporation Ltd.) and Mr. William Bruce Hicks (being held through Great Wall Holdings Limited).

All interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, as at 31 December 2012, the Company was not notified of any persons, other than the directors and the chief executive of the Company, having any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company.

Share capital

Details of movements in the Company's share capital during the year are set out in note 27 to the consolidated financial statements.

Share option scheme

Details of the share option scheme of the Company and rules and procedures for share option schemes of subsidiaries of the Company are set out in note 28 to the consolidated financial statements.

Particulars of principal subsidiaries

Particulars regarding the principal subsidiaries of the Company are set out in note 17 to the consolidated financial statements.

Liquidity

As at 31 December 2012, the Group managed to maintain stable liquidity with cash and cash equivalents (including pledged bank deposits) of approximately HK$200.6 million (2011: HK$124.2 million).

Bank borrowings

As at 31 December 2012, the bank borrowings of the Group amounted to approximately HK$85.7 million (2011: Nil).

Retirement benefit schemes

Details of the retirement benefit schemes operated by the Group are set out in note 2 to the consolidated financial statements.

Remuneration policies and employee relations

As at 31 December 2012, altogether 141 employees, comprising the headcount of the Group of 89 and half of the headcount of ANZ of 52, (2011: 128) were engaged in the Group's operations in the United States, China, Hong Kong and Singapore. The Group's total staff costs for 2012 were HK$81.8 million (2011: HK$63.2 million; or HK$76.8 million from its continuing and discontinued operations). The Group maintains good relationships with its employees and none are represented by a labour union.

The Group's remuneration policies are formulated on the basis of the performance and experience of individual employees and are in line with local market practices where the Group operates. The Group has established incentive bonus schemes to motivate and reward employees at all levels to achieve its objectives. In addition to salary and bonus payments, the Group also offers other fringe benefits, including provident fund and medical benefits, to its employees.

Purchase, sale or redemption of the Company's listed securities

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

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda although there are no restrictions against such rights under such laws.

Public float

Based on information that is publicly available to the Company and to the best knowledge and belief of the directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued share capital as required under the Listing Rules.

Auditor

The financial statements of the Company for the year ended 31 December 2012 have been audited by Mazars CPA Limited, *Certified Public Accountants*.

A resolution will be submitted to the annual general meeting to re-appoint Mazars CPA Limited as auditor of the Company.

Environmental awareness

Over the years, the Group has made considerable endeavours in reducing waste in the course of its operations. Since 2008, the Company has participated in the "Wastewi$e Label" of the Hong Kong Awards for Environmental Excellence, which is a recognition scheme established by, among others, the Environmental Protection Department and Environmental Campaign Committee to encourage Hong Kong businesses and organisations in adopting structured measures to reduce the amount of waste generated within their establishments or generated through the services and products they provide. The Company has been awarded with the "Class of Excellence" Wastewi$e Label for five consecutive years.

By Order of the Board

Lau Wai Ming Raymond
Company Secretary

26 March 2013

MAZARS

MAZARS CPA LIMITED
瑪澤會計師事務所有限公司
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To the members of

e-Kong Group Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of e-Kong Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 92, which comprise the consolidated and the Company's statements of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda (as amended), 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 HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

MAZARS

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

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

OPINION

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

Mazars CPA Limited
Certified Public Accountants

Hong Kong, 26 March 2013

Weatherseed, Stephen Peter Stuart
Practising Certificate number: P05588

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CONTINUING OPERATIONS			
Turnover	3	**554,689**	474,606
Cost of sales		**(392,210)**	(351,472)
Gross profit		**162,479**	123,134
Other revenue and income	4	**2,971**	1,626
		165,450	124,760
Selling and distribution expenses		**(31,122)**	(22,182)
Business promotion and marketing expenses		**(5,707)**	(3,215)
Operating and administrative expenses		**(110,087)**	(93,010)
Other operating expenses		**(18,889)**	(15,403)
Loss from operations		**(355)**	(9,050)
Finance costs	5(a)	**(236)**	(132)
Share of results of an associate	18	**39**	84
Loss before taxation		**(552)**	(9,098)
Taxation	7		
Current tax		**(761)**	(452)
Deferred tax		**(12,442)**	(3,696)
		(13,203)	(4,148)
Loss for the year from continuing operations		**(13,755)**	(13,246)
DISCONTINUED OPERATION	8		
Profit for the year from discontinued operation		**–**	29,313
(Loss) / Profit for the year	5	**(13,755)**	16,067

Consolidated Income Statement (continued)

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
(Loss) / Profit for the year attributable to:			
Equity holders of the Company	9		
Continuing operations		**(12,851)**	(12,485)
Discontinued operation		**–**	29,313
		(12,851)	16,828
Non-controlling interests			
Continuing operations		**(904)**	(761)
(Loss) / Profit for the year		**(13,755)**	16,067
EBITDA	10		
Continuing operations		**15,077**	2,554
Discontinued operation		**–**	(2,161)
		15,077	393
		HK cents	*HK cents*
(Loss) / Earnings per share	12		
Basic and diluted			
Continuing operations		**(2.5)**	(2.4)
Discontinued operation		**–**	5.6
Continuing and discontinued operations		**(2.5)**	3.2

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 *HK$'000*	2011 *HK$'000*
(Loss) / Profit for the year	**(13,755)**	16,067
Other comprehensive (loss) / income for the year		
Released from exchange reserve upon disposal of subsidiary	**–**	(939)
Exchange differences on translation of foreign subsidiaries	**920**	(535)
Total comprehensive (loss) / income for the year	**(12,835)**	14,593
Total comprehensive (loss) / income for the year attributable to:		
Equity holders of the Company		
Continuing operations	**(11,931)**	(13,020)
Discontinued operation	**–**	28,374
	(11,931)	15,354
Non-controlling interests		
Continuing operations	**(904)**	(761)
Total comprehensive (loss) / income for the year	**(12,835)**	14,593

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	13	**35,208**	31,495
Intangible assets	14	**34,505**	20,985
Goodwill	15	**33,441**	33,527
Interests in an associate	18	**917**	924
Deferred tax assets	26	**145**	12,453
		104,216	99,384
Current assets			
Inventories	19	**1,723**	1,454
Trade and other receivables	20	**76,167**	81,627
Pledged bank deposits	21	**79,454**	2,316
Cash and bank balances	22	**121,186**	121,866
		278,530	207,263
Current liabilities			
Trade and other payables	23	**81,895**	78,444
Current portion of bank borrowings	24	**3,069**	–
Current portion of obligations under finance leases	25	**62**	826
Taxation payable		**416**	1,374
		85,442	80,644
Net current assets		**193,088**	126,619
Total assets less current liabilities		**297,304**	226,003
Non-current liabilities			
Deferred revenue		**634**	–
Bank borrowings	24	**82,615**	–
Obligations under finance leases	25	**–**	62
Deferred tax liabilities	26	**533**	348
		83,782	410
NET ASSETS		**213,522**	225,593
Capital and reserves			
Share capital	27	**5,210**	5,210
Reserves	29	**209,282**	221,213
Equity attributable to equity holders of the Company		**214,492**	226,423
Non-controlling interests	29	**(970)**	(830)
TOTAL EQUITY		**213,522**	225,593

Approved and authorised for issue by the Board of Directors on 26 March 2013

Richard John Siemens
Director

Lim Shyang Guey
Director

Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	13	**2,183**	2,233
Interests in subsidiaries	17	**92,492**	165,202
		94,675	167,435
Current assets			
Trade and other receivables	20	**3,690**	27,189
Pledged bank deposits	21	**77,778**	915
Cash and bank balances	22	**39,370**	31,946
		120,838	60,050
Current liabilities			
Trade and other payables	23	**1,983**	2,091
Net current assets		**118,855**	57,959
NET ASSETS		**213,530**	225,394
Capital and reserves			
Share capital	27	**5,210**	5,210
Reserves	29	**208,320**	220,184
TOTAL EQUITY		**213,530**	225,394

Approved and authorised for issue by the Board of Directors on 26 March 2013

Richard John Siemens
Director

Lim Shyang Guey
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to equity holders of the Company										
	Share capital	Share premium	Exchange reserve	Capital redemption reserve	Capital reserve	Share repurchase reserve	Contributed surplus	Accumulated profits	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2011	5,229	68,341	4,278	6	(63)	(247)	83,489	50,987	212,020	–	212,020
Profit for the year	–	–	–	–	–	–	–	16,828	16,828	(761)	16,067
Other comprehensive loss for the year											
Released from exchange reserve upon disposal of subsidiary	–	–	(939)	–	–	–	–	–	(939)	–	(939)
Exchange differences on translation of foreign subsidiaries	–	–	(535)	–	–	–	–	–	(535)	–	(535)
Total comprehensive income / (loss) for the year	–	–	(1,474)	–	–	–	–	16,828	15,354	(761)	14,593
Transactions with equity holders of the Company											
Repurchase of own shares for cancellation *(note 27(b))*	(19)	(1,248)	–	19	–	247	–	(19)	(1,020)	–	(1,020)
Deemed partial disposal of a subsidiary	–	–	–	–	69	–	–	–	69	(69)	–
Total transactions with equity holders of the Company	(19)	(1,248)	–	19	69	247	–	(19)	(951)	(69)	(1,020)
As at 31 December 2011	5,210	67,093	2,804	25	6	–	83,489	67,796	226,423	(830)	225,593
Loss for the year	–	–	–	–	–	–	–	(12,851)	(12,851)	(904)	(13,755)
Other comprehensive income for the year											
Exchange differences on translation of foreign subsidiaries	–	–	920	–	–	–	–	–	920	–	920
Total comprehensive income / (loss) for the year	–	–	920	–	–	–	–	(12,851)	(11,931)	(904)	(12,835)
Transaction with equity holders of the Company											
Arising from acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	764	764
Total transaction with equity holders of the Company	–	–	–	–	–	–	–	–	–	764	764
As at 31 December 2012	**5,210**	**67,093**	**3,724**	**25**	**6**	**–**	**83,489**	**54,945**	**214,492**	**(970)**	**213,522**

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES			
Cash generated from / (used in) operations	30	**25,206**	(21,109)
Income taxes paid		**(1,823)**	(883)
Interest received		**510**	624
Interest paid		**(218)**	(1,327)
Interest on obligations under finance leases		**(18)**	(115)
Net cash generated from / (used in) operating activities		**23,657**	(22,810)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(16,368)**	(5,648)
Purchase of intangible assets		**(17,189)**	–
Proceeds from disposal of property, plant and equipment		**13**	10
(Advance to) / Repayment from an associate		**(1,679)**	4,516
Placement of pledged bank deposits		**(77,056)**	–
Cash injection from non-controlling interests		**1,560**	–
Net cash outflow on disposal of subsidiary and investment in jointly-controlled entity	31	**–**	(25,911)
Net cash used in investing activities		**(110,719)**	(27,033)
FINANCING ACTIVITIES			
Shares repurchased		**–**	(1,020)
Repayment of obligations under finance leases		**(824)**	(1,577)
Proceeds from bank borrowings		**86,708**	–
Repayment of bank borrowings		**(1,024)**	–
Net cash generated from / (used in) financing activities		**84,860**	(2,597)
Net decrease in cash and cash equivalents		**(2,202)**	(52,440)
Cash and cash equivalents as at 1 January		**121,866**	174,502
Exchange gains / (losses) on cash and cash equivalents		**1,522**	(196)
Cash and cash equivalents as at 31 December	22	**121,186**	121,866

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. CORPORATE INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its ordinary shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's principal place of business is located at 3705 Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong. The principal activity of the Company is investment holding. Details of the principal subsidiaries, associate and jointly-controlled entities of the Company are disclosed in notes 17, 18 and 37 to the consolidated financial statements, respectively.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable HKFRS, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2011 consolidated financial statements. The adoption of the new and revised HKFRS that are relevant to the Group and effective from the current year had no significant effects on the results and financial position of the Group and the Company for the current and prior years. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company using consistent accounting policies.

All inter-company balances, transactions, income and expenses and profits and losses resulting from inter-company transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Non-controlling interests are presented separately in the consolidated income statement and consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity holders of the Company. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, are measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement is made on an acquisition-by-acquisition basis.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Allocation of total comprehensive income

Total comprehensive income is attributed to the equity holders of the Company and the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in ownership interests

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

When the Group loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary is recognised on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, jointly-controlled entity or other, as appropriate, from the date when control is lost.

When disposal of a subsidiary represents a contribution to a jointly-controlled entity in exchange for an equity interest in the jointly-controlled entity, only the portion of a gain or loss attributable to the equity interests of the other venturers is recognised in profit or loss for the period. The unrealised gain or loss is eliminated against the underlying assets contributed to the jointly-controlled entity under proportionate consolidation accounting method.

Subsidiaries

A subsidiary is an entity (including special purpose entities) in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses. The carrying amounts of the investments are reduced to their respective recoverable amounts on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The Group's investment in an associate is accounted for under the equity method of accounting. The consolidated income statement includes the Group's share of the post-acquisition results of the associate for the year. The consolidated statement of financial position includes the Group's share of the net assets of the associate and also goodwill. The Group discontinues recognising its share of further losses when the Group's share of losses of the associate equals or exceeds the carrying amount of its interests in the associate, which includes any long term interests that, in substance, form part of the Group's net investment in the associate.

Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Jointly-controlled entities

The Group's interests in jointly-controlled entities are accounted for by proportionate consolidation accounting method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Profits and losses resulting from the transactions between the Group with its jointly-controlled entities are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly-controlled entities that are not related to the Group.

Goodwill

Goodwill arising on an acquisition of a subsidiary is measured at the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of any previously held equity interest in the acquiree over the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed of the acquired subsidiary. Goodwill arising on an acquisition of an associate or a jointly-controlled entity is measured at the excess of the cost of an acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the acquired associate or jointly-controlled entity.

Goodwill on acquisitions of subsidiaries and jointly-controlled entities accounted for using proportionate consolidation accounting method is recognised as a separate asset. Goodwill on acquisitions of associates is included in interests in associates. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing and determination of gains or losses on disposals, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

In respect of a subsidiary, any excess of the acquisition-date amounts of identifiable assets acquired and the liabilities assumed of the acquired subsidiary over 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 interest in the acquiree, if any, after reassessment, is recognised immediately in the income statement as a bargain purchase. In respect of an associate or a jointly-controlled entity, any excess of the Group's share of its net fair value of identifiable assets and liabilities over the cost of an acquisition is recognised as income immediately.

Discontinued operation

A discontinued operation is a component of the Group that comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group. It represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when an operation is abandoned.

Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation is provided to write off the cost, net of accumulated impairment losses, of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the remaining lease terms
Machinery and equipment	20% – 33%
Office equipment, furniture and fittings	20% – 33%
Motor vehicles	20% – 33%

Assets held under finance leases are depreciated over the shorter of their expected useful lives or the terms of the leases.

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately
Intangible assets acquired separately and with finite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on the straight-line basis over the estimated useful lives which is eight years in the case of the existing intangible assets. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Research and development costs
Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The capitalised expenditure includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised as expenses in the income statement as incurred. When the asset is available for use, the capitalised development costs are amortised and subject to impairment review on the same basis as intangible assets acquired separately.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is expensed in the income statement when incurred.

Financial instruments

Recognition and derecognition
Financial assets and financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and the Group has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Classification and measurement

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

Loans and receivables

Loans and receivables including trade and other receivables, pledged bank deposits and cash and bank balances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment terms or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less any impairment loss. Amortised cost is calculated by taking into account any discounts or premiums on acquisition, over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through the income statement when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

The Group's financial liabilities include trade and other payables, bank borrowings and obligations under finance leases. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets, other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, intangible assets and investments in subsidiaries to determine whether there are any indications that such assets have suffered impairment losses or that impairment losses previously recognised no longer exist or may be reduced. If the recoverable amount of an asset is estimated to be less than its carrying amount, the latter is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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

Inventories

Inventory is stated at the lower of cost and net realisable value. Cost is calculated using the first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Revenue recognition

Consolidated revenue comprises revenue of the Company and its subsidiaries plus the Group's share of revenues of its jointly-controlled entities and excludes sales taxes and discounts.

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Income in respect of telecommunication services, insurance-related distribution services and consultancy services provided to customers is recognised when the services are rendered.

Interest income is accrued on a time proportion basis on the principal outstanding and at the effective interest rate applicable.

2. PRINCIPAL 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.

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the terms of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

Rentals payable under operating leases are recognised as an expense on the straight-line basis over the term of the relevant leases.

Lease incentives are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Share capital

Ordinary shares are classified as equity. Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental transaction costs (net of income taxes, if applicable), is deducted from equity attributable to the equity holders of the Company until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the equity holders of the Company.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

On consolidation, the financial position of entities denominated in a currency other than Hong Kong dollars, being the presentation currency, are translated at the approximate rates of exchange ruling at the end of the reporting period while the income statements are translated at average rates for the year. All exchange differences arising from the translation of an entity are recognised in other comprehensive income and accumulated separately in the exchange reserve in equity. On disposal of such entity, the related cumulative amount of the exchange differences is transferred from equity to the income statement when the gain or loss on disposal is recognised.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associate and a jointly-controlled entity except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Employee benefits

Short-term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Retirement benefit schemes

The Group, other than overseas subsidiaries (including Mainland China), operates Mandatory Provident Fund ("MPF") schemes to provide retirement benefits for its full time permanent employees in Hong Kong. The obligations for contributions to retirement benefit schemes are recognised as expenses in the income statement as incurred. The assets of the schemes are held separately from those of the Group with independent trustees.

Under the MPF schemes, both the Group and each eligible employee are required to contribute 5% of the employee's basic monthly income, as mandatory contributions, up to a maximum of HK$1,250 *(2011: HK$1,000)*, and they may choose to make additional or voluntary contributions. The Company makes the same additional contribution if an employee chooses to make a voluntary contribution of up to a maximum limit of HK$1,250 *(2011: HK$1,000)*.

Under the MPF schemes, employees are entitled to the Group's mandatory contributions in accordance with the provisions in the Hong Kong Mandatory Provident Fund Schemes Ordinance, and are entitled to 100% of the Group's voluntary contributions after completion of the first year of service.

Overseas subsidiaries (including Mainland China) also operate pension schemes or similar arrangements for their employees in accordance with the statutory requirements prescribed by the relevant legal authorities.

At the end of the reporting period, the Group had no significant forfeited voluntary contributions which arose as a result of employees leaving the MPF schemes and which are available to reduce the contributions payable by the Group in future years.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Share based payments

The fair value of share options granted to employees and others as stipulated in the share option scheme as detailed in note 28 (if any) is recognised as an expense with a corresponding increase in a reserve within equity. The fair value is measured at the grant date, taking into account the terms and conditions upon which the options were granted. Where employees have to meet vesting conditions before becoming unconditionally entitled to share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged / credited to the income statement of the year of the review, with a corresponding adjustment to a reserve within equity. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest with a corresponding adjustment to a reserve within equity.

Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly-controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Critical accounting estimates and judgements

Allowance for doubtful debts

The provisioning policy for doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of the trade receivables and on management judgements. A considerable amount of judgement is required in assessing the ultimate realisation of receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

Recognition of deferred tax assets

Deferred tax assets are recognised principally for unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgements regarding the future performance of the particular legal subsidiary in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at the end of each reporting period and, to the extent there is sufficient evidence that taxable profits will be available within the utilisation periods to allow utilisation of the carry-forward tax losses, the asset balance will be increased and such increase will be recognised in the income statement. The recognised deferred tax assets have been written down as the management considers it is probable that future taxable profits against which the losses can be utilised will not be available in the relevant entity based on the forecast for the next two years.

Impairment of interests in subsidiaries

The Company determines whether interests in subsidiaries are impaired at least on an annual basis. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in the financial performance and position of these entities could affect the estimation of impairment losses and cause adjustments to their carrying amounts.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Critical accounting estimates and judgements *(continued)*

Impairment of goodwill and intangible assets with indefinite useful lives

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the fair value of the cash-generating units to which the goodwill and intangible assets with infinitive useful lives are allocated. Estimating the fair value requires the Group to make an estimate of the expected cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows, suitable multiples regarding the public companies selected for guideline transaction method and guideline company method. Details of the estimates used to calculate the recoverable amount are given in note 16 to the consolidated financial statements.

Impairment of property, plant and equipment and intangible assets with finite useful lives

In determining the recoverable amounts of these assets, expected cash flows to be generated by the assets are discounted to their present value, which involves significant level of estimates relating to sales volume, selling prices and other operating costs. When a decline in an asset's recoverable amount has occurred, the carrying amount is reduced to its estimated recoverable amount.

Useful lives of intangible assets

The Group assesses whether the intangible assets are of finite useful lives at the end of each reporting period. In determining useful lives of intangible assets, the Group has considered various factors, such as expected usage of the asset, forecasted customer attrition pattern, expected period of future economic benefit and legal or similar limits on the use of the asset. The estimation of the useful lives of the intangible assets is based on the experience of the Group with similar intangible assets that generate similar future economic benefits.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Future changes in HKFRS

At the date of approval of these financial statements, the Group has not early adopted the new and revised HKFRS issued by the HKICPA that are not yet effective for the current year.

Amendments to HKAS 1	*Presentation of Items of Other Comprehensive Income* [1]
HKAS 19 (2011)	*Employee Benefits* [2]
HKAS 27 (2011)	*Separate Financial Statements* [2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [2]
HKFRS 10	*Consolidated Financial Statements* [2]
HKFRS 11	*Joint Arrangements* [2]
HKFRS 12	*Disclosures of Interests in Other Entities* [2]
Amendments to HKFRS 10, HKFRS 11, HKFRS 12	*Additional Transition Relief – Consolidated Financial Statements, Joint Arrangements, Disclosures of Interests in Other Entities* [2]
HKFRS 13	*Fair Value Measurement* [2]
Amendments to HKFRS 1	*First-time Adoption of Hong Kong Financial Reporting Standards* [2]
HK(IFRIC) – Int 20	*Stripping Costs in the Production Phase of a Surface Mine* [2]
Various HKFRSs	*Annual Improvements Project – 2009-2011 Cycle* [2]
Amendments to HKFRS 7	*Disclosure – Offsetting Financial Assets and Financial Liabilities* [2]
Amendments to HKAS 32	*Presentation – Offsetting Financial Assets and Financial Liabilities* [3]
Amendments to HKAS 27 (2011), HKFRS 10, HKFRS 12	*Investment Entities – Amendments to Separate Financial Statements, Consolidated Financial Statements, Disclosures of Interests in Other Entities* [3]
HKFRS 9	*Financial Instruments* [4]
Amendments to HKFRS 9 and HKFRS 7	*Mandatory Effective Date of HKFRS 9 and Transition Disclosure* [4]

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

The Group is in the process of assessing the possible impact on the adoption of these new and revised HKFRS in future. So far it has concluded that the adoption is unlikely to have a material impact on the Group's consolidated financial statements in the future except as set out below.

Effective for accounting periods beginning on or after 1 January 2013, HKFRS 11 "Joint Arrangements", which replaces HKAS 31 "Interests in Joint Ventures", deals with how a joint arrangement of which two or more parties have joint control should be classified. The application of HKFRS 11 will change the classification and subsequent accounting policy applicable to the Group's jointly controlled entities, which will be accounted for using the equity method. The Group will thereafter recognise its share on each of the net assets and results of the jointly-controlled entities into a single line item as "Interests in Jointly-Controlled Entities" and "Share of Results of Jointly-Controlled Entities" respectively.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2012

3. TURNOVER

An analysis of turnover from continuing operations, recognised by category, is as follow:

	Consolidated	
	2012	2011
	HK$'000	*HK$'000*
Telecommunication services income	**553,508**	474,007
Other	**1,181**	599
	554,689	474,606

4. OTHER REVENUE AND INCOME

An analysis of other revenue and income from continuing operations is as follow:

	Consolidated	
	2012	2011
	HK$'000	*HK$'000*
Interest income on bank deposits	**493**	578
Interest income on loan receivable	**17**	38
	510	616
Gain on bargain purchase	**796**	–
Other	**1,665**	1,010
	2,971	1,626

5. (LOSS) / PROFIT FOR THE YEAR

(Loss) / Profit for the year from both continuing and discontinued operations is stated after charging / (crediting) the following:

	Consolidated 2012 HK$'000	Consolidated 2011 HK$'000
(a) Finance costs		
Interest on bank loans and other borrowings wholly repayable within five years	**218**	30
Finance charges on obligations under finance leases	**18**	115
Other interest	**–**	1,297
	236	1,442
(b) Other items		
Employee salaries and other benefits (including directors' emoluments)	**78,864**	74,229
Retirement benefit scheme contributions	**2,894**	2,606
Total staff costs	**81,758**	76,835
Auditors' remuneration		
– audit fees	**2,284**	2,675
Cost of services provided	**392,210**	523,844
Depreciation of property, plant and equipment	**12,538**	11,519
Amortisation of intangible assets	**3,615**	1,804
Allowance for doubtful debts	**2,252**	2,949
Operating lease charges on premises	**9,333**	9,441
Impairment loss on property, plant and equipment	**75**	–
Exchange (gain) / losses, net	**(148)**	4
Loss on disposals of property, plant and equipment	**59**	141
(Gain) on disposal of subsidiary (included in profit for the year from discontinued operation)	**–**	(52,412)

6. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

The aggregate amounts of remuneration received and receivable by the Company's directors are as follows:

	2012			
	Director fees *HK$'000*	Salaries and other emoluments *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Executive directors				
Richard John Siemens	**–**	**1,950**	**14**	**1,964**
Lim Shyang Guey	**–**	**2,600**	**28**	**2,628**
Non-executive directors				
William Bruce Hicks	**150**	**100**	**–**	**250**
Jennifer Wes Saran	**150**	**–**	**–**	**150**
Independent non-executive directors				
John William Crawford J.P.	**150**	**100**	**–**	**250**
Gerald Clive Dobby	**150**	**–**	**–**	**150**
Shane Frederick Weir	**150**	**–**	**–**	**150**
	750	**4,750**	**42**	**5,542**

	2011			
	Director fees *HK$'000*	Salaries and other emoluments *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Executive directors				
Richard John Siemens	–	1,950	12	1,962
Lim Shyang Guey	–	2,571	24	2,595
Non-executive directors				
William Bruce Hicks	150	100	–	250
Ye Fengping *(resigned on 15 November 2011)*	131	19	–	150
Jennifer Wes Saran *(appointed on 1 December 2011)*	13	–	–	13
Independent non-executive directors				
John William Crawford J.P.	150	100	–	250
Gerald Clive Dobby	150	–	–	150
Shane Frederick Weir	150	–	–	150
	744	4,740	36	5,520

6. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION *(continued)*

There were no arrangements under which a director waived or agreed to waive any emoluments for the year *(2011: Nil)*. In addition, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as a compensation for loss of office for the year *(2011: Nil)*.

Individuals with highest emoluments

Of the five *(2011: five)* individuals with the highest emoluments from continuing and discontinued operations, two *(2011: two)* are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other three *(2011: three)* individuals are as follows:

	2012 **HK$'000**	2011 HK$'000
Salaries and other emoluments	**4,786**	4,618
Retirement benefit scheme contributions	**104**	114
	4,890	4,732

The emoluments of the three *(2011: three)* individuals with the highest emoluments are within the following bands:

	2012 **Number of individuals**	2011 Number of individuals
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**3**	–
HK$2,000,001 to HK$2,500,000	**–**	1
	3	3

The executive directors of the Company, together with the above-mentioned three *(2011: three)* highest paid individuals, are regarded as the key management personnel of the Group for related parties disclosure purposes.

During the year, no remunerations were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office *(2011: Nil)*. There was no arrangement under which any of the five highest paid individuals waived or agreed to waive any remuneration during the year *(2011: Nil)*.

The remuneration of directors and key management personnel is determined by the remuneration committee having regard to the performance of individual and market trends.

7. TAXATION

Hong Kong Profits Tax has not been provided as the Group's assessable profit for the year was wholly absorbed by unrelieved tax losses brought forward from previous years.

Overseas taxation represents income tax provisions in respect of certain subsidiaries, calculated at the tax rates prevailing in the countries in which the subsidiaries operate.

	Consolidated	
	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Current tax		
Overseas income taxes	**(761)**	(1,683)
Over provisions on overseas income taxes in prior years	**–**	1,231
	(761)	(452)
Deferred tax		
Depreciation allowances	**(154)**	121
Tax losses *(note)*	**(12,288)**	(3,817)
	(12,442)	(3,696)
Taxation charges from continuing operations	**(13,203)**	(4,148)
Discontinued operation		
Current tax		
Overseas income taxes	**–**	(69)
Deferred tax		
Tax losses	**–**	(17,840)
Taxation charges from discontinued operation	**–**	(17,909)
Total taxation charges from continuing and discontinued operations	**(13,203)**	(22,057)

Further details in the deferred taxation status are set out in note 26.

Note: The amount includes write-down of previously recognised deferred tax assets as it is probable that future taxable profits of relevant entity will not be available against which the unused tax losses can be utilised.

7. TAXATION *(continued)*

Reconciliation of effective tax rate from continuing operations

	Consolidated	
	2012	2011
	%	%
Applicable tax rate	**455**	(16)
Share of results of an associate	**–**	(1)
Non-deductible expenses	**70**	7
Tax exempt revenue	**(172)**	(10)
Overprovision in prior year	**–**	(13)
Unrecognised tax losses	**741**	85
Recognition of previously unrecognised tax losses	**–**	(3)
Write-down of previously recognised tax losses	**1,551**	–
Recognition of previously unrecognised temporary differences	**(330)**	(4)
Other	**74**	1
Effective tax rate for the year	**2,389**	46

The applicable tax rate is the average of the tax rates prevailing in the territories in which the Group operates. The tax rates adopted in various territories are ranged from 16.5% to 34%. In the current year, the applicable rate has been changed because the results for individual territories are significantly fluctuated compared to each other.

8. DISCONTINUED OPERATION

During 2011, the Group completed a transaction (the "ANZ Transaction") whereby its major operations of providing telecommunication services in the United States had been disposed of through contributing a former wholly-owned subsidiary, Zone Telecom, Inc. ("ZONE US") to a newly incorporated jointly-controlled entity. Details of the ANZ Transaction had been set out in the Company's circular dated 17 November 2010. The ANZ Transaction has given rise to material alterations in the Group's operations, resulting in a substantive change to the economic characteristics as well as the participating role of the Group in them on a prospective basis.

Upon completion of the ANZ Transaction on 15 April 2011, the directors consider the results of the former ZONE US operations whereby the Group had full control had been discontinued and thereby constituted a discontinued operation. The result of the discontinued operation for the period from 1 January to 15 April 2011 has been included in the consolidated income statement for the year ended 31 December 2011, is as follows:

	Notes	2011 *HK$'000*
Turnover		205,451
Cost of sales		(172,372)
Gross profit		33,079
Other revenue and income		8
		33,087
Selling and distribution expenses		(11,178)
Business promotion and marketing expenses		(471)
Operating and administrative expenses		(21,835)
Other operating expenses*		(3,483)
Loss from operations		(3,880)
Finance costs	*5(a)*	(1,310)
Loss before taxation		(5,190)
Taxation	*7*	(17,909)
Loss for the year		(23,099)
Gain on disposal of subsidiary	*31*	52,412
Profit for the year from discontinued operation	*5*	29,313

* *Includes depreciation on property, plant and equipment of HK$1,719,000, and loss on disposal of property, plant and equipment of HK$123,000.*

8. DISCONTINUED OPERATION *(continued)*

	2011 *HK$'000*
Net cash flows	
Operating activities	(20,913)
Investing activities	(1,274)
Financing activities	38,305
Total cash inflow	16,118

9. (LOSS) / PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The (loss) / profit for the year attributable to equity holders of the Company includes a loss of HK$11,864,000 *(2011: profit of HK$35,484,000)* which has been dealt with in the financial statements of the Company.

10. EBITDA

EBITDA represents earnings before interest expenses, taxation, depreciation, amortisation, impairment losses, the share of results of an associate, and gain on bargain purchase.

11. DIVIDEND

The Board does not recommend payment of a dividend for the year ended 31 December 2012 *(2011: Nil)*.

12. (LOSS) / EARNINGS PER SHARE

The calculation of basic (loss) / earnings per share from continuing and discontinued operations for the years ended 31 December 2012 and 2011 is based on the consolidated (loss) / profit attributable to equity holders of the Company as set out below and on the weighted average number of 521,000,000 *(2011: 521,163,218)* shares in issue during the year.

	2012 ***HK$'000***	2011 *HK$'000*
Consolidated (loss) / profit attributable to equity holders of the Company:		
Continuing operations	**(12,851)**	(12,485)
Discontinued operation	–	29,313
Continuing and discontinued operations	**(12,851)**	16,828

The Group has no dilutive potential ordinary shares in issue during the current and prior years and, therefore, the diluted (loss) / earnings per share is the same as basic (loss) / earnings per share for the years presented.

13. PROPERTY, PLANT AND EQUIPMENT

	Consolidated				
	Leasehold improvements *HK$'000*	**Machinery and equipment** *HK$'000*	**Office equipment, furniture and fittings** *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
As at 1 January 2011	689	11,194	5,727	41	17,651
Additions	60	3,977	1,611	–	5,648
Additions from jointly-controlled entities ("JCE") *(note 31)*	749	15,806	9,016	5	25,576
Disposals	(1)	(1,745)	(390)	–	(2,136)
Contribution to JCE *(note 31)*	(731)	(20,336)	(2,936)	(46)	(24,049)
Write-back of accumulated depreciation on disposals	1	1,600	384	–	1,985
Write-back of accumulated depreciation on contribution to JCE *(note 31)*	434	15,136	2,722	30	18,322
Depreciation	(508)	(7,357)	(3,642)	(12)	(11,519)
Exchange adjustments	(1)	(5)	23	–	17
As at 31 December 2011	692	18,270	12,515	18	31,495
As at 1 January 2012	692	18,270	12,515	18	31,495
Additions*	121	11,268	4,979	–	16,368
Disposals	–	(67)	(596)	–	(663)
Write-back of accumulated depreciation on disposals	–	–	591	–	591
Depreciation	(166)	(6,601)	(5,767)	(4)	(12,538)
Impairment losses	–	(75)	–	–	(75)
Exchange adjustments	(3)	(47)	80	–	30
As at 31 December 2012	**644**	**22,748**	**11,802**	**14**	**35,208**
Representing:					
Cost	3,271	79,903	38,214	1,421	122,809
Accumulated depreciation	(2,579)	(61,633)	(25,699)	(1,403)	(91,314)
As at 1 January 2012	692	18,270	12,515	18	31,495
Cost	3,387	91,374	43,542	1,421	139,724
Accumulated depreciation and impairment losses	(2,743)	(68,626)	(31,740)	(1,407)	(104,516)
As at 31 December 2012	**644**	**22,748**	**11,802**	**14**	**35,208**

* *The amounts in additions of machinery and equipment included assets not available for use of HK$9,989,000, which are not subject to any depreciation charges.*

The carrying amount of the consolidated property, plant and equipment as at 31 December 2012 includes an amount of HK$83,000 *(2011: HK$2,386,000)* in respect of assets held under finance leases.

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

	Company			
	Leasehold improvements *HK$'000*	**Office equipment, furniture and fittings** *HK$'000*	**Motor vehicle** *HK$'000*	**Total** *HK$'000*
As at 1 January 2011	–	2,093	–	2,093
Additions	–	181	–	181
Disposals	–	(80)	–	(80)
Write-back of accumulated depreciation on disposals	–	79	–	79
Depreciation	–	(40)	–	(40)
As at 31 December 2011	–	2,233	–	2,233
As at 1 January 2012	–	2,233	–	2,233
Additions	–	13	–	13
Depreciation	–	(63)	–	(63)
As at 31 December 2012	**–**	**2,183**	**–**	**2,183**
Representing:				
Cost	1,631	3,315	1,400	6,346
Accumulated depreciation	(1,631)	(1,082)	(1,400)	(4,113)
As at 1 January 2012	–	2,233	–	2,233
Cost	1,631	3,328	1,400	6,359
Accumulated depreciation	(1,631)	(1,145)	(1,400)	(4,176)
As at 31 December 2012	**–**	**2,183**	**–**	**2,183**

14. INTANGIBLE ASSETS

	Consolidated				
	Development costs *HK$'000*	**Customer contracts** *HK$'000*	**Proprietary software** *HK$'000*	**Trade names** *HK$'000*	**Total** *HK$'000*
As at 1 January 2011	–	–	–	–	–
Additions from jointly-controlled entities *(note 31)*	–	19,429	951	2,409	22,789
Amortisation	–	(1,720)	(84)	–	(1,804)
As at 31 December 2011	–	17,709	867	2,409	20,985
As at 1 January 2012	–	17,709	867	2,409	20,985
Additions	–	17,189	–	–	17,189
Amortisation		(3,496)	(119)	–	(3,615)
Exchange adjustments	–	(46)	(2)	(6)	(54)
As at 31 December 2012	**–**	**31,356**	**746**	**2,403**	**34,505**
Representing:					
Cost	3,597	19,429	951	2,409	26,386
Accumulated amortisation and impairment losses	(3,597)	(1,720)	(84)	–	(5,401)
As at 1 January 2012	–	17,709	867	2,409	20,985
Cost	3,597	36,568	949	2,403	43,517
Accumulated amortisation and impairment losses	(3,597)	(5,212)	(203)	–	(9,012)
As at 31 December 2012	**–**	**31,356**	**746**	**2,403**	**34,505**

Intangible assets acquired during 2012 relate to customer contracts in respect of domain name registration, hosting and other services.

The management assessed the useful lives of trade names and, after considering the expected future net cash inflow contributions to be indefinite, determined that the useful lives of the same are indefinite. Particulars of the impairment testing are disclosed in note 16.

15. GOODWILL

	Consolidated 2012 HK$'000	Consolidated 2011 HK$'000
As at 1 January	**33,527**	–
Additions from jointly-controlled entities *(note 31)*	**–**	33,527
Exchange adjustments	**(86)**	–
As at 31 December	**33,441**	33,527
Representing:		
Cost	**36,678**	36,764
Accumulated impairment losses	**(3,237)**	(3,237)
As at 31 December	**33,441**	33,527

Additions from jointly-controlled entities during 2011 represented the goodwill of HK$27,496,000 arose from the investment in jointly-controlled entities (note 31) and the goodwill of HK$6,031,000 shared from the jointly-controlled entities through the application of the proportionate consolidation accounting method.

Goodwill arose from the investment in jointly-controlled entities was calculated as the difference between the consideration offered by the Group and the fair value of the net assets acquired in the ANZ Transaction. The Group has assessed the value of the goodwill as being fully recoverable and particulars of the impairment testing are disclosed in note 16.

Goodwill of HK$3,237,000 arose from the acquisition of a 5% additional interest in the share capital of a subsidiary which engaged in IP-based communication services during 2009. As a result of the acquisition, the subsidiary became wholly-owned by the Company.

The carrying amount of goodwill has been allocated to cash generating unit ("CGUs") identified as follows:

	Consolidated 2012 HK$'000	Consolidated 2011 HK$'000
Telecommunication services in the U.S.	**33,441**	33,527
IP-based communication services in Asia Pacific	**–**	–
	33,441	33,527

16. IMPAIRMENT TEST ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Telecommunication services in the U.S.

For the purpose of impairment review of the trade names acquired in the ANZ Transaction and goodwill arose from the ANZ Transaction, the jointly-controlled entity appointed an independent professional valuer to perform an appraisal of the market value of the business of its operating subsidiaries as at 30 September 2012 and a copy of the appraisal report was provided to the Group. The recoverable amount of the CGU has been determined based on weighting of 10% on value-in-use calculations, 45% on guideline transaction method and 45% on guideline company method *(2011: 100% on value-in-use calculations)*.

(a) Value-in-use calculations

This methodology uses cash flow projections based on financial projections approved by management covering an eight-year period which is appropriate after considering the history of the jointly-controlled entity's customers base and the track record of its past business results. Cash flows beyond the eight-year period have been extrapolated without long-term growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

Key assumptions used for the value-in-use calculations are as follows:

	2012
Gross profit margin	**25% – 28%**
Average growth rate	**3%**
Long-term growth rate	**0%**
Discount rate	**21% – 23%**

Management of the jointly-controlled entity determined the budgeted gross profit margin based on past performance and its expectation of future market developments. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGU. If the cash flow projections had been prepared on financial projections covering a five-year period and extrapolated cash flows for the subsequent years without long-term growth rate, the value-in-use of goodwill and intangible assets with indefinite useful lives would still be higher than its carrying amount.

Apart from the considerations described above in determining the value-in-use of CGU, the Company's management is not aware of any other probable changes that would necessitate changes in the key assumptions, and the valuation between the date of appraisal and the end of the reporting period.

16. IMPAIRMENT TEST ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES *(continued)*

Telecommunication services in the U.S. *(continued)*

(b) Guideline transaction method

This methodology reviews the published data regarding to actual transactions in publicly traded companies that have a similar investment characteristics to the jointly-controlled entity.

The multiples used for the guideline transaction method are as follows:

	2012
Revenue	**0.3**
Operating income	**4.5**
Operating income before depreciation and amortisation	**4.0**

(c) Guideline company method

This methodology compares the jointly-controlled entity to publicly traded companies.

The multiples used for the guideline company method are as follows:

	2012
Revenue	**0.3**
Operating income	**16.0**
Operating income before depreciation and amortisation	**6.5**

No impairment has been recognised in respect of goodwill and intangible assets with indefinite useful lives for the year ended 31 December 2012 as its calculated weighed value determined using the above methodologies exceeds the carrying amount. Hence, no impairment of goodwill and intangible assets with indefinite useful lives would be required.

IP-based communication services in Asia Pacific

The Group assessed the recoverable value of the goodwill and, after considering the value of the sole asset of the subsidiary as being fully impaired, determined that the goodwill was impaired and, therefore, fully provided for it in 2009.

17. INTERESTS IN SUBSIDIARIES

	Company 2012 HK$'000	Company 2011 HK$'000
Unlisted shares, at cost	**–**	–
Due from subsidiaries	**541,624**	614,334
Less: Provisions	**(449,132)**	(449,132)
	92,492	165,202

Except for an amount of HK$63,714,000 included in the comparative figures as at 31 December 2011, which amount bore interest at 5.5% per annum, was repaid during the year ended 31 December 2012, those amounts due from subsidiaries are unsecured, interest-free and not expected to be repaid within one year. The carrying values of the amounts due approximate their fair values.

Details of the principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation / operation	Particulars of issued share capital	Effective ownership interest held by the Company		Principal activities
			Directly	*Indirectly*	
Zone USA, Inc.	United States of America	US$10	–	100%	Investment holding
ZONE Telecom Pte Ltd	Singapore	S$100,000	–	100%	Provision of telecommunication services
ZONE Resources Limited	Hong Kong	HK$2	–	100%	Provision of consultancy services
ZONE Limited	Hong Kong	HK$2	–	100%	Provision of telecommunication services
ZONE Global Limited	British Virgin Islands	US$1	–	100%	Investment holding
ZONE Channel Services Limited	Hong Kong	HK$2	–	100%	Provision of marketing and promotion services
speedinsure Global Limited	British Virgin Islands	US$10,102	–	100%	Investment holding

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation / operation	Particulars of issued share capital	Effective ownership interest held by the Company		Principal activities
			Directly	*Indirectly*	
RMI Insurance Agency Limited	Hong Kong	HK$1	–	75%	Insurance agency
RMI Group International Limited	Hong Kong	HK$100	–	38.25%	Investment holding
Relevant Marketing (HK) Limited	Hong Kong	HK$10,000	–	75%	Provision of sales and fulfilment solutions
Relevant Marketing Group Limited	British Virgin Islands	US$4	–	75%	Investment holding
i-Guard Direct Limited	Hong Kong	HK$1	–	75%	Provision of marketing services
e-Kong Pillars Holdings Limited	British Virgin Islands	US$1	100%	–	Investment holding
Cybersite Services Pte Ltd	Singapore	S$100,000	–	100%	Provision of domain name registration and hosting services
Cyber Insurance Brokers Limited	Hong Kong	HK$5,000,000	–	75%	Insurance brokerage
China Portal Limited	British Virgin Islands	US$1	–	100%	Provision of consultancy services
深圳盈港科技有限公司 *(i) & (ii)*	The People's Republic of China	RMB1,000,000 Registered capital	–	100%	Provision of technical consultancy services

(i) *Company not audited by Mazars.*
(ii) *A wholly foreign-owned enterprise established in the People's Republic of China.*

The above summary includes those subsidiaries which, in the opinion of the Company's directors, principally affect the results or form a substantial portion of the net assets of the Group. The classes of shares held are ordinary shares unless otherwise stated. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. None of the subsidiaries had any debt securities in issue at any time during the years ended 31 December 2012 and 2011.

18. INTERESTS IN AN ASSOCIATE

	Consolidated	
	2012 **HK$'000**	2011 HK$'000
Share of net assets	**695**	656
Loan to associate	**222**	268
	917	924

The associate is unlisted and the amounts are shared from the jointly-controlled entities through the application of the proportionate consolidation accounting method.

The loan to associate is unsecured, interest-bearing at 6% per annum and repayable on 1 April 2018.

Details of the associate at the end of the reporting period are as follows:

Name of associate	Place of incorporation / operation	Effective indirect ownership interest	Principal activities
Common Point, LLC	United States of America	12.5%	Provision of tandem switched access services

Summary of financial information of the associate is as follows:

	2012 **HK$'000**	2011 HK$'000
Share of associate's assets and liabilities:		
Non-current assets	**20**	94
Current assets	**443**	325
Non-current liabilities	**(222)**	(268)
Current liabilities	**(154)**	(103)
Share of associate's turnover and profit:		
Turnover	**775**	645
Profit	**39**	84

The above financial information is prepared using the same accounting policies as those adopted by the Group.

19. INVENTORIES

	Consolidated	
	2012	2011
	HK$'000	*HK$'000*
Finished goods	**1,723**	1,454

20. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**62,247**	71,823	**–**	–
Allowance for doubtful debts	**(3,684)**	(3,694)	**–**	–
	58,563	68,129	**–**	–
Other receivables				
Deposits, prepayments and other debtors	**12,912**	10,520	**2,212**	2,080
Due from a subsidiary	**–**	–	**1,478**	25,109
Due from an associate	**4,692**	2,978	**–**	–
	76,167	81,627	**3,690**	27,189

Except for an amount of HK$23,510,000 included in the comparative figures as at 31 December 2011, which amount bore interest at 5.5% per annum, was repaid during the year ended 31 December 2012, those amounts due from a subsidiary are unsecured, interest-free and expected to be repaid within one year. The carrying values of the amounts due approximate their fair values.

The amounts due from an associate are unsecured, interest-free and have no fixed term of repayment.

20. TRADE AND OTHER RECEIVABLES *(continued)*

The Group's credit terms on sales mainly range from 30 to 90 days. Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis by invoice date:

	Consolidated	
	2012	2011
	HK$'000	*HK$'000*
Less than 1 month	**49,475**	55,783
1 to 3 months	**7,310**	10,750
More than 3 months but less than 12 months	**1,778**	1,596
	58,563	68,129

The Group's credit policy is set out in note 33.

The movements in allowance for doubtful debts are as follows:

	Consolidated		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
As at 1 January	**3,694**	6,611	**–**	–
Increase in allowance	**2,252**	2,949	**–**	–
Additions from jointly-controlled entities ("JCE")	**–**	1,823	**–**	–
Contribution to JCE	**–**	(3,489)	**–**	–
Amounts written off as uncollectible	**(2,296)**	(4,156)	**–**	–
Exchange adjustments	**34**	(44)	**–**	–
As at 31 December	**3,684**	3,694	**–**	–

20. TRADE AND OTHER RECEIVABLES *(continued)*

The ageing analysis of trade debtors by past due date that is neither individually nor collectively considered to be impaired are as follows:

	Consolidated	
	2012	2011
	HK$'000	*HK$'000*
1 to 3 months past due	**9,832**	12,563
More than 3 months but less than 12 months past due	**807**	1,100
Amounts past due	**10,639**	13,663
Neither past due nor impaired	**47,924**	54,466
	58,563	68,129

The Group has not provided for any impairment losses on the above trade debtors as there have not been significant changes in credit quality and the directors believe that the amounts are recoverable. The Group does not hold any collateral over the balances.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there have been no histories of defaults.

21. PLEDGED BANK DEPOSITS

At the end of the reporting period, the Group and the Company had pledged bank deposits amounting to HK$79,454,000 *(2011: HK$2,316,000)* and HK$77,778,000 *(2011: HK$915,000)*, respectively. The amount of HK$77,500,000 *(2011: Nil*) of the Group and of the Company was pledged as bank deposits to collateralise a letter of credit issued to a bank in respect of a banking facility extended to a subsidiary (note 24(a)). In addition, bank guarantees of HK$1,954,000 *(2011: HK$2,316,000)* of the Group and HK$278,000 *(2011: HK$915,000)* of the Company were issued to suppliers for operational requirements. The directors do not consider it probable that a claim will be made against the Group under these guarantees. The amounts utilised by the Group and the Company at the end of the reporting period under these guarantees were HK$78,423,000 *(2011: HK$1,232,000)* and HK$77,577,000 *(2011: HK$127,000)* respectively, representing the outstanding amounts payable to these security-holders.

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22. CASH AND BANK BALANCES

	Consolidated		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**113,178**	84,018	**31,362**	7,924
Short-term time deposits	**8,008**	37,848	**8,008**	24,022
	121,186	121,866	**39,370**	31,946

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made with maturities of three months or less depending on the immediate cash requirements of the Group, and earn interest at the prevailing short-term deposit rates.

23. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**26,286**	18,708	**–**	–
Other payables				
Deferred revenue	**1,788**	–	**–**	–
Accrued charges and other creditors	**53,821**	59,736	**1,983**	2,091
	81,895	78,444	**1,983**	2,091

Included in trade and other payables are trade creditors with the following ageing analysis by invoice date:

	Consolidated	
	2012	2011
	HK$'000	*HK$'000*
Less than 1 month	**25,304**	16,139
1 to 3 months	**554**	1,781
More than 3 months but less than 12 months	**428**	788
	26,286	18,708

24. BANK BORROWINGS

The bank loans are repayable as follows:

	Consolidated	
	2012	2011
	HK$'000	*HK$'000*
Bank loans due, secured:		
Within one year	**3,069**	–
After one year but within two years	**5,115**	–
After two years but within five years	**77,500**	–
	85,684	–

The bank loans are denominated in the following currencies:

	Consolidated	
	2012	2011
	HK$'000	*HK$'000*
United States dollars *(a)*	**77,500**	–
Singapore dollars *(b)*	**8,184**	–
	85,684	–

	Consolidated	
	2012	2011
	HK$'000	*HK$'000*
Reported as:		
Current liabilities	**3,069**	–
Non-current liabilities	**82,615**	–
	85,684	–

(a) The loan bears interest at floating rate. The loan is collateralised by bank letter of credit supported by the Company and is repayable in August 2017.

(b) The loan requires monthly principal and interest payments over three years. The loan bears interest at floating rate and is secured by net assets of a subsidiary in Singapore. The loan is repayable in August 2015.

25. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	Consolidated			
	Minimum lease payments		Present value of minimum lease payments	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Finance leases due:				
Within one year	**64**	849	**62**	826
After one year but within two years	**–**	64	**–**	62
	64	913	**62**	888
Future finance charges	**(2)**	(25)	**–**	–
Present value of lease obligations	**62**	888	**62**	888

	Consolidated	
	2012 HK$'000	2011 HK$'000
Reported as:		
Current liabilities	**62**	826
Non-current liabilities	**–**	62
	62	888

The finance lease payments relate to certain property, plant and equipment of the Group. The carrying values of the finance leases approximate their fair values.

26. DEFERRED TAX

The movements for the year in the recognised deferred tax assets and liabilities are as follows:

	Consolidated		
	Tax losses *HK$'000*	**Depreciation allowances** *HK$'000*	**Total** *HK$'000*
As at 1 January 2011	34,132	(450)	33,682
Income statement (charges) / credit	(21,657)	121	(21,536)
Exchange adjustments	(44)	3	(41)
As at 31 December 2011	12,431	(326)	12,105
Income statement charges	(12,288)	(154)	(12,442)
Exchange adjustments	(31)	(20)	(51)
As at 31 December 2012	**112**	**(500)**	**(388)**

The analysis of recognised deferred tax assets and liabilities, determined after appropriate offsetting, is as follows:

	Consolidated	
	2012 *HK$'000*	2011 *HK$'000*
Deferred tax assets to be recovered:		
Within 12 months	**113**	6,108
After 12 months	**32**	6,345
	145	12,453
Deferred tax liabilities to be settled:		
Within 12 months	**(247)**	(168)
After 12 months	**(286)**	(180)
	(533)	(348)
As at 31 December	**(388)**	12,105

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26. DEFERRED TAX *(continued)*

Unrecognised deferred tax assets

	Consolidated	
	2012 **HK$'000**	2011 HK$'000
Tax losses	**100,789**	98,275
Deductible temporary differences	**21,794**	21,317
As at 31 December	**122,583**	119,592

The unrecognised tax losses of HK$384,850,000 *(2011: HK$394,389,000)* and deductible temporary differences of HK$54,684,000 *(2011: HK$62,961,000)* have no expiry dates under current tax legislation, except for tax losses of HK$213,078,000 *(2011: HK$189,722,000)* which are related to a subsidiary in the United States. These tax losses have a carry-forward period of 20 years from the year they arose and will begin to expire from 2020 onwards.

27. SHARE CAPITAL

(a) Authorised and issued share capital

	2012		2011	
	Number of shares	**Amount** ***HK$'000***	*Number of shares*	Amount *HK$'000*
Ordinary shares of HK$0.01 each				
Authorised:				
As at 1 January and 31 December	**12,000,000,000**	**120,000**	12,000,000,000	120,000
Issued and fully paid:				
As at 1 January	**521,000,000**	**5,210**	522,894,200	5,229
Cancellation of shares	**–**	**–**	(1,894,200)	(19)
As at 31 December	**521,000,000**	**5,210**	521,000,000	5,210

27. SHARE CAPITAL *(continued)*

(b) Repurchase of own shares

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries repurchased any of the Company's own ordinary shares on the Stock Exchange.

During the years ended 31 December 2011 and 2010, the Company repurchased its own ordinary shares on the Stock Exchange through its subsidiary as follows:

Month of repurchase	Number of ordinary shares repurchased	Highest price per share	Lowest price per share	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
December 2010	494,200	0.500	0.495	247
January 2011	1,270,000	0.850	0.500	931
February 2011	130,000	0.700	0.620	89
	1,894,200			1,267

All those repurchased shares were cancelled in January and February 2011 and the issued share capital of the Company was reduced by the par value of the repurchased shares so cancelled. Pursuant to Section 40(1) of the Companies Act 1981 of Bermuda (as amended), the amount equivalent to the par value of the shares cancelled of approximately HK$19,000 was transferred from accumulated profits to the capital redemption reserve. The premium paid on the repurchase of the shares of approximately HK$1,248,000 was charged to share premium.

28. SHARE OPTIONS

(a) The Company

On 28 June 2002, the Company adopted a share option scheme. Under the share option scheme, the directors of the Company may at their discretion grant share options to (i) any director, employee, consultant, customer, supplier, business introduction agent, or legal, financial or marketing adviser of or contractor to any company in the Group or any affiliate and / or (ii) any discretionary trust the discretionary objects of which include any of the foregoing, under the terms and conditions stipulated therein. No share options have been granted by the Company under the share option scheme since adoption.

28. SHARE OPTIONS *(continued)*

(b) Subsidiaries

On 28 June 2002, the Company adopted scheme rules and procedures for share option schemes for its subsidiaries (the "Subsidiary Scheme Rules and Procedures"). In accordance with the Subsidiary Scheme Rules and Procedures, the subsidiaries may adopt their own respective share option schemes in line with the terms and conditions of the Subsidiary Scheme Rules and Procedures, pursuant to which the board of directors of each of the relevant subsidiaries may at its discretion grant share options to (i) any director, employee, consultant, customer, supplier, business introduction agent, or legal, financial or marketing adviser of or contractor to that subsidiary and its subsidiaries, any of its holding companies or any affiliate and / or (ii) any discretionary trust the discretionary objects of which include any of the foregoing. No subsidiaries have activated their share option scheme powers pursuant to the terms and conditions of the Subsidiary Scheme Rules and Procedures since adoption.

The share option scheme expired on 28 June 2012. During the year, no share options were granted / forfeited / exercised and there were no share options outstanding / exercisable on 28 June 2012 or at the end of the reporting period.

Summary of principal terms

A summary of the principal terms of the share option scheme of the Company and Subsidiary Scheme Rules and Procedures is as follows:

(i) Purpose

The schemes are designed to enable the board to grant share options to eligible participants as (i) incentives and / or rewards in recognition or acknowledgement of the contributions that eligible participants have made and will make to the Group and (ii) motivation to worthy employees for high levels of performance in order to enhance long-term shareholder value.

(ii) Maximum number of shares

The total number of shares in respect of which share options may be granted (together with share options exercised and then outstanding) under the schemes and to be granted under any other share option schemes of the Company or the relevant subsidiary, shall not in aggregate exceed 10% of the shares in issue as at the date of approval of the schemes unless shareholder approval has been obtained. On 19 May 2009, shareholders of the Company approved a refreshment of the limit within which the total number of shares may be issued upon exercise of all options granted and to be granted under the share option schemes of the Company. As at 31 December 2012 and 2011, there were no outstanding share options under the share option scheme adopted by the Company.

The maximum number of shares issued and which may fall to be issued upon the exercise of the share options granted under the scheme and any other share option schemes (including both exercised and outstanding share options) to each eligible participant shall not exceed 1% of the shares in issue for the time being in any 12 months period up to and including the date of grant.

28. SHARE OPTIONS *(continued)*

Summary of principal terms *(continued)*

(iii) Exercise period and payment on acceptance of share options

A share option may be exercised in accordance with the terms of the scheme at any time during a period to be determined and notified by the directors to each grantee, subject to a maximum period of 10 years from the date of grant.

A share option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising acceptance of the offer of the grant of a share option duly signed by the grantee (for the new share option scheme) or the acceptance of the offer of the grant of a share option duly acknowledged by the grantee in such form as the board may from time to time determine (for the Subsidiary Scheme Rules and Procedures) together with a remittance in favour of the Company of HK$1.00 (or its US$ equivalent) in consideration of the grant thereof is received by the Company on a business day not later than 28 days from the offer date.

(iv) Basis of determining the subscription price

Company share option scheme

Subject to the terms of the scheme and the provisions of the Listing Rules, the subscription price in respect of any share option shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets over the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share.

Subsidiary scheme rules and procedures

Subject to the terms of the scheme and the provisions of the Listing Rules, the subscription price in respect of any share option shall not be less than the par value of a share provided that if the share option is intended to qualify as an incentive stock option under the tax laws of the United States, the subscription price thereof shall not be less than the fair market value of a share as detailed therein.

(v) Remaining life of the scheme

The Company scheme is valid and effective, at the discretion of the board of directors, subject to a maximum period of 10 years from the date of its adoption, that is, up to 27 June 2012.

29. RESERVES

	Attributable to equity holders of the Company									
	Share premium HK$'000	Exchange reserve HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Share repurchase reserve HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Group										
As at 1 January 2011	68,341	4,278	6	(63)	(247)	83,489	50,987	206,791	–	206,791
Profit for the year	–	–	–	–	–	–	16,828	16,828	(761)	16,067
Other comprehensive loss for the year										
Released from exchange reserve upon disposal of subsidiary	–	(939)	–	–	–	–	–	(939)	–	(939)
Exchange differences on translation of foreign subsidiaries	–	(535)	–	–	–	–	–	(535)	–	(535)
Total comprehensive income / (loss) for the year	–	(1,474)	–	–	–	–	16,828	15,354	(761)	14,593
Transactions with equity holders of the Company										
Repurchase of own shares for cancellation *(note 27(b))*	(1,248)	–	19	–	247	–	(19)	(1,001)	–	(1,001)
Deemed partial disposal of a subsidiary	–	–	–	69	–	–	–	69	(69)	–
Total transactions with equity holders of the Company	(1,248)	–	19	69	247	–	(19)	(932)	(69)	(1,001)
As at 31 December 2011	67,093	2,804	25	6	–	83,489	67,796	221,213	(830)	220,383
Loss for the year	–	–	–	–	–	–	(12,851)	(12,851)	(904)	(13,755)
Other comprehensive income for the year										
Exchange differences on translation of foreign subsidiaries	–	920	–	–	–	–	–	920	–	920
Total comprehensive income / (loss) for the year	–	920	–	–	–	–	(12,851)	(11,931)	(904)	(12,835)
Transaction with equity holders of the Company										
Arising from acquisition of a subsidiary	–	–	–	–	–	–	–	–	764	764
Total transaction with equity holders of the Company	–	–	–	–	–	–	–	–	764	764
As at 31 December 2012	**67,093**	**3,724**	**25**	**6**	**–**	**83,489**	**54,945**	**209,282**	**(970)**	**208,312**
Company										
As at 1 January 2011	68,341	–	6	–	–	83,489	34,112	185,948	–	185,948
Profit for the year and other comprehensive income for the year	–	–	–	–	–	–	35,484	35,484	–	35,484
Transaction with equity holders of the Company										
Repurchase of own shares for cancellation *(note 27(b))*	(1,248)	–	19	–	–	–	(19)	(1,248)	–	(1,248)
As at 31 December 2011	67,093	–	25	–	–	83,489	69,577	220,184	–	220,184
Loss for the year and other comprehensive loss for the year	–	–	–	–	–	–	(11,864)	(11,864)	–	(11,864)
As at 31 December 2012	**67,093**	**–**	**25**	**–**	**–**	**83,489**	**57,713**	**208,320**	**–**	**208,320**

29. RESERVES *(continued)*

The following provides a description of the nature and purpose of each reserve within equity:

Share premium

The application of share premium is governed by the Companies Act 1981 of Bermuda (as amended).

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Capital reserve

Capital reserve represents the difference between the purchase consideration paid and the increase in the carrying value of non-controlling interests of a subsidiary relating to the deemed partial disposal of the subsidiary during the previous year.

Contributed surplus

Contributed surplus represents the amounts transferred from the share premium account as a result of a capital reorganisation undertaken by the Company in November 2002. Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

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

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

Subject to the conditions mentioned in the foregoing paragraph, the Company had the following reserves available for distribution to shareholders at the end of the reporting period:

	2012 ***HK$'000***	2011 *HK$'000*
Contributed surplus	**83,489**	83,489
Accumulated profits	**57,713**	69,577
	141,202	153,066

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30. CASH GENERATED FROM / (USED IN) OPERATIONS

	Consolidated	
	2012	2011
	HK$'000	*HK$'000*
Loss before taxation:		
Continuing operations	**(552)**	(9,098)
Discontinued operation	**–**	(5,190)
	(552)	(14,288)
Interest income	**(510)**	(624)
Interest expenses	**218**	1,327
Interest on obligations under finance leases	**18**	115
Depreciation of property, plant and equipment	**12,538**	11,519
Amortisation of intangible assets	**3,615**	1,804
Share of results of an associate	**(39)**	(84)
Exchange differences	**76**	(453)
Loss on disposal of property, plant and equipment	**59**	141
Allowance for doubtful debts	**2,252**	2,949
Impairment loss on property, plant and equipment	**75**	–
Gain on bargain purchase	**(796)**	–
Changes in working capital:		
Inventories	**(269)**	(1,454)
Trade and other receivables	**5,107**	11,721
Trade and other payables	**3,414**	(33,782)
Cash generated from / (used in) operations	**25,206**	(21,109)

31. CONTRIBUTION OF A SUBSIDIARY TO A JOINTLY-CONTROLLED ENTITY IN RETURN FOR 50% EQUITY INTERESTS IN JOINTLY-CONTROLLED ENTITY

During 2011, the Group contributed a subsidiary with a net asset value of HK$84,234,000 (including cash and bank balances of HK$69,726,000, other assets of HK$99,962,000 and total liabilities of HK$85,454,000) to a jointly-controlled entity, in return for a 50% equity interest in the jointly-controlled entity valued at HK$173,311,000 for the businesses contributed by the two venturers. After the effect of the release from exchange reserves of HK$1,878,000, the gross gain on disposal of the subsidiary was HK$90,955,000, which represented a realised gain of HK$52,412,000 and an unrealised gain of HK$38,543,000. The unrealised gain was eliminated against the underlying assets contributed to the jointly-controlled entities under the proportionate consolidation accounting method.

The above transaction was effectively an exchange of 50% interests in the subsidiary with the 50% interests in the business contributed by the other venturer from the Group's perspective. The calculation below presents the transaction in this way and, thereby, excludes the unrealised portion of the contribution of the 50% interests in the subsidiary from the transaction.

No tax expense arose in 2011 in respect of the gain on disposal from the above transaction.

31. CONTRIBUTION OF A SUBSIDIARY TO A JOINTLY-CONTROLLED ENTITY IN RETURN FOR 50% EQUITY INTERESTS IN JOINTLY-CONTROLLED ENTITY *(continued)*

	HK$'000
Contribution of a subsidiary:	
Property, plant and equipment	5,727
Trade and other receivables	44,254
Cash and bank balances	34,863
Trade and other payables	(42,520)
Obligations under finance leases	(207)
	42,117
Released from exchange reserves upon disposal of subsidiary	(939)
Gain on disposal of subsidiary *(note 8)*	52,412
Fair value of 50% equity interests acquired	93,590
Represented by:	
Property, plant and equipment	25,576
Intangible assets	22,789
Goodwill	6,031
Interests in an associate	872
Trade and other receivables	50,381
Cash and bank balances	8,952
Trade and other payables	(46,287)
Obligations under finance leases	(2,220)
	66,094
Goodwill	27,496
	93,590
Analysis of net cash outflow:	
Cash and bank balances acquired	8,952
Cash and bank balances disposal of	(34,863)
	(25,911)

32. RELATED PARTY TRANSACTIONS

In addition to the transactions and information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following transactions with a related party:

Transactions with a jointly-controlled entity of the Group:

	2012 *HK$'000*	2011 *HK$'000*
Nature of transactions		
Management fee income	**388**	194
Distribution income	**14,994**	2,810

The above transactions with a jointly-controlled entity of the Group represented the total amounts before elimination of the Group's 50% interests in the jointly-controlled entity based on the proportionate consolidation accounting method.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank borrowings, finance leases, cash and bank balances and pledged bank deposits. The main purpose of these financial instruments is to raise or maintain financial resources for the Group's operations. The Group has various other financial instruments such as trade receivables and trade payables which arise directly from its business activities.

Exposures to currency, credit, liquidity and interest rate risks arise in the normal course of the Group's business. Management of the Group monitors and manages these exposures to ensure appropriate measures are implemented on a timely and effective manner. The key policies on monitoring and controlling these risks are set out below.

Currency risk

Most of the transactions are denominated in the functional currency of each of the Group's entities and most of the Group's assets and liabilities, revenues and payments, other than denominated in each Group's entities' functional currency, are denominated in Hong Kong dollars and United States dollars in which the Group considers there is no significant exposure to foreign exchange fluctuations as long as the Hong Kong-United States dollar exchange rate remains pegged.

Credit risk

The Group's credit risks are primarily attributable to trade and other receivables. Management of the Group has a credit limit policy in place and exposures to credit risks are monitored on an ongoing basis. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by counterparties arises to the extent of the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. In order to minimise credit risk, management of the Group has established credit limits, credit approvals and other monitoring procedures to ensure appropriate actions are taken to recover overdue debts.

The Company's credit risk is primarily related to amounts due from subsidiaries. As at 31 December 2012, the Company had a concentration of risk to the extent of 50% *(2011: 43%)* and 100% *(2011: 98%)* of the total amounts which are due from the Company's largest subsidiary and five largest subsidiaries, respectively, before provisions.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

Individual operating units within the Group are responsible for their own cash management. To minimise liquidity risks, management of the Group regularly reviews the current and expected liquidity requirements of operating units to ensure they maintain sufficient reserves of cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet their liquidity requirements in the short and longer terms.

The maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted payments are summarised below.

	Consolidated				
	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to 12 months *HK$'000*	After 1 year but within 5 years *HK$'000*	Total *HK$'000*
As at 31 December 2012					
Bank borrowings	**–**	**1,065**	**3,138**	**85,665**	**89,868**
Obligations under finance leases	**–**	**64**	**–**	**–**	**64**
Trade and other payables	**3,442**	**75,424**	**1,241**	**–**	**80,107**
Bank guarantee commitments *(note 21)*	**1,031**	**–**	**–**	**–**	**1,031**
	4,473	**76,553**	**4,379**	**85,665**	**171,070**
As at 31 December 2011					
Obligations under finance leases	–	213	636	64	913
Trade and other payables	2,245	75,104	1,095	–	78,444
Bank guarantee commitments *(note 21)*	1,084	–	–	–	1,084
	3,329	75,317	1,731	64	80,441

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

	Company				
	On demand *HK$'000*	**Less than 3 months** *HK$'000*	**3 to 12 months** *HK$'000*	**After 1 year but within 5 years** *HK$'000*	**Total** *HK$'000*
As at 31 December 2012					
Trade and other payables	**–**	**1,465**	**518**	**–**	**1,983**
Bank guarantee commitments *(note 21)*	**278**	**–**	**–**	**77,500**	**77,778**
	278	**1,465**	**518**	**77,500**	**79,761**
As at 31 December 2011					
Trade and other payables	–	1,549	542	–	2,091
Bank guarantee commitments *(note 21)*	788	–	–	–	788
	788	1,549	542	–	2,879

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's bank balances and bank borrowings. Details of interest rates of the Group's bank balances and bank borrowings at the end of the reporting period are set out in notes 22 and 24. The Group closely monitors interest rate level and outlook as well as potential impact on the Group's results and financial position arising from volatility.

The sensitivity analysis below has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to both derivative and non-derivative financial instruments that would have affected the income statement. A change of 100 basis points ("bps") was applied to the yield curves at the end of the respective reporting period, representing management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2011.

	2012		2011	
	100 bps increase *HK$'000*	**100 bps decrease** *HK$'000*	100 bps increase *HK$'000*	100 bps decrease *HK$'000*
Increase / (decrease) in loss	**857**	**(857)**	–	–

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Fair value

The carrying values of all financial instruments approximate their fair values as at 31 December 2012 and 2011.

34. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard its ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure to maintain a balance between liquidity, investment and borrowings, and makes adjustments, including payment of dividends to shareholders or issues new shares in the light of changes in the economic environment. No changes were made in the Group's objectives, policies or processes in managing capital during the years ended 31 December 2012 and 2011.

The Group aims at maintaining a net surplus position and monitors capital on the basis of its net debt-to-equity ratio, which is net debt divided by total equity at the end of the reporting period, as follows:

	2012 ***HK$'000***	2011 *HK$'000*
Bank borrowings	**(85,684)**	–
Obligations under finance leases	**(62)**	(888)
Trade and other payables	**(80,107)**	(78,444)
Taxation payable	**(416)**	(1,374)
Less: Cash and bank balances	**121,186**	121,866
Pledged bank deposits	**79,454**	2,316
Net surplus	**34,371**	43,476
Total equity	**213,522**	225,593
Net debt-to-equity ratio	**N / A**	N / A

35. COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At the end of the reporting period, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases were payable as follows:

	Consolidated		Company	
	2012 ***HK$'000***	2011 *HK$'000*	**2012** ***HK$'000***	2011 *HK$'000*
Within one year	**9,653**	7,081	**4,738**	4,738
In the second to fifth year inclusive	**8,896**	9,093	**3,092**	7,829
More than five years	**1,004**	–	**–**	–
	19,553	16,174	**7,830**	12,567

Operating lease payments mainly represent rentals payable for certain office premises and directors' quarters. Leases are negotiated for and rentals are fixed for an average of 2 to 5 years.

Litigation

A jointly-controlled entity is involved in certain legal actions and claims arising in the ordinary course of business, subject to which certain representations, warranties and indemnities are provided by a subsidiary. Management believes that it is remote that the outcome of such litigation and claims will have a material effect on the Group's financial position.

36. SEGMENTAL INFORMATION

The Group's management who are the chief operating decision-maker, determines the operating segments for the purposes of resource allocation and performance assessment. The consolidated business segments comprise telecommunication services and other operations, representing the provision of insurance-related distribution services and consultancy services.

Segment results, including the Group's interests in jointly-controlled entities being accounted for by the proportionate consolidation accounting method, represent the results before taxation earned by each segment without allocation of central operating and administrative expenses. All assets are allocated to reportable segments other than unallocated assets which are mainly cash and bank balances. All liabilities are allocated to reportable segments other than corporate liabilities.

Analyses of the consolidated segmental information by business and geographical segments during the year are set out below.

(a) By business segments

	Year ended 31 December 2012				Year ended 31 December 2011			
	*Tele-communication services HK$'000	Other operations HK$'000	Eliminations HK$'000	Consolidated HK$'000	*Tele-communication services HK$'000	Other operations HK$'000	Eliminations HK$'000	Consolidated HK$'000
Turnover								
External sales	553,508	1,181	–	554,689	474,007	599	–	474,606
Inter-segments sales	219	–	(219)	–	86	–	(86)	–
	553,727	1,181	(219)	554,689	474,093	599	(86)	474,606
Results								
Segment results	21,208	(3,473)	–	17,735	12,550	(3,062)	–	9,488
Finance costs	(236)	–	–	(236)	(132)	–	–	(132)
Share of results of an associate	39	–	–	39	84	–	–	84
Gain on bargain purchase	–	796	–	796	–	–	–	–
	21,011	(2,677)	–	18,334	12,502	(3,062)	–	9,440
Other operating income and expenses				(18,886)				(18,538)
Loss before taxation				(552)				(9,098)

Inter-segment sales are charged at prevailing market prices.

The segmental turnover and results reported by business segment for the year ended 31 December 2011 exclude any amounts relating to the discontinued operation.

36. SEGMENTAL INFORMATION *(continued)*

(a) By business segments *(continued)*

	Year ended 31 December 2012			Year ended 31 December 2011		
	*Tele-communication services *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*	*Tele-communication services *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*
Assets						
– Reportable segments	**258,380**	**2,396**	**260,776**	268,366	739	269,105
– Unallocated assets			**121,970**			37,542
			382,746			306,647
Liabilities						
– Reportable segments	**(165,194)**	**(2,047)**	**(167,241)**	(77,679)	(1,284)	(78,963)
– Unallocated liabilities			**(1,983)**			(2,091)
			(169,224)			(81,054)
Other information						
Capital expenditures						
– Reportable segments	**16,108**	**247**	**16,355**	5,327	140	5,467
– Unallocated assets			**13**			181
			16,368			5,648
Additions of intangible assets						
– Reportable segments	**17,189**	**–**	**17,189**	22,789	–	22,789
Interest income from continuing operations						
– Reportable segments	**146**	**–**	**146**	175	–	175
– Unallocated income			**364**			441
			510			616
Amortisation and depreciation from continuing operations						
– Reportable segments	**(15,998)**	**(92)**	**(16,090)**	(11,546)	(18)	(11,564)
– Unallocated expenses			**(63)**			(40)
			(16,153)			(11,604)
Non-cash items other than amortisation and depreciation from continuing operations						
– Reportable segments	**(2,310)**	**(76)**	**(2,386)**	(1,428)	–	(1,428)

* *Includes the Group's 50% interests in jointly-controlled entities being accounted for by the proportionate consolidation accounting method of which summarised financial information is set out in note 37.*

36. SEGMENTAL INFORMATION *(continued)*

(b) By geographical information

The Group operates in Asia Pacific while its jointly-controlled entities operate in North America. Since the economic characteristics of these two geographical areas are not similar, they are considered as two separate segments. The geographical information in North America comprises the Group's interests in jointly-controlled entities being accounted for by the proportionate consolidation accounting method. The non-current assets reported by geographical segments exclude deferred tax assets. The analysis of geographical segments is based on the geographical location of customers or the location of assets, as appropriate.

	Turnover from external sales		Non-current assets	
	2012 *HK$'000*	2011 *HK$'000*	**2012** *HK$'000*	2011 *HK$'000*
North America	**475,513**	391,138	**81,005**	82,055
Asia Pacific	**79,176**	83,468	**23,066**	4,876
	554,689	474,606	**104,071**	86,931

The turnover from external sales reported by geographical segments for the year ended 31 December 2011 excludes any amounts relating to the discontinued operation.

37. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

As at 31 December 2012, the Group had interests in the following jointly-controlled entities:

Name of entity	Form of business structure	Place of establishment / operation	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held	Principal activities
			Directly	*Indirectly*		
ANZ Communications LLC	Limited liability company	United States of America	50%	–	50%	Investment holding
ANPI Business, LLC (formerly known as Zone Telecom, LLC)	Limited liability company	United States of America	–	50%	50%	Provision of telecommunication services
ANPI, LLC	Limited liability company	United States of America	–	50%	50%	Provision of telecommunication services

The Group is entitled to share the operating results, assets and liabilities of these jointly-controlled entities based on the Group's ownership interests.

37. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

The summarised financial information in respect of the jointly-controlled entities in which the Group has a 50% interest, which information are accounted for in the Group's financial position and results using the proportionate consolidation accounting method in a line-by-line reporting format, is set out below.

	Non-current assets *HK$'000*	Current assets *HK$'000*	Current liabilities *HK$'000*	Non-current liabilities *HK$'000*	Net assets *HK$'000*
As at 31 December 2012					
100 per cent	**162,010**	**247,536**	**(128,744)**	**–**	**280,802**
The Group's 50% share	**81,005**	**123,768**	**(64,372)**	**–**	**140,401**
As at 31 December 2011					
100 per cent	164,110	240,618	(132,508)	(124)	272,096
The Group's 50% share	82,055	120,309	(66,254)	(62)	136,048

	Turnover *HK$'000*	Expenses *HK$'000*	Profit for the period *HK$'000*	EBITDA *HK$'000*
1 January to 31 December 2012				
100 per cent	**951,026**	**(914,732)**	**36,294**	**62,430**
The Group's 50% share	**475,513**	**(457,366)**	**18,147**	**31,215**
16 April to 31 December 2011				
100 per cent	782,276	(775,972)	6,304	26,130
The Group's 50% share	391,138	(387,986)	3,152	13,065

The above financial information is prepared using the same accounting policies as those adopted by the Group.

Summary of Results, Assets and Liabilities of the Group

For the year ended 31 December 2012

	Results of the Group for the five years ended 31 December				
	Continued and discontinued operations				
	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Turnover	**554,689**	680,057	769,748	797,852	786,997
(Loss) / Profit before taxation	**(552)**	38,124	(7,210)	11,606	(29,460)
Taxation (charges) / credit	**(13,203)**	(22,057)	17,205	7,361	(14,273)
(Loss) / Profit for the year	**(13,755)**	16,067	9,995	18,967	(43,733)
	HK cents	*HK cents*	*HK cents*	*HK cents*	*HK cents*
(Loss) / Earnings per share					
Basic	**(2.5)**	3.2	1.9	3.6	(8.3)
Diluted	**(2.5)**	3.2	1.9	3.6	N / A

	Assets and liabilities of the Group as at 31 December				
	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Non-current assets	**104,216**	99,384	51,744	29,051	25,424
Current assets	**278,530**	207,263	271,577	287,797	281,424
Total assets	**382,746**	306,647	323,321	316,848	306,848
Non-current liabilities	**83,782**	410	707	698	962
Current liabilities	**85,442**	80,644	110,594	115,828	125,465
Total liabilities	**169,224**	81,054	111,301	116,526	126,427
Net assets	**213,522**	225,593	212,020	200,322	180,421

Pro Forma Information

For the year ended 31 December 2012

PRO FORMA INFORMATION

During 2011, the Group completed the ANZ Transaction and a newly incorporated jointly-controlled entity was formed with the Group owning a 50% interest. The financial information of the jointly-controlled entities have since been incorporated in the Group's results on a line-by-line basis by the proportionate consolidation accounting method.

Effective for accounting periods beginning on or after 1 January 2013, HKFRS 11 "Joint Arrangements", which replaces HKAS 31 "Interests in Joint Ventures", deals with how a joint arrangement of which two or more parties have joint control should be classified. The application of HKFRS 11 will change the classification and subsequent accounting policy applicable to the Group's jointly controlled entities, which will be accounted for using the equity method. The Group will thereafter recognise its share on each of the net assets and results of the jointly-controlled entities into a single line item as "Interests in Jointly-Controlled Entities" and "Share of Results of Jointly-Controlled Entities" respectively.

For information purposes, had HKFRS 11 been adopted at the beginning of 2012, the Group's financial results and position would have been presented in the manner as shown in the Group's Unaudited Pro Forma Consolidated Income Statement for the year ended 31 December 2012 and the Unaudited Pro Forma Consolidated Statement of Financial Position as at 31 December 2012 below.

Unaudited Pro Forma Consolidated Income Statement

	Audited 2012 *HK$'000*	Accounting policy conversion *HK$'000*	Unaudited pro forma 2012 *HK$'000*
Turnover	554,689	(475,513)	79,176
Cost of sales	(392,210)	351,897	(40,313)
Gross profit	162,479	(123,616)	38,863
Other revenue and income	2,971	(178)	2,793
	165,450	(123,794)	41,656
Selling and distribution expenses	(31,122)	24,665	(6,457)
Business promotion and marketing expenses	(5,707)	1,243	(4,464)
Operating and administrative expenses	(110,087)	64,068	(46,019)
Other operating expenses	(18,889)	15,680	(3,209)
Loss from operations	(355)	(18,138)	(18,493)
Finance costs	(236)	30	(206)
Share of results of an associate	39	(39)	–
Share of results of jointly-controlled entities	–	18,147	18,147
Loss before taxation	(552)	–	(552)
Taxation			
Current tax	(761)	–	(761)
Deferred tax	(12,442)	–	(12,442)
	(13,203)	–	(13,203)
Loss for the year	(13,755)	–	(13,755)

Pro Forma Information (continued)

For the year ended 31 December 2012

Unaudited Pro Forma Consolidated Statement of Financial Position

	Audited 2012 HK$'000	Accounting policy conversion HK$'000	Unaudited pro forma 2012 HK$'000
Non-current assets			
Property, plant and equipment	35,208	(28,257)	6,951
Intangible assets	34,505	(18,390)	16,115
Goodwill	33,441	(33,441)	–
Interests in an associate	917	(917)	–
Interests in jointly-controlled entities	–	140,401	140,401
Deferred tax assets	145	–	145
	104,216	59,396	163,612
Current assets			
Inventories	1,723	–	1,723
Trade and other receivables	76,167	(58,288)	17,879
Pledged bank deposits	79,454	–	79,454
Cash and bank balances	121,186	(65,480)	55,706
	278,530	(123,768)	154,762
Current liabilities			
Trade and other payables	81,895	(64,310)	17,585
Current portion of bank borrowings	3,069	–	3,069
Current portion of obligations under finance leases	62	(62)	–
Taxation payable	416	–	416
	85,442	(64,372)	21,070
Net current assets	193,088	(59,396)	133,692
Total assets less current liabilities	297,304	–	297,304
Non-current liabilities			
Deferred revenue	634	–	634
Bank borrowings	82,615	–	82,615
Deferred tax liabilities	533	–	533
	83,782	–	83,782
NET ASSETS	213,522	–	213,522
Capital and reserves			
Share capital	5,210	–	5,210
Reserves	209,282	–	209,282
Equity attributable to equity holders of the Company	214,492	–	214,492
Non-controlling interests	(970)	–	(970)
TOTAL EQUITY	213,522	–	213,522

Shareholder Information

ANNUAL GENERAL MEETING

The 2013 Annual General Meeting will be held at Caine Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 16 May 2013 at 10:00 a.m. A notice of the Annual General Meeting is published on both the websites of Hong Kong Exchanges and Clearing Limited and the Company on 17 April 2013, and a copy thereof is printed on the circular to shareholders of the Company (the "Shareholders") dated 17 April 2013 and despatched to Shareholders and other recipients together with this 2012 Annual Report.

SHAREHOLDER ENQUIRIES

Any enquiries relating to your shareholding, for example transfer of shares, change of name or address, or lost share certificates, should be sent to the Registrars:

Share Registrar in Bermuda:
Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Halmilton HM11
Bermuda

Branch Share Registrar in Hong Kong:
Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Any enquiries relating to your holding of the Company's American Depositary Receipts ("ADR") should be sent to the Depositary, The Bank of New York Mellon at BNY Mellon Shareowner Services, P.O. Box 358516, Pittsburgh, PA 15252-8516, USA.

INVESTOR RELATIONS

Enquiries may be directed to:

Investor Relations Team
e-Kong Group Limited
3705 Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Telephone: +852 2801 7188
Facsimile: +852 2801 7238
Email: investor@e-kong.net

AMERICAN DEPOSITARY RECEIPT PROGRAMME

Since May 2003, the Company has maintained its Level 1 ADR Programme, whereby the Company's shares are now able to be priced and quoted in US Dollars and traded as American securities under the ticker symbol "EKONY" in the United States.

For further information, please contact the Depositary, The Bank of New York Mellon at BNY Mellon Shareowner Services, P.O. Box 358516, Pittsburgh, PA 15252-8516, USA or through its website *www.adrbnymellon.com* or toll-free number 1-888-269-2377.

CORPORATE COMMUNICATIONS

On 15 September 2003, the Company sent a letter to Shareholders to enable them to select, among others, to receive all future corporate communications of the Company in either the English language or the Chinese language or both languages. This 2012 Annual Report, in either the English language or the Chinese language or both languages, is being delivered to each Shareholder in accordance with his / her selection made or, if no selection has been made by Shareholder, the arrangement as set forth in the said letter.

Shareholders may also obtain this 2012 Annual Report in the language other than that he / she now receives upon request to the Company's Branch Share Registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. For further enquiries, please contact Tricor Secretaries Limited at telephone no. 2980 1766 or facsimile no. 2861 1465.

股東亦可向本公司之股份過戶登記處香港分處卓佳秘書商務有限公司（地址為香港灣仔皇后大道東28號金鐘匯中心26樓）索取此二零一二年年報之另一語言文本。如欲查詢更多資料，請聯絡卓佳秘書商務有限公司，電話號碼2980 1766或傳真號碼2861 1465。

This 2012 Annual Report, in both the English and Chinese languages and in accessible format, has been made available on the Company's website and a soft copy thereof has been submitted to Hong Kong Exchanges and Clearing Limited.

Shareholders may at any time choose to receive corporate communications in printed form or electronically.

In order to elect to receive corporate communications of the Company in the English language or the Chinese language or both languages, or to receive electronic communications, or to revoke or amend an instruction previously made, Shareholders may complete, sign and return to the Company or Tricor Secretaries Limited, the Company's Branch Share Registrar in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong a prescribed instruction slip by mail or by email to *ekong524-ecom@hk.tricorglobal.com*, a copy of which is printed at the end of this 2012 Annual Report and is available on the Company's website (*www.e-kong.com*).

INSTRUCTION SLIP
ON RECEIVING FUTURE CORPORATE COMMUNICATIONS

To: **e-Kong Group Limited (the "Company")**
c / o Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Please tick only one box of this instruction slip

1. PRINTED FORM

(a) Full Financial Reports and other Corporate Communications (English, Chinese or both)

In future,

- ☐ I / We would like to receive the printed copies of Full Financial Reports and other Corporate Communications in the English language only; OR
- ☐ I / We would like to receive the printed copies of Full Financial Reports and other Corporate Communications in the Chinese language only; OR
- ☐ I / We would like to receive the printed copies of Full Financial Reports and other Corporate Communications in both the English and Chinese languages.

(b) Summary Financial Reports and other Corporate Communications (English, Chinese or both)

In future,

- ☐ I / We would like to receive the printed copies of Summary Financial Reports (if available) and other Corporate Communications in the English language only; OR
- ☐ I / We would like to receive the printed copies of Summary Financial Reports (if available) and other Corporate Communications in the Chinese language only; OR
- ☐ I / We would like to receive the printed copies of Summary Financial Reports (if available) and other Corporate Communications in both the English and Chinese languages.

2. ELECTRONIC MEANS

- ☐ In future, I / we would like to receive the Corporate Communications through electronic means in lieu of any or all of the printed copies referred to in 1(a) and (b) above:

My / Our E-mail Address: ____________________

(for notification of Corporate Communication release)

- ☐ I / We would like to change my / our E-mail Address as follows:

My / Our New E-mail Address: ____________________

(for notification of Corporate Communication release)

With effect from: ____________________

Signature: ____________________ Date: ____________________

Name of Shareholder: ____________________

Address: ____________________

Contact telephone number: ____________________

Notes:

1. The above instruction will apply to all future Corporate Communications to be sent to shareholders of the Company ("Shareholders") until you notify the Company the otherwise by reasonable notice in writing.

2. All future Corporate Communications in both the English and Chinese languages will be available from the Company or Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong, upon request.

3. Shareholders are entitled to change the choice of language of and means of receiving Corporate Communications at any time by completing, signing and returning this instruction slip to the Company or Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong, by mail or by email to *ekong524-ecom@hk.tricorglobal.com*.

4. A soft copy of this instruction slip is available on the Company's website.

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